HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Financial Statements

December 31, 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
Hadassah, The Women's Zionist Organization of America, Inc.:

We have audited the accompanying consolidated financial statements of Hadassah, The Women's Zionist Organization of America, Inc. (Hadassah) and related entities (the Organization), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly in all material respects, the financial position of Hadassah, The Women's Zionist Organization of America, Inc. and related entities as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 16, 2013

HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Balance Sheet

December 31, 2012

Assets		
Cash and cash equivalents	$	83,214,890
Accounts receivable for medical services, net (note 5)		100,690,719
Accrued interest income and other receivables		3,379,618
Prepaid expenses and other assets (note 12)		57,782,382
Contributions and bequests receivable, net (note 6)		71,698,963
Investments (notes 3, 4 and 12)		487,978,802
Assets of trusts and other split-interest agreements held by others (note 3)		11,935,103
Property, plant, and equipment, net (note 7)		726,293,996
Total assets	$	1,542,974,473
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$	196,207,234
Short-term debt (note 14)		36,616,467
Liabilities under deferred giving and annuity trust arrangements		52,160,373
Malpractice and other liabilities (note 12)		100,221,660
Accrued employee benefits liabilities (note 13)		114,380,285
Long-term debt (note 15)		28,724,061
Total liabilities		528,310,080
Commitments and contingencies (note 16)		
Net assets:		
Unrestricted (notes 8 and 10)		662,304,300
Temporarily restricted (notes 8 and 10)		242,161,501
Permanently restricted (notes 9 and 10)		110,198,592
Total net assets		1,014,664,393
Total liabilities and net assets	$	1,542,974,473

See accompanying notes to consolidated financial statements.

HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Statement of Activities

Year ended December 31, 2012

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues:				
Patient service revenue (note 5)	$ 439,972,392	—	—	439,972,392
Contributions and bequests	83,587,330	73,632,366	450,459	157,670,155
Change in value of split-interest agreements	(1,402,514)	540,176	1,696,044	833,706
Member dues	608,286	—	—	608,286
Investment return (note 4)	28,403,118	11,801,976	—	40,205,094
Government grants	1,991,507	—	—	1,991,507
Magazine revenue	730,385	—	—	730,385
Gain on sale of fixed assets (note 7)	62,891,269	—	—	62,891,269
Young Judaea programs	2,974,483	—	—	2,974,483
Other revenue	1,684,862	480,186	—	2,165,048
Net assets released from restrictions	71,631,431	(71,631,431)	—	—
Total revenues	693,072,549	14,823,273	2,146,503	710,042,325
Expenses:				
Program services:				
Medical services	447,479,213	—	—	447,479,213
Education and research	74,825,609	—	—	74,825,609
Grants and allocations (note 11)	4,874,833	—	—	4,874,833
Magazine	2,003,637	—	—	2,003,637
Membership services	6,706,375	—	—	6,706,375
Communications and public affairs	2,449,511	—	—	2,449,511
Young Judaea programs (note 1)	12,363,798	—	—	12,363,798
Total program services	550,702,976	—	—	550,702,976
Supporting services:				
Fund-raising	9,472,546	—	—	9,472,546
Management and general	78,606,553	—	—	78,606,553
Total supporting services	88,079,099	—	—	88,079,099
Total expenses	638,782,075	—	—	638,782,075
Increase in net assets	54,290,474	14,823,273	2,146,503	71,260,250
Net assets at beginning of year	608,013,826	227,338,228	108,052,089	943,404,143
Net assets at end of year	$ 662,304,300	242,161,501	110,198,592	1,014,664,393

See accompanying notes to consolidated financial statements.

HADASSAH, THE WOMEN'S ZIONIST ORGANIZATION OF AMERICA, INC. AND RELATED ENTITIES

Consolidated Statements of Cash Flows

Year ended December 31, 2012

Cash flows from operating activities:	
Increase in net assets	$ 71,260,250
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Net appreciation in fair value of investments	(34,603,125)
Gain on sale of property, plant, and equipment	(62,891,269)
Depreciation	24,744,809
Bad debt expense	1,370,547
Contributions and bequests restricted for endowment	450,459
Change in value of split-interest agreements	833,706
Changes in operating assets and liabilities:	
Accounts receivable for medical services	(1,004,245)
Accrued interest income and other receivables	1,170,064
Prepaid expenses and other	(19,059,900)
Contributions and bequests receivable	(22,085,085)
Accounts payable and accrued expenses	27,001,888
Malpractice and other liabilities	39,687,501
Accrued employees' benefits liabilities	4,247,680
Net cash provided by operating activities	31,123,280
Cash flows from investing activities:	
Purchase of property, plant, and equipment	(84,607,658)
Proceeds from sale of property	71,354,870
Change in accrued expenses for fixed assets	(4,258,761)
Purchase of investments	(187,825,158)
Proceeds from sale of investments	145,996,698
Net cash used in investing activities	(59,340,009)
Cash flows from financing activities:	
Proceeds from short-term debt	27,478,490
Contributions and bequests restricted for endowment	(450,459)
Decrease in contributions receivable restricted for capital	10,000,000
Increase in liabilities under deferred giving and annuity trust arrangements, net of change in related assets	4,402,688
Net cash provided by financing activities	41,430,719
Net increase in cash and cash equivalents	13,213,990
Cash and cash equivalents at beginning of year	70,000,900
Cash and cash equivalents at end of year	$ 83,214,890
Supplemental disclosure:	
Interest paid	$ 1,370,335

See accompanying notes to consolidated financial statements.

