KPMG

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

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

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, 2014, 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 Consolidated 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, 2014, 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.

Report on Summarized Comparative Information

We have previously audited Hadassah, The Women's Zionist Organization of America, Inc.'s 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG LLP

November 6, 2015

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

Consolidated Balance Sheet

December 31, 2014

(with summarized comparative financial information as of December 31, 2013)

Assets		**2014**	**2013**
Cash and cash equivalents	$	138,507,022	82,435,877
Accounts receivable for medical services, net (note 5)		106,546,451	114,474,999
Accrued interest income and other receivables		1,359,745	4,620,815
Prepaid expenses and other assets (note 12)		44,211,925	49,306,266
Contributions and bequests receivable, net (note 6)		35,197,407	58,212,607
Investments (notes 3 and 4)		569,892,764	591,523,807
Assets of trusts and other split-interest agreements held by others (note 3)		28,575,635	17,595,310
Property, plant, and equipment, net (note 7)		712,359,844	809,529,081
Total assets	$	1,636,650,793	1,727,698,762
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	157,679,874	256,933,172
Short-term debt (note 14)		11,391,614	33,936,494
Liabilities under deferred giving and annuity trust arrangements		52,911,543	51,357,547
Malpractice and other liabilities (note 12)		100,852,949	102,316,092
Accrued employee benefits liabilities (note 13)		127,693,451	126,911,782
Advance from Government of Israel (note 17)		15,691,453	—
Loan from Government of Israel (note 17)		25,614,098	—
Long-term debt (note 15)		28,625,548	43,615,230
Total liabilities		520,460,530	615,070,317
Commitments and contingencies (note 16)			
Net assets:			
Unrestricted (notes 8 and 10)		799,283,706	743,421,321
Temporarily restricted (notes 8 and 10)		204,646,478	257,947,457
Permanently restricted (notes 9 and 10)		112,260,079	111,259,667
Total net assets		1,116,190,263	1,112,628,445
Total liabilities and net assets	$	1,636,650,793	1,727,698,762

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, 2014
(with summarized comparative financial information for the year ended December 31, 2013)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2014	Total 2013
Revenues:					
Patient service revenue, net (note 5)	$ 499,216,015	—	—	499,216,015	506,312,214
Contributions and bequests	47,612,871	62,443,132	1,231,750	111,287,753	183,928,887
Change in value of split-interest agreements	(435,021)	(616,999)	—	(1,052,020)	852,676
Member dues	549,911	—	—	549,911	517,471
Investment return (note 4)	10,650,949	13,319,854	45,639	24,016,442	77,048,011
Net income from recovery agreement (note 17)	133,406,130	—	—	133,406,130	—
Government grants (note 17)	620,931	—	—	620,931	2,220,993
Magazine revenue	458,080	—	—	458,080	549,224
Other revenue	917,848	—	—	917,848	526,774
Net assets released from restrictions	120,880,025	(120,880,025)	—	—	—
Total revenues	813,877,739	(45,734,038)	1,277,389	769,421,090	771,956,250
Expenses:					
Program services:					
Medical services	504,419,818	—	—	504,419,818	495,271,334
Education and research	61,049,870	—	—	61,049,870	90,363,051
Grants and allocations (note 11)	4,289,765	—	—	4,289,765	2,823,713
Magazine	1,991,701	—	—	1,991,701	2,030,006
Membership services	8,378,351	—	—	8,378,351	7,585,777
Communications and public affairs	3,148,917	—	—	3,148,917	2,799,534
Young Judaea programs (note 1)	403,071	—	—	403,071	374,845
Total program services	583,681,493	—	—	583,681,493	601,248,260
Supporting services:					
Fund-raising	9,604,295	—	—	9,604,295	9,433,312
Management and general	101,777,499	—	—	101,777,499	95,754,688
Total supporting services	111,381,794	—	—	111,381,794	105,188,000
Total expenses	695,063,287	—	—	695,063,287	706,436,260
Increase (decrease) in net assets before foreign currency translation gain	118,814,452	(45,734,038)	1,277,389	74,357,803	65,519,990
Foreign currency translation (loss) gain	(62,952,067)	(7,566,941)	(276,977)	(70,795,985)	32,444,062
Increase (decrease) in net assets	55,862,385	(53,300,979)	1,000,412	3,561,818	97,964,052
Net assets at beginning of year	743,421,321	257,947,457	111,259,667	1,112,628,445	1,014,664,393
Net assets at end of year	$ 799,283,706	204,646,478	112,260,079	1,116,190,263	1,112,628,445

