

National Jewish Health and Subsidiary

Consolidated Financial Statements
(With Independent Accountants' Report Thereon)

June 30, 2009 and 2008

National Jewish Health and Subsidiary
June 30, 2009 and 2008

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Independent Accountants' Report

Board of Directors
National Jewish Health
Denver, Colorado

We have audited the accompanying consolidated statements of financial position of National Jewish Health and Subsidiary (National Jewish) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of National Jewish's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Jewish as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, in 2009 National Jewish changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

As discussed in Note 19, in 2009 National Jewish changed its method of recognition of classifications of net assets comprising donor-restricted endowment funds as a result of the version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by State of Colorado and adopting Financial Accounting Standards Board Staff Position FAS 117-1.

/s/ BKD, LLP

October 8, 2009

National Jewish Health and Subsidiary
Consolidated Statements of Financial Position
June 30, 2009 and 2008
(In thousands)

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 3,703	\$ 4,326
Short-term investments	35	85
Accounts receivable		
Patient care, net of estimated uncollectables of \$12,916 and \$10,631, respectively	14,971	12,988
Grant revenue receivable	4,089	5,383
Bequests, net of estimated uncollectables of \$240 and \$63, respectively	10,666	2,752
Pledges receivable, current portion, net of allowance for uncollectables of \$1,344 and \$1,914, respectively	2,240	3,009
Other	3,124	4,521
Total receivables	<u>35,090</u>	<u>28,653</u>
Assets held by trustees – current portion	2,519	7,294
Prepaid expenses	861	856
Drugs and supplies	1,131	1,121
Total current assets	<u>43,339</u>	<u>42,335</u>
Assets Whose Use is Limited		
Internally designated assets	29,732	29,859
Assets held by trustee, net of current portion	2,822	2,883
Assets reserved for gift annuities	8,966	9,741
Other	437	462
Total assets whose use is limited	<u>41,957</u>	<u>42,945</u>
Other Assets		
Long-term investments	32,173	41,192
Contributions receivable under unitrust agreements	3,923	4,828
Pledges receivable, net of current portion and allowance for uncollectables of \$418 and \$838, respectively	2,254	3,900
Beneficial interest under perpetual trust agreements	7,516	8,617
Unamortized debt issuance costs	629	664
Goodwill, net of accumulated amortization of \$578 and \$500, respectively	978	1,056
Other	433	487
Total other assets	<u>47,906</u>	<u>60,744</u>
Property and Equipment, at Cost		
Land	3,475	3,475
Buildings	114,362	114,107
Equipment and software	61,066	58,093
Construction in progress	15	7
	<u>178,918</u>	<u>175,682</u>
Less accumulated depreciation	(85,595)	(80,671)
Property and equipment, net	<u>93,323</u>	<u>95,011</u>
Total assets	<u>\$ 226,525</u>	<u>\$ 241,035</u>

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(In thousands)

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Accounts payable and accrued expenses	\$ 8,463	\$ 7,412
Line of credit	-	1,200
Current portion of workers' compensation	337	370
Accrued salaries, wages, and employee benefits	4,937	5,092
Unearned grant revenue	787	749
Estimated settlements with third-party payors	423	405
Current portion of accrued vacation	2,041	2,438
Current portion of long-term debt	3,779	3,658
Current liability under annuity contracts	1,531	1,636
Current liability under unitrust agreements	90	89
Total current liabilities	<u>22,388</u>	<u>23,049</u>
Accrued vacation	1,296	614
Other	1,979	3,302
Liability under annuity contracts	8,966	9,781
Liability under unitrust agreements	726	748
Long-term debt, net of current portion	49,606	53,361
Total liabilities	<u>84,961</u>	<u>90,855</u>
Net Assets		
Unrestricted	84,861	89,780
Temporarily restricted	26,829	18,110
Permanently restricted	29,874	42,290
Total net assets	<u>141,564</u>	<u>150,180</u>
Total liabilities and net assets	<u>\$ 226,525</u>	<u>\$ 241,035</u>

National Jewish Health and Subsidiary
Consolidated Statements of Activities
June 30, 2009 and 2008
(In thousands)