(1) Organization

Hadassah, The Women's Zionist Organization of America, Inc. (HWZOA) is a not-for-profit organization under the U.S. Internal Revenue Code 501(c)(3) and is exempt from federal income taxes under Internal Revenue Code Section 501(a). The accompanying consolidated financial statements include the accounts of HWZOA and its related entities (collectively, Hadassah or the Organization). Related entities comprise Hadassah Medical Relief Association, Inc. (HMRA), Hadassah International, Ltd. (a Bermuda corporation) (HI), The Hadassah Foundation, Inc. (Hadassah Foundation), The Hadassah Office in Israel (an Israeli not-for-profit entity), Fabulous Finds LLC (Fabulous Finds) (a for-profit entity), and Hadassah Medical Organization (HMO).

HWZOA, the largest women's, Zionist, Jewish membership organization in the United States, was founded in 1912 to bring public health services to prestate Israel. Today in Israel, Hadassah supports medical, educational, and youth institutions, and nature and parks development projects. In the United States, Hadassah promotes health education, community volunteerism, social action and advocacy, Jewish education, and connections with Israel.

In Israel, in addition to supporting activities at HMO, Hadassah supports a variety of projects conducted by unconsolidated affiliated entities. Hadassah Academic College provides academic degree programs. Hadassah-supported Youth Aliyah (Youth at Risk) villages and centers provide housing, education, and support to disadvantaged Israeli and immigrant youth. Together with the Jewish National Fund, Hadassah builds parks and reservoirs, makes parks disabled-accessible, plants trees, and supports reforestation projects.

In the United States, HWZOA members are engaged in a variety of educational, advocacy, and community service initiatives. Education services include women's health seminars, programs for families to learn Jewish traditions and rituals, and Hebrew language classes. Hadassah members also help to shape public policy through advocacy work on issues, including U.S. – Israel relations, women's health, separation of church and state, discrimination issues, and privacy. In communities nationwide, Hadassah members lead volunteer programs, including literacy tutoring, holiday visits to the frail and elderly, and domestic violence education.

On July 1, 2012, HWZOA transferred the programs and activities (except for the endowment funds and earnings accumulated but not yet appropriated) for Jewish youth known as "Young Judaea", Hadassah's Zionist youth movement, which include, without limitation, Young Judaea activities and programs in the United States and Israel, Young Judaea Sprout Lake Camp, Inc., Young Judaea Inc. (d/b/a Camp Tel Yehudah), Hadassah Youth Services Amuta, and Hadassah WUJS Arad, Ltd. (collectively, the Young Judaea Programs) to Young Judaea Global, Inc. (YJG), an independent and separate not-for-profit corporation. HWZOA plans to assist YJG in its initial operations of the Young Judaea Programs during the first three years of its operations approximating $7,000,000, which is included in the Young Judaea program expenses for the year ended December 31, 2012.

HMO, located in Israel, is a provider of medical care, rehabilitation, and medical research. HMO is engaged primarily in providing medical services at two medical centers in Jerusalem – Ein Kerem and Mount Scopus. HMO is a nonsectarian institution providing state-of-the-art treatment to nearly one million patients a year at two hospitals, a community health center, and outpatient clinics. HMO has been recognized under the Israeli Income Tax Ordinance (New Version) as a "public organization" and as a "not-for-profit organization" under the Value Added Tax Law – 1975. In accordance with HMO's Articles of Association and pursuant to Section 345 of the State of Israel Companies Law, 1999 (the Companies Law), HMO is a public benefit company. Pursuant to the Companies Law, a public benefit company operates only for public purposes, its income and property are applied solely toward the objects of the public benefit company, and it is prohibited from making the distribution of profits or any other distribution to its members (the Distribution Prohibition). HMRA is the sole corporate member of the Association, and HWZOA's designees are members of the Association. HWZOA and HMRA have control over HMO through the ability to elect the board of directors of HMO and, as the controlling interest, are required to operate under requirements of the above-mentioned Articles of Association and the Distribution Prohibition. HMO owns and controls two wholly owned subsidiaries; Hadasit Medical Research and Development Company Ltd and S.R.Y (Medical Services) Ltd.

HI is a Bermuda exempted company limited by guaranty incorporated in August 1995, which coordinates Hadassah's international units whose purposes are to raise funds for HMO and develop exchange programs between HMO and medical institutions around the world. A majority of the members of the board of HI are made up of members of National Board of HWZOA (Board of Directors). The sole corporate member is HMRA.