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

Year ended December 31, 2014

(with summarized comparative financial information for the year ended December 31, 2013)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	3,561,818	97,964,052
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Net appreciation in fair value of investments		(18,378,116)	(65,721,764)
Foreign currency translation loss (gain)		70,795,985	(32,444,062)
Depreciation		38,038,989	37,825,578
Provisions for bad debt		22,085,924	3,381,838
Contributions and bequests restricted for capital and endowment		(8,984,795)	(30,558,397)
Change in value of split-interest agreements		1,052,020	(852,676)
Changes in operating assets and liabilities:			
Accounts receivable for medical services		(15,584,208)	(15,587,789)
Accrued interest income and other receivables		3,261,070	784,270
Prepaid expenses and other		(72,411)	12,512,489
Contributions and bequests receivable		7,112,609	6,034,778
Accounts payable and accrued expenses		(75,632,731)	36,989,650
Malpractice and other liabilities		10,550,192	(4,957,671)
Accrued employees benefits liabilities		15,924,682	4,475,575
Advance from Government of Israel		17,152,737	—
Net cash provided by operating activities		70,883,765	49,845,871
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(26,580,204)	(73,335,345)
Change in accrued expenses for fixed assets		(3,178,216)	9,987,931
Purchase of investments		(80,956,961)	(186,578,247)
Proceeds from sale of investments		102,791,826	153,778,542
Net cash used in investing activities		(7,923,555)	(96,147,119)
Cash flows from financing activities:			
Proceeds from debt		27,999,440	23,496,287
Repayment of debt		(31,821,084)	(15,887,092)
Contributions and bequests restricted for capital and endowment		8,984,795	30,558,397
Decrease in contributions receivable restricted for capital		4,474,374	12,965,000
Decrease in liabilities under deferred giving and annuity trust arrangements, net of change in related assets		(10,478,349)	(5,610,357)
Net cash (used in) provided by financing activities		(840,824)	45,522,235
Effect of exchange rate changes on cash		(6,048,241)	—
Net increase (decrease) in cash and cash equivalents		56,071,145	(779,013)
Cash and cash equivalents at beginning of year		82,435,877	83,214,890
Cash and cash equivalents at end of year	$	138,507,022	82,435,877
Supplemental disclosure:			
Interest paid	$	1,762,005	3,195,832

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) (HIL), 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).

HZOA is a volunteer organization that inspires a passion for and commitment to its partnership with the land and people of Israel. It enhances the health of people worldwide through its support of medical care and research at the Hadassah Medical Organization in Jerusalem. Hadassah empowers its members and supporters, as well as youth in Israel and America through opportunities for personal growth, education, advocacy and Jewish continuity.

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 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 and discrimination issues. In communities nationwide, Hadassah members lead volunteer programs, including literacy tutoring, holiday visits to the frail and elderly, and Curriculum Watch, a program to identify textbooks which discriminate against Israel.

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.

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

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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 and are required to operate under requirements of the above-mentioned Articles of Association and the Distribution Prohibition. HMO owns and controls four wholly owned subsidiaries: Hadasit Medical Research and Development Company Ltd, S.R.Y (Medical Services) Ltd., Hadassah Medical Ltd. and the Research Fund of the Hadassah Medical Organization Amuta (R.A.)

HIL 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 HIL 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 (U.S. 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, foreign currency translation gain, and functional expense allocations. Actual results could differ from those estimates.

(c) Cash and 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, 2014 and 2013, cash equivalents consist primarily of money market instruments of approximately $138,000,000 and $82,000,000, respectively. Cash and cash equivalents held at HMO approximated $73,000,000 and $9,000,000 at December 31, 2014 and 2013, respectively.