	<u>2009</u>	<u>2008</u>
Changes in Unrestricted Net Assets		
Unrestricted revenue, gains, and other support		
Net patient service revenue	\$ 78,101	\$ 60,741
Health initiatives revenue	12,782	9,090
Professional education revenue	2,381	1,861
Federal grant revenue	48,663	40,158
Other operating revenue	5,151	5,423
Major gifts and auxiliary support	2,701	2,052
Direct mail	2,365	2,774
Special events, net of direct donor benefits of \$2,632 and \$3,247, respectively	1,121	1,431
Bequests	3,000	2,886
Gift annuity contributions	198	366
Investment (loss) income, net	(3,007)	160
Total unrestricted revenue, gains, and other support	<u>153,456</u>	<u>126,942</u>
Net Assets Released from Restriction		
Net assets released from restriction – grants	8,151	8,341
Net assets released from restriction – public support	12,709	17,989
Total net assets released from restriction	<u>20,860</u>	<u>26,330</u>
Expenses		
Academic services	81,131	70,288
Clinical services	46,026	39,871
Administration and fiscal support	18,219	17,440
Support services	10,401	10,130
Health initiatives and marketing	11,353	10,221
Professional education	2,332	2,136
Fund development	6,883	6,410
Bad debt expense	2,663	2,045
Total expenses	179,008	158,541
Decrease (Increase) in Value of Split-interest Agreements	<u>227</u>	<u>(109)</u>
Total expenses and losses	<u>179,235</u>	<u>158,432</u>
Decrease in unrestricted net assets	<u>\$ (4,919)</u>	<u>\$ (5,160)</u>

National Jewish Health and Subsidiary
Consolidated Statements of Activities
Years ended June 30, 2009 and 2008
(In thousands)

	2009	2008
Changes in Temporarily Restricted Net Assets		
Restricted grant support	\$ 8,233	\$ 8,481
Major gifts and auxiliary support	1,820	3,658
Direct mail	167	197
Special events	2,169	3,049
Bequests	11,211	5,245
Contributions of split-interest agreements	160	254
Change in value of split-interest agreements	(1,517)	(29)
Net investment loss on endowment funds temporarily restricted	(4,499)	-
Total temporarily restricted revenue	<u>17,744</u>	<u>20,855</u>
Net assets released from restriction – grants	(8,151)	(8,341)
Net assets released from restriction – public support	<u>(12,709)</u>	<u>(17,989)</u>
Total net assets released from restriction	<u>(20,860)</u>	<u>(26,330)</u>
Net assets transferred from permanently restricted	<u>11,835</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>8,719</u>	<u>(5,475)</u>
Changes in Permanently Restricted Net Assets		
Contributions	769	5,199
Investment loss, net	<u>(1,350)</u>	<u>(3,345)</u>
Contributions to and gains (losses) in permanently restricted net assets	<u>(581)</u>	<u>1,854</u>
Net assets transferred to temporarily restricted	<u>(11,835)</u>	<u>-</u>
(Decrease) increase in permanently restricted net assets	<u>(12,416)</u>	<u>1,854</u>
(Decrease) in net assets	(8,616)	(8,781)
Net assets, beginning of year	<u>150,180</u>	<u>158,961</u>
Net assets, end of year	<u>\$ 141,564</u>	<u>\$ 150,180</u>

National Jewish Health and Subsidiary
Consolidated Statements of Cash Flows
Years ended June 30, 2009 and 2008
(In thousands)