HMRA, a not-for-profit corporation, incorporated in the State of New York on June 10, 1925 whose mission is identical to HWZOA. The members of HMRA consist of the National Board (Board of Directors) of HWZOA, and the Board of Directors of HMRA consists of the members of the Executive Committee of HWZOA.

Hadassah Foundation, founded in 1998, funds seed projects serving the needs of women and girls in the United States and Israel.

Fabulous Finds, founded in 2006, is owned by HWZOA, and was created for the purpose of selling donated items on eBay.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed by Hadassah are described below:

(a) Basis of Presentation

The consolidated financial statements do not include the financial position or changes in net assets of the Hadassah chapters or the international affiliates (autonomous geographical units) except as mentioned in note 1. All material intercompany transactions have been eliminated in consolidation.

The Organization's consolidated financial statements are prepared on the accrual basis of accounting. Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets is reported as net assets released from restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions, which stipulate that the principal be maintained permanently, but permit the Organization to expend part or all of the income and gains derived therefrom.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of these consolidated financial statements include the fair value of investments, estimated net realizable value of receivables, valuation of medical malpractice liability, liabilities under deferred giving and annuity trust arrangements, accrued HMO severance, HMO accrued sick leave and deferred wages, and functional expense allocations. Actual results could differ from those estimates.

(c) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments purchased with an original maturity of three months or less, except for such investments purchased by the Organization's investment managers as part of their long-term investment strategies, amounts that are restricted by donors for specific purposes or amounts designated by HMO management for specific purposes. At December 31, 2012, cash equivalents consist primarily of money market instruments of approximately $83,000,000.

(d) Accounts Receivable for Medical Services (HMO)

Accounts receivable for medical services are recorded at the reimbursed or contracted amounts and do not bear interest. HMO grants credit to patients and generally does not require collateral or other security. The allowance for doubtful accounts is HMO's best estimate of probable credit losses in HMO's existing accounts receivable for medical services. HMO determines the allowance based on historical collection experience.

(e) Fair Value of Financial Instruments

The Organization follows the provisions of accounting standards for *Fair Value Measurement and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. This guidance allows, as a practical expedient, for the estimation of fair value of

(Continued)

investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent as reported by the investment managers. In addition, because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Organization's interest therein, its classification in Level 2 or 3 is based on the Organization's ability to redeem its interest at or near the date of the consolidated balance sheet. If the interest can be redeemed in the near term (within 90 days), the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment underlying assets and liabilities.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

> Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
>
> Level 2 – inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Also included in Level 2 are investments measured using a net asset value (NAV) per share, or its equivalent, that may be redeemed at or near the balance sheet date.
>
> Level 3 – inputs are unobservable inputs for the asset or liability, and investments not redeemable at or near the balance sheet date.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement.

(f) Investments

Investments in debt and readily marketable equity securities are reported at fair value based upon quoted market prices, with the exception of State of Israel Bonds, which are carried at face value and approximate fair value. Alternative investments that are not readily marketable are stated at fair value based on the net asset value reported by investment managers and general partners. Those net asset values may differ significantly from values that would have been used had a ready market for these securities existed. The Organization reviews and evaluates the values provided by the investment managers and general partners and agrees with the valuation methods and assumptions used in determining the net asset value of these alternative investments.

(g) Contributions

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions with purpose or time restrictions are reported as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the purpose or time restrictions are met. Contributions subject to donor-imposed stipulations that the corpus be maintained permanently are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions receivable, less an allowance for uncollectible amounts, are reported at their net present value. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution.

(h) Government Grants

Government grants and contracts are accounted for as exchange transactions and revenue is recognized as earned.

(i) Deferred Giving Arrangements

The Organization enters into deferred giving agreements with donors to accept and administer charitable gift annuities, charitable remainder trusts, charitable lead trusts, unitrusts, and pooled income funds, the beneficiaries of which include the Organization. The Organization manages and invests these assets on behalf of these beneficiaries until the agreement expires and the assets are distributed. In addition, the Organization is the beneficiary of other deferred giving agreements that are held and administered by others.

Such split-interest agreements provide for payments to the donors or their beneficiaries based upon either the income earned on related investments or the specified annuity amounts. Assets held under these arrangements are reported at fair value in the accompanying consolidated balance sheet as assets of trusts and other split-interest agreements held by others, except for charitable gift annuities, which are reported as investments. Contribution revenue is recognized at the date the trust or annuity contract is established after recording liabilities for the present value of the estimated future payments expected to be made to the donors and/or other beneficiaries. The liabilities are adjusted annually for changes in the life expectancy of the donor or beneficiary, amortization of the discount, and other changes in the estimates of future payments.

(j) Contributed Services

A substantial number of volunteers have donated significant amounts of their time to the Organization's fund-raising activities, programs, and administrative services. Since the criteria for recognizing revenues for contributed services have not been met, no revenue or expense has been recognized in the accompanying consolidated financial statements.

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(k) Property, Plant, and Equipment and Depreciation

Property, plant, and equipment are recorded at cost or fair value at date of gift if contributed.