(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 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. 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.

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.
>
> Level 3 – Inputs are unobservable inputs for the asset or liability.

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.

The Organization early adopted Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share or its equivalent as a practical expedient and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The Organization applied the provisions of the update retrospectively.

(f) Investments

Investments in debt and readily marketable equity securities are reported at fair value based upon quoted market prices. 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 sheets 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. The carrying amount of split-interest obligations approximates fair value because these instruments are recorded at the estimated net present value of future cash flows. The estimated fair value, however, involves unobservable inputs considered to be Level 3 in the fair value hierarchy.

(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.

(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 40 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 years ended December 31, 2014 and 2013.

(m) Patient Service Revenue (HMO)

Net patient service revenue is 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) Accounts Payable and Accrued Expenses at HMO

Accounts payable and accrued expenses at HMO approximated $151,339,000 and $247,810,000 at December 31, 2014 and 2013, respectively.

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(o) 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, 2014 and 2013, the Organization does not have any uncertain tax positions or any unrelated income tax liability, which would have a material impact on its consolidated financial statements.

(p) Prior-Year Summarized Financial Information

The accompanying consolidated statement of activities is presented with prior-year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2013, from which the summarized information was derived.

(q) Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

(3) Fair Value

Unconditional promises to give are recognized initially at fair value as contributions and bequests revenue in the period such promises are made by donors. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue.

Fair value measurements of short-term and long-term bank loans are based on observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. These inputs fall within Level 2 of the fair value hierarchy. The carrying value of the bank loans approximates fair value.

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, and accounts payable and accrued expenses, approximates their fair values because of the terms and relatively short maturities of these financial instruments. The estimated fair values, however, involve unobservable inputs considered to be Level 3 in the fair value hierarchy.

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 sheets.

(4) Investments

At December 31, 2014 investments at fair value consist of the following:

	Fair value	Level 1
Assets:		
Investments:		
Money market instruments	$ 20,715,314	20,715,314
Time deposits	236,287	236,287
State of Israel bonds	51,598,808	51,598,808
U.S. Treasury obligations	22,616,765	22,616,765
U.S. federal agencies – fixed income	40,656	40,656
U.S. equity	48,207,682	48,207,682
International equity	6,023,923	6,023,923
Mutual funds – U.S. equity	124,564,287	124,564,287
Mutual funds – fixed income	33,055,741	33,055,741
Mutual funds – emerging equity	14,810,037	14,810,037
Mutual funds – global equity	19,924,097	19,924,097
Corporate bonds	6,039,899	6,039,899
Other	1,174,386	1,174,386
	$ 349,007,882	349,007,882
Investments measured at net asset value (or its equivalent):		
Event-driven and distressed	66,489,057	
Real estate	22,764,410	
Private equity	37,774,865	
Fixed income	39,513,158	
International equity	37,856,872	
Global macro	16,486,520	
Total investments measured at net assets value (or its equivalent)	220,884,882	
Total investments	$ 569,892,764	

	Fair value	Level 1	Level 2	Level 3
Assets held in trust by others:				
Money market instruments	$ 5,493,102	3,061,962	—	2,431,140
U.S. Treasury obligations	115,284	115,284	—	—
Mutual funds – equity	12,520,773	12,520,773	—	—
Mutual funds – fixed income	8,339,389	8,339,389	—	—
U.S. equities	1,962,470	1,962,470	—	—
International equity	134,656	134,656	—	—
Other debt securities	9,961	9,961	—	—
Total assets held in trust by others	$ 28,575,635	26,144,495	—	2,431,140

At December 31, 2013 investments at fair value consist of the following:

	Fair value	Level 1
Assets:		
Investments:		
Money market instruments	$ 3,779,325	3,779,325
Time deposits	225,822	225,822
State of Israel bonds	57,960,386	57,960,386
U.S. Treasury obligations	23,866,002	23,866,002
U.S. federal agencies – fixed income	117,137	117,137
U.S. equity	26,459,724	26,459,724
International equity	34,726,241	34,726,241
Mutual funds – U.S. equity	128,053,750	128,053,750
Mutual funds – fixed income	37,475,265	37,475,265
Mutual funds – emerging equity	14,816,539	14,816,539
Mutual funds – global equity	19,754,138	19,754,138
Corporate bonds	13,059,774	13,059,774
Other	253,723	253,723
	$ 360,547,826	360,547,826
Investments measured at net asset value (or its equivalent):		
Event-driven and distressed	59,745,689	
Real estate	35,375,659	
Private equity	47,051,578	
Fixed income	32,982,282	
International equity	21,484,721	
Global macro	34,336,052	
Total investments measured at net asset value (or its equivalent)	230,975,981	
Total investments	$ 591,523,807	

		Fair value	Level 1	Level 2	Level 3
Assets held in trust by others:					
Money market instruments	$	3,172,739	520,926	—	2,651,813
U.S. Treasury obligations		113,493	113,493	—	—
Mutual funds – equity		9,421,317	9,421,317	—	—
Mutual funds – fixed income		4,581,280	4,581,280	—	—
Other debt securities		215,373	215,373	—	—
Alternative investments – real estate		91,108	—	—	91,108
Total assets held in trust by others	$	17,595,310	14,852,389	—	2,742,921

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 investments measured at net asset value at fair value (or its equivalent) by the various redemption provisions as of December 31, 2014:

		December 31, 2014	
		Amount	Notice period
Redemption period:			
Daily:			
International equity	$	16,807,844	Daily
Monthly:			
Fixed income		39,513,158	45 days
International equity		21,049,028	6 days
Quarterly:			
Event-driven and distressed funds		29,269,196	65 days
Global macro		16,486,520	33 to 60 days
Annual:			
Event-driven and distressed funds		8,934,110	60 days
Lockup:			
Event-driven and distressed funds		28,285,751	Not applicable
Private real estate		22,764,410	Not applicable
Private equity		37,774,865	Not applicable
Lockup sub-total		88,825,026	
Total	$	220,884,882	

The amounts subject to redemption restrictions for the Lockup category are set to expire as follows:

		Amount
Year ending:		
2015	$	—
2016		8,038,127
2017		8,038,127
2018 and beyond		72,748,772
	$	88,825,026

Investments held at HMO approximated $77,728,000 and $102,079,000 at December 31, 2014 and 2013, respectively.

The Organization's alternative investments follow six 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 consolidated balance sheets, 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 focuses primarily on seasoned residential mortgage-backed securities using structured credit products including subprime residential mortgage-backed security, home equity line of credits, asset-backed security collateralized debt obligations, commercial loans, etc. The primary goal is to maximize total return. Other fixed income strategies include investments in high yield bonds and leveraged loans with a primary goal of generating current income with the potential for price appreciation.

(e) U.S. Equity

This is a long-only equity strategy that invests in mid and large capitalization companies with strong financial characteristics, earnings consistency, attractive long-term free cash flow yield and high returns on invested capital.

(f) International Equity

One strategy is a long-only fund investing in European domiciled companies. The majority of the investments are large capitalization companies in the developed market countries of Europe. Other strategies include long-only investing in developed market companies outside of the U.S. seeking to maximize value by focusing on price and quality.

(g) Global Macro

This strategy pursues a discretionary, thematic, global macro strategy through the use of fixed income and currency instruments, with a focus on emerging markets. The objective is to generate attractive absolute returns with a focus on capital preservation.

Certain limited partnerships carry minimum subscription or capital commitments. At December 31, 2014 and 2013, outstanding future capital commitments amount to approximately $18,493,000 and $12,864,000, respectively.

Investments include amounts associated with charitable gift annuities of $61,457,110 and $63,115,909 at December 31, 2014 and 2013, respectively.

Components of investment return are as follows:

		2014	**2013**
Interest and dividends	$	8,100,448	12,861,794
Net appreciation in fair value of investments		18,378,116	65,721,764
Investment management fees		(1,562,482)	(1,519,443)
Unrelated business income tax		(899,640)	(16,104)
Total	$	24,016,442	77,048,011

The Organization permits certain investment managers to use nonspeculative off-balance-sheets 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 years ended December 31, 2014 and 2013.