	2009	2008
Cash Flows from Operating Activities		
Decrease in net assets	\$ (8,616)	\$ (8,781)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	9,603	6,741
Goodwill amortization	78	78
Bad debt expense	2,663	2,045
Unrealized losses	5,070	8,963
Permanently restricted revenue, net	581	(1,854)
Loss on disposal of property and equipment	139	96
Bond discount amortization	24	25
Increase in patient care accounts receivable	(4,646)	(4,982)
Decrease in grant receivables	1,294	167
Increase in bequests receivable	(7,914)	(257)
Decrease (increase) in other current assets	1,382	(1,240)
Decrease in contribution receivable	905	149
Decrease in pledges receivable	2,415	872
Decrease (increase) in beneficial interest under perpetual trust	1,102	(1,338)
Decrease in other assets	88	5
Increase in estimated third-party payor settlements	18	14
(Decrease) increase in accounts payable and accrued expenses, workers' compensation, accrued salaries, wages, and employee benefits and unearned grant revenue	(2,625)	337
Increase in accrued vacation	285	387
Decrease in deferred contributions	(23)	(2)
Net cash provided by operating activities	1,823	1,425
Cash Flows from Investing Activities		
Purchases of property and equipment	(3,229)	(18,435)
Proceeds from sales of internally designated assets	7,056	28,276
Purchases of internally designated assets	(9,734)	(24,779)
Purchases of assets in capital escrow fund	(436)	(5,235)
Proceeds from sale of assets held by trustee	447	19
Purchases of investments and assets reserved for gift annuities	(31,614)	(25,391)
Proceeds from sale of assets reserved for gift annuities	39,218	26,388
Net cash provided by (used in) investing activities	1,708	(19,157)
Cash Flows from Financing Activities		
Repayment of long-term debt	(3,658)	(1,175)
Lease issuance cost	-	(34)
Increase (decrease) in liability under gift annuity agreements	106	(240)
(Decrease) increase in liability under unitrust agreements	(21)	139
Proceeds from financing arrangement	-	13,000
(Decrease) increase in permanently restricted net assets	(581)	1,854
Net cash (used in) provided by financing activities	(4,154)	13,544
Net decrease in cash and cash equivalents	(623)	(4,188)
Cash and cash equivalents, beginning of year	4,326	8,514
Cash and cash equivalents, end of year	\$ 3,703	\$ 4,326
Supplemental schedule of noncash activities		
Cash paid for interest	\$ 2,342	\$ 2,219

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(1) Corporate Organization

(a) Organization

National Jewish Health and subsidiary (National Jewish), a Colorado nonprofit corporation, is a national referral medical institute engaged in patient care, medical research, and teaching, primarily in areas of respiratory, allergic, and immunologic medicine. National Jewish is the product of a consolidation in 1978 between National Jewish Hospital and Research Center, founded in 1899, and National Asthma Center, founded in 1907.

In 2002, the National Jewish Illiquid Assets Holding Company, LLC, a wholly owned subsidiary of National Jewish, was incorporated. The purpose of this subsidiary is to hold donated property until sold. All related intercompany transactions and balances have been eliminated in consolidation.

National Jewish's activities are supported by numerous voluntary organizations and advisory boards in cities across the United States. The auxiliary organizations, although chartered by National Jewish, maintain their own financial records and submit the net proceeds of their fundraising activities to National Jewish. Because National Jewish does not exercise financial control over its auxiliary organizations, it does not maintain accounting records concerning their activities, and the accompanying consolidated financial statements do not reflect such activities.

National Jewish is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC and a similar provision of state law.

(b) Compliance with Health Care Industry Laws and Regulations

All hospitals and other providers of health care are subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

Recently, government activity has increased with respect to investigations and allegations involving several health care providers throughout the country concerning possible violations of fraud and abuse statutes and regulations by these health care providers. Violations of these laws and regulations can result in expulsion from government health care programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that National Jewish is in substantial compliance with applicable government laws and regulations.

(2) Summary of Significant Accounting Policies

(a) National Jewish receives funding from a number of sources. Contributions received from donors are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that

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increases those net asset classes. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction. When the donor restriction expires, the contribution is reclassified to unrestricted net assets and reported in the consolidated statements of activities as “net assets released from restriction – public support.” All expenses directly related to donor restrictions are included in the appropriate expense category as a reduction in unrestricted net assets on the accompanying consolidated statements of activities.