Depreciation on fixed assets is recognized on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and building improvements	15 to 50 years
Furniture and equipment (including computer equipment and software)	3 to 15 years

(l) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment charges have been recognized for the year ended December 31, 2012.

(m) Patient Service Revenue (HMO)

Net patient service revenues are recognized in the period services are performed and consist primarily of net patient service revenue that is reported at estimated net realizable amounts from Sick Funds, patients, and others for services rendered, and include an estimated reduction for reimbursement caps (note 5).

(n) Tax Status

The Organization recognizes the effect of income tax provisions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under Internal Revenue Code Section 511. Taxes on disallowed expenses and Value Added Tax paid were included in the sections of the expenses on which the tax was imposed. As of December 31, 2012, the Organization does not have any uncertain tax positions or any unrelated income tax liability, which would have a material impact upon its consolidated financial statements.

(3) Fair Value

At December 31, 2012, the carrying value of the Organization's cash and cash equivalents, accounts receivable for medical services, accrued interest income and other receivable, prepaid expenses and other assets, contributions and bequests receivable, accounts payable and accrued expenses, short-term debt, and long-term debt approximated their fair values.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

The Organization's assets at December 31, 2012 that are reported at fair value are summarized in the following table by their fair value hierarchy:

	Fair value	Level 1	Level 2	Level 3
Assets:				
Investments:				
Money market instruments	$ 27,720,964	27,720,964	—	—
Time deposits	219,159	219,159	—	—
State of Israel bonds	24,652,229	24,652,229	—	—
U.S. federal agencies – fixed income	12,364	12,364	—	—
U.S. equity	53,517,248	53,517,248	—	—
International equity	14,609,811	14,609,811	—	—
Mutual funds – equity	35,839,839	35,839,839	—	—
Mutual funds – fixed income	47,015,034	47,015,034	—	—
Mutual funds – international	17,412,449	17,412,449	—	—
Corporate bonds	22,562,409	22,562,409	—	—
Institutional equity funds:				
United States:				
Large cap equity	11,536,513	—	11,536,513	—
Mid cap equity	12,393,087	—	12,393,087	—
International	55,485,977	—	55,485,977	—
Alternative investments:				
Event-driven and distressed	65,714,927	—	32,939,571	32,775,356
Real estate	32,877,398	—	—	32,877,398
Private equity	48,083,007	—	—	48,083,007
Fixed income	18,112,770	—	18,112,770	—
Other	213,617	—	213,617	—
Total investments	487,978,802	243,561,506	130,681,535	113,735,761

		Fair value	Level 1	Level 2	Level 3
Assets of trusts and other split-interest agreements held by others:					
Money market instruments	$	3,208,392	615,436	—	2,592,956
U.S. Treasury obligations		157,656	157,656	—	—
Mutual funds – equity		5,691,675	5,691,675	—	—
Mutual funds – fixed income		2,877,380	2,877,380	—	—
Total assets held in trust by others		11,935,103	9,342,147	—	2,592,956
Total	$	499,913,905	252,903,653	130,681,535	116,328,717

The following table presents the Organization's activity for the year ended December 31, 2012 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

		Asset held in trust – money market instrument	Private equity	Real estate	Event-driven and distressed	Total
Ending balance, December 31, 2011	$	2,812,157	43,956,256	29,944,917	37,268,939	113,982,269
Net appreciation (depreciation) in fair value of investments		(219,201)	3,927,535	(447,263)	4,436,027	7,697,098
Sales		—	(8,467,930)	(1,388,907)	(12,940,116)	(22,796,953)
Purchases		—	8,667,146	4,768,651	4,010,506	17,446,303
Ending balance, December 31, 2012	$	2,592,956	48,083,007	32,877,398	32,775,356	116,328,717

The unrealized appreciation for Level 3 assets at December 31, 2012 is $3,001,854.

Alternative investments and certain institutional equity funds contain restrictions with required written notice ranging from 4 days to 90 days. In addition, certain of these investments are restricted by initial lockup periods.

The following table summarizes the composition of alternative investments and certain institutional investment funds at fair value by the various redemption provisions as of December 31, 2012:

		Amount	Notice period
Redemption period:			
Daily:			
Institutional equity – United States	$	11,536,513	4 days
Institutional equity – Mid cap equity and international		19,566,502	6 to 90 days
Monthly:			
Institutional equity – international		18,016,676	30 to 90 days
Alternative – fixed income		18,112,770	45 days
Quarterly:			
Institutional equity – international		30,509,503	33 days
Alternative – event-driven and distressed funds		18,814,737	30 to 65 days
Annual:			
Alternative – event-driven and distressed funds		14,124,834	60 days
Lockup:			
Alternative – event-driven and distressed funds		32,775,356	Not applicable
Private real estate		32,877,398	Not applicable
Private equity		48,083,007	Not applicable
Total	$	244,417,296	

The amount subject to redemption restrictions is set to expire as follows:

		Amount
Year ending:		
2013	$	14,276,024
2014		8,002,450
2015		422,550
2016		32,393,143
2017		58,641,594
	$	113,735,761

(4) Investments

At December 31, 2012, investments at fair value consist of the following:

Money market instruments	$	27,720,964
Time deposits		219,159
State of Israel bonds		24,652,229
U.S. federal agencies – fixed income		12,364
U.S. equity		53,517,248
Mutual funds – equity		35,839,839
Mutual funds – fixed income		47,015,034
Debt securities – corporate		22,562,409
Institutional equity funds		96,828,026
Alternative investments		164,788,102
Other		14,823,428
	$	487,978,802

The Organization's alternative investments follow four basic strategies as follows:

(a) Event-Driven and Distressed

This strategy involves investing in companies experiencing significant change due to changing markets and business conditions, such as companies facing bankruptcy, or in need of capital restructuring, and in companies whose operations can benefit by restructuring the balance sheet, typically through debt to equity conversion. Upon recovery of target company, an exit strategy is utilized and, depending on market conditions, may include sale of the company, sale of securities, or sale of assets.

This strategy may also involve purchasing severely discounted securities, such as subprime securities, asset-backed securities, collateralized debt obligations, and whole loans, against perceived intrinsic value.

(b) Private Equity

Private equity refers to equity securities that are not regulated by a governing body, such as the Securities and Exchange Commission. These securities are not publicly traded and are available only to "sophisticated" investors such as pension plans, financial institutions, endowments, and high-net-worth individuals. Private equity investments are generally structured as limited partnerships with the private equity fund manager serving as the general partner and the investors serving as limited partners. Private equity investments are primarily made by private equity firms, venture capital firms, or angel firms, each with their own set of goals, preferences, and investment strategies, yet each providing working capital to a target company to nurture expansion, new product development, or restructuring of the company's operations, management, or ownership.

(c) Real Estate

This strategy involves investing in private properties, which may include residential, retail, industrial, hotel, assisted living, and office either directly or through a diversified fund structure.

(d) Fixed Income

This strategy involves primarily investing in unlevered, long-only bonds and bank debt which include asset backed securities, municipal bonds, bank debt, collateralized loan obligations, corporate bonds and preferred stocks. The investment objective is to seek capital appreciation.

Certain limited partnerships carry minimum subscription or capital commitments. At December 31, 2012, outstanding future capital commitments amount to approximately $18,239,000.

Investments include amounts associated with charitable gift annuities of $58,799,880 at December 31, 2012.

Components of investment return are as follows:

Interest and dividends	$	7,204,640
Net appreciation in fair value of investments		34,603,125
Investment management fees		(1,279,187)
Unrelated business income tax		(323,484)
Total	$	40,205,094

The Organization permits certain investment managers to use nonspeculative off-balance-sheet forward foreign currency contracts to manage the currency risk inherent in owning securities denominated in foreign currencies. Such contracts involve, to varying degrees, risk of loss arising from either the potential change in market prices (market risk) or from the possible inability of the counterparties to meet the terms of their contracts (credit risk). The Organization did not purchase or sell any foreign currencies contracts during the year ended December 31, 2012.

(5) Patient Service Revenue and Accounts Receivable for Medical Services

Patient service revenue consisted of the following:

Sick Funds	$	281,420,111
Government of Israel		47,651,507
Healthcare Maintenance Organization		64,195,392
Other		46,705,382
	$	439,972,392

(Continued)

According to the National Health Insurance Act (1994), every Israeli resident (as defined in the law) is entitled to receive certain health services (including hospitalization) included in a basic defined package funded by the State of Israel. The program is administered mainly through Clalit Health Services, Maccabi Health Services, Leumit, and Meuhedet (collectively referred to as the Sick Funds), which are responsible to provide or fund those services to residents registered.

HMO receives reimbursement from the Sick Funds for services provided (fee for service) based on a price list published by the Ministry of Health. The Ministry of Health publishes a price list prospectively for medical services included in the basic defined package several times a year. In addition, the Israeli government sets a cap on collections by a hospital from each Sick Fund whereby reimbursement for charges above the cap are further discounted and may be collected at a range of 30% to 65% of published rates depending on the agreements with each Sick Fund.

HMO has a three-year contract with each Sick Fund for the years 2011 – 2013, which was renewed during 2011. The contracts determine credit terms and discount rates. Maximum rates for most of the services and types of services within the capping are regulated by the Government of Israel and the agreements with the Sick Funds are negotiated based on those regulations. Approximately 64% of HMO's patient service revenues are from the Sick Funds for the year ended December 31, 2012.

HMO and others in the healthcare industry are subject to certain inherent risks based on substantial dependence on revenues derived from a limited number of sources and the pressure to increase discounts on published rates (reduce reimbursement) for healthcare services being provided. Additionally, the current economic environment increases collection risk of account receivable. The ultimate outcome of these factors and other market changes cannot presently be determined.

Accounts receivable for medical services consisted of the following:

Sick Funds	$ 78,777,748
Government of Israel	4,161,231
Healthcare Maintenance Organizations	15,333,817
Other	6,397,950
Less allowance for doubtful accounts	(3,980,027)
	$ 100,690,719

As of December 31, 2012, approximately 79% of receivables are from the various Sick Funds in Israel.