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

Patient service revenue consisted of the following:

		2014	2013
Sick Funds	$	338,101,690	325,818,383
Government of Israel		56,812,199	56,649,938
Healthcare Maintenance Organization		43,965,142	67,360,599
Other		60,336,984	56,483,294
	$	499,216,015	506,312,214

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 had a three-year contract with each Sick Fund 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 67.8% and 64.4% of HMO's patient service revenues are from the Sick Funds for the years ended December 31, 2014 and 2013, respectively.

HMO did not sign cooperation agreements with the sick funds with respect of services provided beginning January 1, 2014.

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

(Continued)

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:

		2014	2013
Sick Funds	$	105,450,936	101,946,264
Government of Israel		7,542,583	6,912,644
Healthcare Maintenance Organizations		11,173,126	11,549,713
Other		3,606,209	6,941,665
Less allowance for doubtful accounts		(21,226,403)	(12,875,287)
	$	106,546,451	114,474,999

As of December 31, 2014 and 2013, approximately 83% and 80%, respectively, 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 accounts at December 31, 2012	$	(3,980,027)
Bad debt expense		(8,895,260)
Allowance for doubtful accounts at December 31, 2013		(12,875,287)
Bad debt expense		(8,351,116)
Allowance for doubtful accounts at December 31, 2014	$	(21,226,403)

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

(Continued)

(6) Contributions and Bequests Receivable

Contributions and bequests receivable consist of the following at December 31, 2014 and 2013:

		2014	2013
Amounts expected to be collected in:			
Less than one year	$	23,647,331	28,050,580
One to five years		25,119,570	31,883,792
Over five years		11,447,161	11,524,809
		60,214,062	71,459,181
Less:			
Allowance for uncollectible amounts		(23,331,877)	(11,509,363)
Discount to net present value (0.75%–4.875%)		(1,684,778)	(1,737,211)
	$	35,197,407	58,212,607

Of the total amounts expected to be collected in less than one year, $7,183,627 and $12,688,106 represents bequests receivable at December 31, 2014 and 2013, respectively.

Gross contributions receivable at December 31, 2014 and 2013 include amounts due from five donors totaling approximately $34,120,438 and $37,366,328, respectively.

(7) Property, Plant, and Equipment

At December 31, 2014 and 2013, property, plant, and equipment consist of the following:

		2014	2013
Land	$	301,479	301,479
Building and building improvements		1,123,688,862	1,258,338,717
Furnishings and equipment		176,260,333	411,276,997
Computer equipment and software		41,558,166	43,215,743
		1,341,808,840	1,713,132,936
Less accumulated depreciation		(629,448,996)	(903,603,855)
Property, plant, and equipment, net	$	712,359,844	809,529,081

Property, plant, and equipment, net, held at HMO approximated $706,948,000 and $806,889,000 at December 31, 2014 and 2013, respectively.

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

(Continued)

proceeds of the sale for purposes of creating a board-designated 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 in 2012. 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. Hadassah moved to 40 Wall Street on March 18, 2015.

(8) Unrestricted and Temporarily Restricted Net Assets

Unrestricted net assets at December 31, 2014 and 2013 consist of the following:

	2014	2013
General operating	$ 62,364,383	(93,687,810)
Board-designated endowment	84,266,769	96,257,510
Net investment in property and equipment	652,652,554	740,851,621
Total unrestricted net assets	$ 799,283,706	743,421,321

Temporarily restricted net assets at December 31, 2014 and 2013 are available for the following:

	2014	2013
Purpose-restricted:		
Healthcare services	$ 126,713,088	150,014,672
Research	41,272,252	52,253,161
Capital projects	8,880,759	21,924,154
Fellowships and awards	1,749,699	3,668,103
Advancement of medical services	272,022	2,668,678
Hadassah College of Technology	1,779,231	1,600,269
Youth Aliyah (Youth at Risk)	4,345,728	3,956,059
Israeli Crisis Campaign	1,374,198	1,374,165
Other	7,129,712	10,854,974
Time-restricted:		
Deferred giving arrangements	11,129,789	9,633,222
Total temporarily restricted net assets	$ 204,646,478	257,947,457