- (b) Research grant awards are accounted for as either contributions or exchange transactions based on the provisions of the award document. To the extent that grants are contributions, they are recognized as temporarily restricted support until conditions placed on the award by the granting agency have been satisfied. The related revenue is reclassified to unrestricted net assets as the required restrictions are satisfied and is reported in the consolidated statements of activities as “net assets released from restriction – grants.” All expenses directly related to grant agreements are included in the academic services expense category as a reduction in unrestricted net assets on the accompanying consolidated statements of activities.
- (c) Unconditional promises to give that are expected to be collected within one year are recorded at fair value. Unconditional promises to give that are expected to be collected in future years are also recorded at their estimated fair value, which represents the present value of their estimated future cash flows. Amortization of the related present value discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions placed on the gift by the donor are substantially met.
- (d) Bequest income is recognized when all of the following criteria are met: (1) National Jewish has received notification of the donor’s death; (2) National Jewish has a copy of the valid will or trust document evidencing the bequest; and (3) the value of the gift can be reasonably estimated. Accrued bequest income is shown as temporarily restricted until received.
- (e) National Jewish receives perpetual trusts in which it has the irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the corpus. These trusts are administered by third parties and are recognized as contribution revenue and as an asset upon notification of the trust’s existence. The contribution is measured at the fair value of the trust’s assets, which approximates the present value of the estimated future cash receipts from the trust’s assets. The revenue is classified as permanently restricted support. Annual distributions from the trusts are reported as unrestricted investment income unless restricted by the donor.
- (f) National Jewish is the beneficiary in various charitable remainder trusts in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust’s term. Under the terms of the trust, National Jewish receives the assets remaining upon termination of the trust. The distributions to the beneficiaries may be for a specified dollar amount, an arrangement called a charitable remainder annuity trust (CRAT), or for a specified percentage of the trust’s fair value determined annually, an arrangement called a charitable remainder unitrust (CRUT). Some CRUTs limit the annual payout to the lesser of the stated percentage or the actual income earned. Obligations to the beneficiaries are limited to the trust’s assets. Contributions are recognized in the period in which the trust is established. For those trusts in which National Jewish is the trustee, the assets are recorded at

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fair value when received, and the liability to the donor's beneficiary is recorded as the present value of the estimated future payments to be distributed over the beneficiary's expected life. The amount of the contribution is the difference between these amounts and is classified as temporarily restricted support. Changes in actuarial assumptions are recognized in the consolidated statements of activities as changes in value of split-interest agreements in the temporarily restricted net asset class. Income earned on trust assets, gains, and losses is reflected in the consolidated statements of activities. Adjustments to the liability to reflect amortization of the discount or revaluation of the present value of the estimated future payments to the beneficiary are reflected in the consolidated statements of activities. Upon the death of the beneficiary, the liability is closed, and any balance is recognized as a change in the value of split-interest agreements and is reclassified to either temporarily restricted or unrestricted net assets as appropriate.

For those trusts of which National Jewish is not the trustee, the agreement is recognized as an unconditional promise to give. National Jewish recognizes, as temporarily restricted contributions revenue and as a receivable, the estimated fair value of the contribution which represents the present value of the estimated future benefits to be received when the trust assets are distributed upon termination of the trust. Adjustments to the receivable to reflect amortization of the discount or revaluation of the present value of the estimated future benefits are recognized as changes in the value of split-interest agreements. Upon the death of the beneficiary, the receivable is closed, the assets received from the trust are recognized at fair value, and any difference is reported as a change in the value of split-interest agreements and is reclassified to either temporarily restricted or unrestricted net assets as appropriate.

- (g) National Jewish receives charitable gift annuities under terms of which the donor contributes assets to National Jewish in exchange for a promise to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Assets received under gift annuity agreements are recognized at fair value when received. A corresponding annuity liability is recognized as the present value of future cash flows expected to be paid to the assigned beneficiary. Unrestricted contribution revenue is recognized as the difference between these two amounts. Adjustments to the annuity liability to reflect amortization of the discount and changes in the life expectancy of the beneficiary are recognized in the consolidated statements of activities as changes in the value of split-interest agreements in unrestricted net assets. Upon the death of the beneficiary, the annuity liability is closed, and a change in the value of the split-interest agreements is recognized.
- (h) National Jewish also receives pooled income gifts. Under the terms of these contributions, the gifts of various donors are pooled and invested as a group. Each donor is allocated a percentage of the assets, referred to as units. The donor is paid the income, as defined under the arrangement, earned on the donor's assigned units. Upon the donor's death, the value of these assigned units reverts to National Jewish. The remainder interest in the assets received is recognized as temporarily restricted contributions revenue in the period in which the assets are received from the donor. The contribution is measured at the fair value of the assets to be received, discounted for the estimated time period until the donor's death. The contributed assets are recognized at fair value when received. The difference between the fair value of the

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assets received and the revenue recognized is recorded as deferred revenue, representing the amount of the discount for future interest.