Amounts are charged to allowance for doubtful accounts after reasonable collection efforts have been exhausted. The following reflects the estimates made and the changes reflecting those estimates:

Allowance for doubtful account, at December 31, 2011	$	(6,153,664)
Write-off of accounts		2,173,637
Allowance for doubtful account, at December 31, 2012	$	(3,980,027)

Write-offs are primarily related to patients who are unable or unwilling to pay for the portion of the bill representing their financial responsibility.

(6) Contributions and Bequests Receivable

Contributions and bequests receivable consist of the following at December 31, 2012:

Amounts expected to be collected in:		
Less than one year	$	33,367,863
One to five years		40,375,883
Over five years		16,226,507
		89,970,253
Less:		
Allowance for uncollectible amounts		(16,201,261)
Discount to net present value (0.75% – 4.875%)		(2,070,029)
	$	71,698,963

Of the total amounts expected to be collected in less than one year, $11,919,645 represents bequests receivable at December 31, 2012.

Gross contributions receivable at December 31, 2012 include amounts due from five donors totaling approximately $55,443,000.

(7) Property, Plant, and Equipment

At December 31, 2012, property, plant, and equipment consist of the following:

Land	$	301,479
Building and building improvements		968,778,941
Furnishings and equipment		367,823,494
Computer equipment and software		40,776,278
		1,377,680,192
Less accumulated depreciation		(809,214,174)
		568,466,018
Construction in progress		157,827,978
Property, plant, and equipment, net	$	726,293,996

In October 2012, Hadassah sold its property located at 50 West 58th Street for the selling price of $71,500,000. Based on an order approving the sale of the building at the Ex Parte of the Supreme Court of the State of New York on August 17, 2012, the Attorney General did not object to Hadassah's use of the net proceeds of the sale for purposes of creating a board-restricted fund, which will provide long-term financial security for the Organization and support the Organization's charitable programs and activities (note 10). The sale resulted in a net gain of approximately $63,000,000. The terms and conditions permit Hadassah to have the use of Hadassah House for up to three years from the date of transfer of title.

At December 31, 2012, construction in progress includes costs associated with two new inpatient hospitals, which are at various stages of completion (note 16).

(8) Unrestricted and Temporarily Restricted Net Assets

Unrestricted net assets at December 31, 2012 consist of the following:

General operating	$	(118,083,780)
Board-designated endowment		77,449,177
Net investment in property and equipment		702,938,903
Total unrestricted net assets	$	662,304,300

Temporarily restricted net assets at December 31, 2012 are available for the following:

Purpose-restricted:		
Healthcare services	$	58,287,364
Research		69,288,878
Capital projects		80,164,362
Fellowships and awards		3,129,580
Advancement of medical services		5,393,144
Hadassah College of Technology		1,020,770
Youth Aliyah (Youth at Risk)		3,348,019
Israeli Crisis Campaign		1,374,165
Other		16,256,209
Time-restricted:		
Deferred giving arrangements		3,899,010
Total temporarily restricted net assets	$	242,161,501

(9) Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2012 are restricted to investment in perpetuity with investment return available to support the following:

Healthcare services	$	89,839,913
Hadassah College of Technology		5,017,440
Youth Aliyah (Youth at Risk)		2,293,363
Hadassah's greatest needs		4,413,072
Other		8,634,804
Total permanently restricted net assets	$	110,198,592

(Continued)

(10) Endowment Funds

The Organization's endowment consists of approximately 500 individual funds, including both donor-restricted endowment funds and amounts designated by the Board of Directors to function as endowments.

(a) Interpretation of Relevant Law

The Organization follows the provisions of the New York Prudent Uniform Management of Institutional Funds Act (NYPMIFA). In accordance with NYPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- the duration and preservation of the fund
- the purposes of the Organization and the endowment fund
- general economic conditions
- the possible effect of inflation and deflation
- the expected total return from income and the appreciation of investments
- other resources of the Organization
- the investment policies of the Organization

The Organization classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations of investment returns 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 until those amounts are appropriated for expenditures by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted amounts reported below include appreciation reported as temporarily restricted net assets (not yet appropriated for expenditures by the board) and the underwater amount of endowment funds (i.e., endowment funds whose fair values are below corpus), reported as unrestricted net assets.

The following table represents the net asset classes of the Organization's endowment funds as of December 31, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	$ (4,952,886)	22,077,789	110,198,592	127,323,495
	(4,952,886)	22,077,789	110,198,592	127,323,495
Board-designated funds:				
HMRA	862,238	—	—	862,238
Hadassah Foundation	10,780,825	—	—	10,780,825
HWZOA	70,759,000	—	—	70,759,000
	82,402,063	—	—	82,402,063
Total endowment	$ 77,449,177	22,077,789	110,198,592	209,725,558

The following table presents changes in endowments/board-designated funds for the year ended December 31, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment/board-designated net assets, December 31, 2011	$ 17,398,119	17,042,473	108,052,089	142,492,681
Interest and dividend	102,704	999,148	—	1,101,852
Net appreciation in fair value of investments	3,928,728	7,889,522	—	11,818,250
Contributions	—	—	450,459	450,459
Amounts utilized for operations	(416,000)	(4,057,695)	—	(4,473,695)
Additions to board-designated endowment	56,435,626	—	—	56,435,626
Other	—	204,341	1,696,044	1,900,385
Endowment/board-designated net assets, December 31, 2012	$ 77,449,177	22,077,789	110,198,592	209,725,558

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires the Organization to retain as a fund for perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported as temporarily restricted net assets to the extent there are accumulated gains available to absorb such loss, or otherwise as unrestricted net assets. The deficiencies as of December 31, 2012 were $4,900,000.