(9) Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2014 and 2013 are restricted to investment in perpetuity with investment return available to support the following:

		2014	2013
Healthcare services	$	97,694,755	96,712,743
Hadassah College of Technology		5,061,152	5,042,752
Youth Aliyah (Youth at Risk)		2,293,363	2,293,363
Hadassah's greatest needs		4,413,072	4,413,072
Other		2,797,737	2,797,737
Total permanently restricted net assets	$	112,260,079	111,259,667

(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, 2014:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	$ (527,910)	40,444,422	112,260,079	152,176,591
	(527,910)	40,444,422	112,260,079	152,176,591
Board-designated funds:				
HMRA	962,168	—	—	962,168
Hadassah Foundation	12,045,396	—	—	12,045,396
HWZOA	71,259,205	—	—	71,259,205
	84,266,769	—	—	84,266,769
Total endowment	$ 83,738,859	40,444,422	112,260,079	236,443,360

The following table represents the net asset classes of the Organization's endowment funds as of December 31, 2013:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	$ (865,598)	29,801,845	111,259,667	140,195,914
	(865,598)	29,801,845	111,259,667	140,195,914
Board-designated funds:				
HMRA	957,480	—	—	957,480
Hadassah Foundation	11,954,783	—	—	11,954,783
HWZOA	83,345,247	—	—	83,345,247
	96,257,510	—	—	96,257,510
Total endowment	$ 95,391,912	29,801,845	111,259,667	236,453,424

(Continued)

The following table presents changes in endowments/board-designated funds for the year ended December 31, 2014:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment/board-designated net assets, December 31, 2013	$	95,391,912	29,801,845	111,259,667	236,453,424
Interest and dividend		836,420	4,604,287	45,639	5,486,346
Net appreciation in fair value of investments		3,606,173	8,419,698	—	12,025,871
Contributions		—	—	1,231,750	1,231,750
Amounts utilized for operations		(16,433,334)	(2,381,408)	—	(18,814,742)
Additions to board-designated endowment		337,688	—	—	337,688
Other		—	—	(276,977)	(276,977)
Endowment/board-designated net assets, December 31, 2014	$	83,738,859	40,444,422	112,260,079	236,443,360

The following table presents changes in endowments/board-designated funds for the year ended December 31, 2013:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment/board-designated net assets, December 31, 2013	$	77,449,177	22,077,789	110,198,592	209,725,558
Interest and dividend		1,003,415	1,621,979	—	2,625,394
Net appreciation in fair value of investments		13,250,030	11,676,800	—	24,926,830
Contributions		—	—	1,077,578	1,077,578
Amounts utilized for operations		(397,998)	(5,574,723)	—	(5,972,721)
Additions to board-designated endowment		4,087,288	—	—	4,087,288
Other		—	—	(16,503)	(16,503)
Endowment/board-designated net assets, December 31, 2014	$	95,391,912	29,801,845	111,259,667	236,453,424

(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, 2014 and 2013 approximated $527,900 and $865,600, respectively.

(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% for 2014 and 2013) unless explicitly stipulated by the donor or relevant law.

(11) Grants and Allocations

Grants and allocations for the years ended December 31, 2014 and 2013 are as follows:

		2014	2013
Youth Aliyah (Youth at Risk)	$	1,105,336	1,038,512
Hadassah Academic College		720,749	192,804
Other		2,463,680	1,592,397
Total	$	4,289,765	2,823,713

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). In the Recovery Agreement (note 17), it was agreed that during the Recovery Period, the implementation of the undertaking of HMRA pursuant to the Recovery Agreement, will constitute implementation of the undertakings of HMRA pursuant to the said 2008 Agreement (the HMO Capital Project). The 2008 Agreement requires HMRA to allocate to HMO the annual amount of no less than $19 million for the operation of HMO up to completion of the new hospital facility.