- (i) Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts whose use is limited by internal designation or other arrangements.
- (j) Short-term investments consist principally of commercial paper, certificates of deposit, repurchase agreements, and other marketable securities. Investments in equity securities with readily determinable fair values and debt securities are carried at fair value as determined by an estimate based on significant other observable inputs.
- (k) National Jewish has not applied fair value measurement guidance to nonfinancial assets for the following asset categories on the balance sheet: property, plant and equipment, bond issuance costs, and goodwill.
- (l) Property and equipment that is purchased is stated at cost. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation of buildings and equipment, including amortization of assets under capital leases, is calculated using the straight-line method over the estimated useful lives of the assets in accordance with American Hospital Association guidelines.
- (m) Bond issuance costs and bond discounts related to the issuance of bonds are deferred and amortized over the life of the respective bond issue using the straight-line method. Additionally, capital lease issuance costs related to the issuance of capital leases are deferred and amortized over the life of the capital lease using the straight-line method.
- (n) Goodwill, which represents the excess of the purchase price over the fair value of the net assets of the Colorado operations of Sleep HealthCenters, is amortized on a straight-line basis over the expected period to be benefited, which is 20 years.
- (o) During the fiscal year ended June 30, 2009, National Jewish adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the fiscal year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

Level 3: Unobservable inputs that are supported by little or not market activity and that are significant to the fair value of the assets or liabilities

The following table represents fair value measurement of assets recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009. As of June 30, 2009, there were no Level 3 assets.

Description	6/30/2009	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	\$ 35,000	\$ -	\$ 35,000	\$ -
Internally designated assets	28,602,000	28,088,000	514,000	-
Assets held by trustees	2,225,000	2,225,000	-	-
Assets reserved for gift annuities	8,966,000	8,500,000	466,000	-
Long-term investments	30,472,000	28,380,000	2,092,000	-
Other	437,000	295,000	142,000	-
Cash and cash equivalents not included above	\$ 5,947,000			
	Total \$ 76,684,000			

- (p) Net patient service revenue is reported at the estimated net realizable amounts receivable from patients, third-party payors, and others for services rendered.

Amounts reimbursed for services rendered to patients recovered under various insurance programs are generally less than the established billing rates. The estimated difference is recorded as a reduction to net patient service revenue in the period the services are rendered.

Estimated amounts receivable or payable under reimbursement agreements with the Medicare and Medicaid programs are subject to examination and retroactive adjustment. Provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined.

National Jewish provides services in Colorado to patients from throughout the United States and internationally. As of June 30, 2009 and 2008, National Jewish's net patient receivable for services rendered was \$14,971,000 and \$12,988,000, respectively. Possible credit losses are provided for in National Jewish's allowance for uncollectible accounts and contractual adjustments.

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The mix of gross patient charges from patients and third-party payors is as follows:

	Revenue	
	2009	2008
Medicare	31%	30%
Medicaid	6%	5%
Blue Cross	17%	16%
Managed care	25%	27%
Other third-party payors	21%	22%
	100%	100%

- (q) The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.
- (r) Subsequent events have been evaluated through October 8, 2009, which is the date the financial statements were available to be issued.

(3) Long-term Debt

Long-term debt at June 30, 2009 and 2008, is summarized as follows:

	2009	2008
Revenue Bonds, Series 1998	\$ 26,060,000	\$ 26,845,000
Revenue Bonds, Series 1998B	4,645,000	4,775,000
Revenue Bonds, Series 2005	12,600,000	12,900,000
Unamortized Bond Discount		
Revenue Bonds, Series 1998	(421,000)	(443,000)
Revenue Bonds, Series 1998B	(56,000)	(58,000)
Capital Lease/Financing Arrangement	10,557,000	13,000,000
	53,385,000	57,019,000
Less: Current Portion	(3,779,000)	(3,658,000)
	\$ 49,606,000	\$ 53,361,000

(a) Series 1998 Revenue Bonds

In April 1998, the Colorado Health Facilities Authority issued \$32,805,000 aggregate principal amount of its Series 1998 Revenue Bonds (the 1998 Bonds), dated April 1, 1998. Proceeds from the 1998 Bonds were used to pay certain costs relating to the issuance of the bonds and were used to finance a number of capital construction and renovation projects.