(c) Return Objectives and Risk Parameters

The long-term objective of the endowment fund is to preserve the real purchasing power of its assets, while maximizing grant payments and program-related funding, covering expenses, and allowing for inflation.

The investment objective of the fund is to achieve a compound annualized rate of return over a market cycle, including current interest and dividend and capital appreciation, in excess of 5% after inflation, in a manner consistent with prudent risk taking.

(d) Spending Policy

The Organization has a policy of appropriating for distribution each year a percentage of its donor-restricted endowment funds for spending (3.0% for 2012) unless explicitly stipulated by the donor or relevant law.

(11) Grants and Allocations

Grants and allocations for the year ended December 31, 2012 are as follows:

Hadassah College of Technology	$	1,106,055
Youth Aliyah (Youth at Risk)		1,006,166
Other		2,762,612
Total	$	4,874,833

In 2008, an agreement was entered into among HMRA, HMO, and the Israeli government to obtain Israeli government funding for HMO's construction of a new hospital facility (the HMO Capital Project) (note 16). The agreement requires that HMRA continue to transfer to HMO an annual regular operations allocation of at least $19,000,000 in cash until the completion of the HMO Capital Project. The construction is now estimated to be completed by 2014 from 2012 as initially estimated. The agreement also requires HMRA to transfer all funds collected for the HMO Capital Project to HMO. Since the inception of the project, HMRA has transferred to HMO annually $19,000,000 and funds collected for the HMO Capital Project.

(12) Medical Malpractice

HMO provides for potential medical malpractice losses through purchased primary insurance. The current policy, which has been in place since 2004, has a deductible per event of $2,000,000 with a limit of $5,300,000 per event and $7,900,000 in aggregate for all events. The present value (based on a discount rate of 3.6%) of medical malpractice liabilities approximates $98,000,000 at December 31, 2012 and is included in malpractice and other in the consolidated balance sheet.

Pledged securities provided as security for the contingent liabilities and claims due to medical malpractice of $27,000,000 as of December 31, 2012, are included in investments in the consolidated balance sheet. Pledged securities are used for the payment of deductible amount.

(Continued)

In accordance with Accounting Standards Update No. 2010-24, HMO has accrued medical malpractice claims liability and an insurance recoveries receivable in the consolidated balance sheet as of December 31, 2012. Such amounts are included in prepaid expenses and other assets and malpractice and other liabilities as follows:

Estimated malpractice liability	$	98,413,465
Insurance claims receivable		(30,039,462)
	$	68,374,003

(13) Accrued Employees' Benefits Liabilities

(a) HWZOA

HWZOA has defined-contribution pension plans for eligible nonunion and union employees for which it contributes a percentage of each participating employee's gross salary. The contributions for the year ended December 31, 2012 were approximately $900,000.

(b) HMO Pension

HMO's liability for pension to employees is covered by current deposits to the Amitim-Hadassah Employees Pension Fund Ltd. (Amitim-HEPF), outside pension funds, and insurance companies.

The Hospital, together with certain other organizations, participates in a pension plan of the Israeli government, Amitim. Amitim-HEPF is a participant in a multiemployer pension plan, and accordingly, expenses are recognized as payments are made to the plan. The plan covers future retirement pension obligations of an employer. HMO's retirement plan expense is for its employees who began working prior to the year 1995 and participate in the plan, which equals to the required annual contributions to the plans, and is calculated based on 13% of the employee's monthly salary.

The following table discloses the name and funded status of the pension plan as of December 31, 2012 (based on the fund's audited financial statements):

Legal name and plan number		Present value of accumulated plan benefits	Market value of plan assets
Amitim-Hadassah Employee Pension Fund	$	506,295,133	416,052,455

The contributions to the plan during fiscal year 2012 were approximately $2,218,000.

(c) HMO Severance

HMO employees severance pay is covered by current deposits to the Amitim-Hadassah Employee Pension Fund. Employees who resign after attaining seniority of at least five years are entitled to, in addition to their pension rights, compensation at the rate of 28% of their last salary multiplied by the years of employment. Employees insured with Amitim-HEPF who resign before reaching retirement age and who liquidate their pension rights are entitled to full severance pay from the Hospital, part of which is to be reimbursed by Amitim-HEPF.

The accrual for additional severance pay is approximately $61,000,000 at December 31, 2012.