(Continued)

The construction is now estimated to be completed by 2016 from 2012 as initially estimated. The Recovery Agreement also requires HWZOA and HMRA to transfer all funds for the HMO Capital Project to an HMO special bank account which is separate from the remaining financial activities of HMO. Since the inception of the project, HWZOA and HMRA has transferred to HMO annually $19,000,000 for operations and funds for the HMO Capital Project.

See note 17 for Recovery Agreement and transactions with the government of Israel.

(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 2%) of medical malpractice liabilities approximates $101,000,000 and $102,000,000 at December 31, 2014 and 2013, respectively, and is included in malpractice and other in the consolidated balance sheets.

Pledged securities provided as security for the contingent liabilities and claims due to medical malpractice of $36,000,000 and $35,000,000 as of December 31, 2014 and 2013, respectively, are included in investments in the consolidated balance sheets. Pledged securities are used for the payment of deductible amount.

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 sheets as of December 31, 2014 and 2013. Such amounts are included in prepaid expenses and other assets and malpractice and other liabilities as follows:

		2014	**2013**
Estimated malpractice liability	$	100,356,035	100,318,678
Insurance claims receivable		(22,847,775)	(28,821,839)
	$	77,508,260	71,496,839

(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 years ended December 31, 2014 and 2013 were approximately $1,000,000.

(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 13.5% of the employee's monthly salary.

The following table discloses the name and funded status of the pension plan as of December 31, 2014 (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	$	536,529,469	489,018,060

The following table discloses the name and funded status of the pension plan as of December 31, 2013 (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	$	532,690,517	464,192,241

The contributions to the plan during fiscal years 2014 and 2013 were approximately $7,845,000 and $8,318,000, respectively.

(c) HMO Severance

HMO employee's 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 $55,000,000 and $67,000,000 at December 31, 2014 and 2013, respectively, and is included in accrued employee benefits liabilities in the consolidated balance sheets.

(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 $41,000,000 and $47,000,000 at December 31, 2014 and 2013, respectively, and is included in accrued employee benefits liabilities in the consolidated balance sheets.

An agreement was signed between HMO and its employees whereby payments between 2% – 4% of the employees' salaries during the period from 2009 to 2010 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, 2014 and 2013, the liabilities are $9,000,000 and $12,000,000, respectively, and are included in accrued employee benefits liabilities in the consolidated balance sheets.

As part of the Recovery Agreement, payments between 2% – 4% of employees' salaries during the years 2014 – 2016 would be deferred and paid beginning in January 2024 on a monthly basis for three years. The balances are linked to the CPI and do not bear interest. As of December 31, 2014, these liabilities to employees totaled $9,050,000, and are included in accrued employee benefits liabilities in the consolidated balance sheet.

(14) Short-Term Debt

HMO has short-term loans with a bank to support working capital needs, which bear interest at rates ranging from 2.95% to 4.75%. The loans are due on demand. The outstanding balance at December 31, 2014 and 2013 was approximately $6,900,000 and $30,700,000, respectively. In addition, the current portion of long-term debt (note 15) was approximately $4,500,000 and $3,200,000 at December 31, 2014 and 2013, respectively. Interest expense was approximately $342,000 and $1,207,000 for the years ended December 31, 2014 and 2013, respectively.

(15) Long-Term Debt

HMO has the following loans outstanding as of December 31, 2014 and 2013 as follows:

		2014	2013
Long-term bank loan – Tower (a)	$	33,152,583	40,540,229
Long-term bank loan – Hadasit (b)		—	6,321,839
		33,152,583	46,862,068
Less current maturities		(4,527,035)	(3,246,838)
	$	28,625,548	43,615,230

(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 two years, only interest will be paid while the principal will be returned over the following eight 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 0.14%.

Interest has been paid quarterly since July 26, 2009. The loan was scheduled to be repaid in full on April 26, 2013. In August 2013, HMO, Hadasit, and the bank reached an agreement according to which Hadasit repaid the original loan and was granted a new loan amounting to approximately $6.3 million payable in August 2018. The loan bears interest of prime minus 0.05%, which will be paid quarterly beginning November 29, 2013. HMO pledged certain investments as collateral. As of December 31, 2014 the loan was fully paid.