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The 1998 Bonds require annual payments of varying amounts. These payments began on January 1, 1999. Additionally, the bonds are subject to mandatory sinking fund redemption beginning in January 2003. Final principal payments on the bonds are due in January 2028. Redemption amounts are as follows at June 30, 2009:

2010		\$ 825,000
2011		865,000
2012		915,000
2013		960,000
2014		1,015,000
Thereafter		<u>21,480,000</u>
		<u><u>\$ 26,060,000</u></u>

The 1998 Bonds bear interest at fixed rates varying from 5.00% to 5.375% and are secured by the rights to all future revenue derived from National Jewish's property, excluding revenue derived from donor-restricted property if such revenue is unavailable for debt service. The 1998 Bonds are subject to covenants that impose certain operating and financial restrictions on National Jewish. Management believes National Jewish was in compliance with all covenants for the years ended June 30, 2009 and 2008.

(b) Series 1998B Revenue Bonds

In November 1998, the Colorado Health Facilities Authority issued a \$5,700,000 aggregate principal amount of its Series 1998B Revenue Bonds (the 1998B Bonds) dated November 1, 1998. Proceeds from the 1998B Bonds were used to pay certain costs relating to the upgrading and renovation of National Jewish's PowerHouse building.

The 1998B Bonds require annual payments of varying amounts. These payments began on January 1, 2000. Additionally, the bonds are subject to mandatory sinking fund redemption beginning in January 2018. Final principal payments on the bonds are due in January 2029. Redemption amounts are as follows at June 30, 2009:

2010		\$ 135,000
2011		145,000
2012		150,000
2013		160,000
2014		165,000
Thereafter		<u>3,890,000</u>
		<u><u>\$ 4,645,000</u></u>

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The 1998B Bonds bear interest at fixed rates varying from 5.00% to 5.375% and are secured by the rights to all future revenue derived from National Jewish's property, excluding revenue derived from donor restricted property if such revenue is unavailable for debt service. The 1998B Bonds are subject to covenants that impose certain operating and financial restrictions on National Jewish. Management believes National Jewish was in compliance with all covenants for the years ended June 30, 2009 and 2008.

(c) Series 2005 Revenue Bonds

In January 2005, the Colorado Health Facilities Authority issued \$13,500,000 aggregate principal amount of its Series 2005 Revenue Bonds (the 2005 Bonds) dated January 20, 2005. Proceeds from the 2005 Bonds were used to finance the construction of a clinical and research building, as well as several renovation projects and equipment.

The 2005 Bonds require annual payments of varying amounts. These payments began on January 1, 2007. Final principal payments on the bonds are due in January 2035. Redemption amounts are as follows at June 30, 2009:

2010	\$	300,000
2011		300,000
2012		300,000
2013		300,000
2014		300,000
Thereafter		<u>11,100,000</u>
		<u><u>\$ 12,600,000</u></u>

The 2005 Bonds bear a variable rate of interest based on the rate at which the bonds could be remarketed at their face value and are secured by the rights to all future revenue derived from National Jewish's property, excluding revenue derived from donor restricted property if such revenue is unavailable for debt service. The interest rate at June 30, 2009, was .30%. The 2005 Bonds are backed by an irrevocable transferable letter of credit expiring January 19, 2010. At June 30, 2009 and 2008, no borrowings were outstanding. The 2005 Bonds are subject to covenants which impose certain operating and financial restrictions on National Jewish. Management believes National Jewish was in compliance with all covenants for the years ended June 30, 2009 and 2008.

The fair value of National Jewish's bond issues is determined by quoted market rates. The estimated fair values of National Jewish's financial instruments are summarized as follows:

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	2009	
	Carrying Value	Estimated Fair Value
Revenue Bonds, Series 1998	\$ 25,639,000	\$ 22,735,000
Revenue Bonds, Series 1998B	4,589,000	3,922,000
Revenue Bonds, Series 2005	12,600,000	12,600,000

(d) Capital Lease / Financing Arrangement

In March 2008, National Jewish entered into a financing arrangement receiving proceeds of \$13,000,000. The proceeds are being used to purchase new radiology equipment for the new Institute for Biomedical Imaging™ and other strategic capital assets. Once equipment is acquired, the financing converts to a capital lease. As of June 30, 2009, \$12,685,000 has been used to acquire equipment, and the remaining \$436,000 (which includes interest earned) is held in escrow. Included in the equipment and software in the accompanying financial statements are assets under capital leases, as follows:

	2009	2008
Classes of assets		
Equipment and software	\$ 12,685,000	\$ 7,791,000
Less accumulated depreciation	(2,506,000)	(280,000)
	\$ 10,179,000	\$ 7,511,000

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2009, are as follows:

2010	\$ 2,826,000
2011	2,826,000
2012	2,826,000
2013	2,826,000
	11,304,000
Less amount representing interest	(747,000)
Present value of future minimum lease payments	10,557,000
Less current maturities	(2,519,000)
Noncurrent portion	\$ 8,038,000

Assets held by trustees represent funds designated by the bond indenture to pay principal and interest on the 1998, 1998B and 2005 bonds and funds held from the Capital Escrow equipment fund for the purchase of equipment and software. The composition of these funds stated at fair value, based on the most recent market quotations, at June 30, 2009 and 2008, is as follows:

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	Cash and Cash Equivalents	2009 U.S. Government Securities	Total
1998 Bonds			
Bond Reserve Fund	\$ -	\$ 2,225,000	\$ 2,225,000
Bond Interest/Principal Fund	1,314,000	-	1,314,000
	<u>\$ 1,314,000</u>	<u>\$ 2,225,000</u>	<u>\$ 3,539,000</u>
1998B Bonds			
Bond Reserve Fund	\$ 387,000	\$ -	\$ 387,000
Bond Interest/Principal Fund	196,000	-	196,000
	<u>\$ 583,000</u>	<u>\$ -</u>	<u>\$ 583,000</u>
2005 Bonds			
Bond Reserve Fund	\$ 783,000	\$ -	\$ 783,000
Bond Interest/Principal Fund	-	-	-
	<u>\$ 783,000</u>	<u>\$ -</u>	<u>\$ 783,000</u>
2008 Capital Escrow			
Equipment Fund	\$ 436,000	\$ -	\$ 436,000
	<u>\$ 436,000</u>	<u>\$ -</u>	<u>\$ 436,000</u>

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	Cash and Cash Equivalents	2008 U.S. Government Securities	Total
1998 Bonds			
Bond Reserve Fund	\$ -	\$ 2,225,000	\$ 2,225,000
Bond Interest/Principal Fund	1,338,000	-	1,338,000
	<u>\$ 1,338,000</u>	<u>\$ 2,225,000</u>	<u>\$ 3,563,000</u>
1998B Bonds			
Bond Reserve Fund	\$ 387,000	\$ -	\$ 387,000
Bond Interest/Principal Fund	210,000	-	210,000
	<u>\$ 597,000</u>	<u>\$ -</u>	<u>\$ 597,000</u>
2005 Bonds			
Bond Reserve Fund	\$ 783,000	\$ -	\$ 783,000
Bond Interest/Principal Fund	1,000	-	1,000
	<u>\$ 784,000</u>	<u>\$ -</u>	<u>\$ 784,000</u>
2008 Capital Escrow			
Equipment Fund	\$ 5,233,000	\$ -	\$ 5,233,000
	<u>\$ 5,233,000</u>	<u>\$ -</u>	<u>\$ 5,233,000</u>

(4) Line of Credit

National Jewish has a \$25,000,000 unsecured revolving bank line of credit expiring on February 1, 2011. At June 30, 2009 and 2008, there was \$0 and \$1,200,000, respectively, borrowed against this line. Interest accrues at the bank's prime rate less 1%. National Jewish's borrowing interest rate was 2.25% and 4% on June 30, 2009 and 2008, respectively.

(5) Internally Designated Assets

The governing body has designated certain assets for strategic and other future purposes. The composition of internally designated assets stated at fair value, as determined by the most recent market quotations or an estimate based on significant other observable inputs, at June 30, 2009 and 2008, is set forth below:

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	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,130,000	\$ 146,000
Common stocks	7,449,000	10,486,000
Bonds and notes	<u>21,153,000</u>	<u>19,227,000</u>
	<u>\$ 29,732,000</u>	<u>\$ 29,859,000</u>

(6) Construction in Progress

National Jewish is currently in the process of remodeling and upgrading parts of its campus in order to better utilize its facilities. Accordingly, at June 30, 2009, National Jewish had two unfinished projects. Total projected costs are estimated at \$58,000. As of June 30, 2009, National Jewish has expended \$15,000 related to these projects.