(d) Accrued Sick Leave and Deferred Wages

HMO employees who reach retirement age are entitled to compensation for sick days not used as determined in labor agreements. The accrual has been calculated on the basis of an actuarial calculation. The total liability recorded related to these agreements was approximately $43,000,000 at December 31, 2012, and is included in pension and severance liability in the consolidated balance sheet.

An agreement was signed between HMO and its employees whereby payments equal between 2% to 4% of the employees' salaries during the period from 2011 to 2012 would be deferred and paid in 2016 and 2017. The balances are linked to the consumer price index (CPI) in Israel. As of December 31, 2012, the liabilities are $9,000,000 and are included in pension and severance liability in the consolidated balance sheet.

(14) Short-Term Debt

HMO has a short-term loan with a bank to support working capital needs, which bears interest at rates ranging from 2.95% to 4.75%. The loan is due on demand. The outstanding balance at December 31, 2012 was approximately $37,000,000. Interest expense was approximately $885,000 for the year ended December 31, 2012.

(15) Long-Term Debt

HMO has the following loans outstanding as of December 31, 2012 as follows:

Long-term bank loan – Tower (a)	$	23,355,093
Long-term bank loan – Hadasit (b)		5,368,968
	$	28,724,061

(a) On October 6, 2010, an agreement was signed between HMO and a bank. In accordance with this agreement, HMO will receive from the bank a line of credit in an amount of $51,000,000 to finance the Hospitalization Tower. The maturity of the line of credit is 10 years, out of which in the first 2 years, only interest will be paid while the principal will be returned over the following 8 years. The amount utilized from the line of credit is linked to the CPI and bears interest of 3.95% – 4.9% per year. During the period, HMO will be charged a fee of 0.35% on the funds not used.

In order to receive the line of credit, HMO provided the following guaranties:

(i) A lien on real estate assets totaling approximately $50,000,000 and

(ii) Current and future payments from the National Insurance Institute of Israel due to births and premature babies born in the hospital up to the amount of $6,000,000.

(b) On April 26, 2009, Hadasit Research and Development Services Ltd., a wholly owned subsidiary of the Hospital, received a loan in the amount of $5,400,000. The loan bears interest of Prime plus 0.15%.

Interest has been paid quarterly since July 26, 2009. The loan was scheduled to be repaid in full on April 26, 2013. In February 2013, HMO, Hadasit, and the bank reached an agreement according to which the repayment date was extended to April 2014. HMO pledged certain properties and deposits as collateral.

For the year ended December 31, 2012, interest expense totaled $480,817.

Scheduled principal payments on long-term debt are as follows:

Year ending December 31:		
2013	$	605,027
2014		8,268,031
2015		2,899,048
2016		2,899,048
2017		2,899,048
Thereafter		11,153,859
	$	28,724,061

(16) Commitments and Contingencies

(a) Line of Credit

In May 2011, the Organization entered into a $25,000,000 secured revolving credit agreement, which expires in 2014. The revolving credit agreement requires collateral equal to the principal balance. The amount of collateral at December 31, 2012 is approximately $44,689,113 in a money market account with the lender. There was no amount outstanding as of and for the year ended December 31, 2012.

(b) Construction Projects

In January 2009, the HMRA board of directors approved the construction of a new inpatient hospital at a total cost of approximately $300,000,000, which is expected to be completed by 2014. The Israeli government committed to finance approximately $36,000,000 of the construction, where the revenue is recognized as construction costs are incurred. Approximately $34,500,000 has been recognized as revenue from the Israeli government by HMO through December 31, 2012. The new building will house approximately 480 beds, an intensive care unit, and departmental step-down units. As of December 31, 2012, costs of approximately $158,000,000 were recorded as construction in progress.

In 2009, HMO signed a contract with a construction company to build the inpatient hospital building for approximately $212,000,000 (excluding soft construction costs such as demolition, excavation, and road works). Through December 31, 2012, the Organization paid the contracting company approximately $173,000,000.

At December 31, 2012, construction commitments were approximately $39,000,000.

(c) Reimbursement Contingencies

Over 50% of HMO's patient service revenue is from sick funds. All of the sick funds in Israel have deficits and are included in the framework of recovery and efficiency programs supervised by the Government of Israel. The maximum rates for most health services – fee for day of hospitalizations, fees for differential activities, emergency charges, and various services are determined by the Ministry of Health.

In an amendment to the Arrangements Law, 2007, it was stipulated that, commencing from 2008, there would be discounts for sick funds in respects of deviations from the consumption ceiling as follows: on deviations up to 13% in excess of the capping, the sick funds pay 30% of the price; and in excess of a deviation of 13%, the sick funds pay 65% of the price.

During 2010, the Ministry of Health effected changes in rates and in the model for accountability between the hospitals and the sick funds, which included the following:

- Exclusion of ambulatory healthcare from the capping
- Raising the rates for a day of hospitalization
- Updating the rates for medical services

(17) Subsequent Events

Management evaluated all events and transactions that occurred after December 31, 2012 and through September 16, 2013, which is the date the consolidated financial statements were available for issuance, and has concluded that there are no subsequent events requiring disclosure.