For the years ended December 31, 2014 and 2013, interest expense totaled $1,347,333 and $1,988,850, respectively.

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

Year ending December 31:		
2015	$	4,527,036
2016		4,527,036
2017		4,527,036
2018		4,527,036
2019		4,527,036
Thereafter		5,990,368
	$	28,625,548

(16) Commitments and Contingencies

(a) Line of Credit

In May 2011, the Organization entered into a $25,000,000 secured revolving credit agreement, which expired in June 2014 and was subsequently extended to November 30, 2015. The revolving credit agreement requires collateral equal to the principal balance. The amount of collateral at December 31, 2014 and 2013 is approximately $93,263,168 and $87,442,360, respectively, held in cash and investment accounts with the lender. There was no amount outstanding as of and for the years ended December 31, 2014 and 2013.

(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 fully completed by 2016. The Israeli government committed to finance approximately $64,000,000 of the construction, where the revenue is recognized as construction costs are incurred. Approximately $31,000,000 has been recognized as revenue from the Israeli government by HMO through December 31, 2014. No funds were received from the Israeli government by HMO during 2014. The new building will house approximately 480 beds, an intensive care unit, and departmental step-down units.

In 2009, HMO signed a contract with a construction company to build the inpatient hospital building for approximately $220,000,000 (excluding soft construction costs such as demolition, excavation, and road works). Through December 31, 2014, the Organization paid the contracting company approximately $213,000,000.

At December 31, 2014, construction commitments were approximately $9,000,000.

(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) Recovery Agreement

At December 31, 2014, HMO's unrestricted accumulated deficit, excluding net investment in property, plant and equipment, approximated $218 million. In February 2014, and as a result of financial difficulties caused by continuing operational and cash deficits, HMO submitted a request to the District Court in Jerusalem (the Court) for a Stay of Proceedings status. On February 11, 2014, the Court approved the Stay of Proceedings status in accordance with Section 350 of the Companies Law for a 90-day period and required the trustees and management to conduct intense discussions with the Unions, Government and Hadassah in order to reach a recovery plan.

On May 22, 2014, the Court approved a recovery plan for the period of seven years beginning January 1, 2014 through December 31, 2020, and canceled the Stay of Proceedings status. On June 24, 2014, a Recovery Agreement was signed by HMO, Hadassah, and the Government of Israel, which includes various operational, financial and corporate governance matters. In accordance with the agreement, HMO will pledge its assets and certain sources of income to the Government. The agreement is effective as of July 28, 2014. Net income from recovery agreement includes grants of $100,817,862 from the Government of Israel and write-offs of debt to vendors and employees of $32,588,268.

In accordance with the Recovery Agreement, HMO received a long-term loan from Government of Israel in the amount of $25,614,098. The loan bears interest of 3.85% annually. During the years of the recovery agreement (through December 31, 2020), HMO will pay interest only and beginning in January 2021, the principal will be paid in 120 monthly installments.

(18) Subsequent Events

In October 2012, Hadassah sold its property located at 50 West 58th Street, New York, New York. The terms and conditions of the sale permitted Hadassah to have the use of the property for up to three years from the date of transfer of title. On March 18, 2015, Hadassah moved to office space located at 40 Wall Street, New York, New York. Per the terms of the agreement, Hadassah will not make any rental payments until October 2015. However, in accordance with U.S. GAAP, the rent expense is recognized over the lease term. The lease is for a 20-year period commencing on December 1, 2014. Therefore, Hadassah recorded one month's rent expense in 2014.

Scheduled minimum lease payments are as follows:

Year ending December 31:		
2015	$	562,566
2016		1,569,950
2017		1,569,950
2018		1,569,950
2019		1,569,950
Thereafter		28,751,625
	$	35,593,991

As a result of the move, Hadassah disposed of approximately $81,000 of fixed assets.

Management evaluated all events and transactions that occurred after December 31, 2014 and through November 6, 2015, which is the date the consolidated financial statements were available for issuance, and has concluded that there are no additional subsequent events requiring disclosure.