(7) Employee Benefit Plans

National Jewish maintains a defined contribution plan (the Plan) covering substantially all full-time employees. Under the terms of the Plan, National Jewish contributes between 5% and 6% of an employee's covered wages up to the Social Security wage base and between 10% and 11% of covered wages in excess of the Social Security wage base. The Plan contains no provisions requiring National Jewish to match a portion of employee contributions. Expenses under the Plan for 2009 and 2008 approximated \$1,683,000 and \$2,986,000, respectively.

(8) Charity Care and Community Benefits

National Jewish treats all patients who can benefit from National Jewish's care. Financial assistance is made available to patients based upon their ability to pay, and determinations in individual cases are made during National Jewish's preadmission process. Because National Jewish does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The estimated charges foregone under this policy were \$5,548,000 and \$3,030,000 for the years ended June 30, 2009 and 2008, respectively.

National Jewish also participates in the Medicare and Medicaid programs. Under these programs, National Jewish provides care to patients at payment rates determined by governmental agencies, regardless of actual cost.

(9) Net Patient Service Revenue

National Jewish has agreements with third-party payors that provide for reimbursement to National Jewish at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between National Jewish's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

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Medicare and Medicaid – National Jewish is reimbursed by Medicare and Medicaid for inpatient services based on the prospective payment system, often referred to as Diagnosis-Related Groups (DRGs). Outpatient services are reimbursed at cost, subject to various fee schedule limits. Beginning August 1, 2000, Medicare changed the outpatient payment method to the outpatient prospective payment method (OPPS). Under this methodology, services are grouped into APCs, or ambulatory payment classifications, and are similar to fee schedules in that they have an assigned reimbursement amount attached to each APC. Not all services are reimbursed under the APC method of payment and continue to be paid by fee schedule or other determined rate.

Managed Care – National Jewish has entered into agreements with numerous managed care organizations. The basis for payment to National Jewish under these agreements is primarily discounts from established charges and negotiated fee schedules.

(10) Grant Revenue

Total grant revenue consists of grants from the federal government as well as grants from charitable foundations and private corporations. The composition of total grant revenue for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Federal grants	\$ 48,663,000	\$ 40,158,000
Charitable foundation and private corporation grants	<u>8,233,000</u>	<u>8,481,000</u>
	<u>\$ 56,896,000</u>	<u>\$ 48,639,000</u>

(11) Long-Term Investments

The composition of long-term investments, stated at fair value, as determined by the most recent market quotations or an estimate based on significant other observable inputs at June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,701,000	\$ 1,767,000
U.S. government and agency obligations	549,000	2,013,000
Fixed-income securities	8,901,000	8,285,000
Convertible securities and equities	19,021,000	24,661,000
Alternative investments	1,308,000	3,754,000
Pooled income funds	<u>693,000</u>	<u>712,000</u>
	<u>\$ 32,173,000</u>	<u>\$ 41,192,000</u>

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(12) Commitments and Contingencies

(a) Operating Leases

National Jewish leases certain facilities and equipment under operating leases. The leases expire in various years through 2018. These leases generally require National Jewish to pay all executory costs (property taxes, maintenance and insurance). Future minimum rental payments as of June 30, 2009, that have initial or remaining non-cancelable lease terms equal to or greater than one year are as follows:

2010	\$	813,000
2011		684,000
2012		479,000
2013		292,000
2014		221,000
Thereafter		<u>721,000</u>
 Total future minimum lease payments	 \$	 <u><u>3,210,000</u></u>

Rental expense for operating leases was approximately \$1,478,000 and \$1,801,000 for the years ended June 30, 2009 and 2008, respectively.

(b) Other

National Jewish has certain pending litigation and claims incurred in the ordinary course of business; however, management believes, based on the advice of legal counsel, that the probable resolution of such contingencies will not materially affect the financial position or operations of National Jewish.

National Jewish maintains professional and general liability coverage through a claims-made policy with COPIC Insurance. The policy's liability is \$1,000,000 per medical incident and \$3,000,000 in the aggregate, with deductibles of \$100,000 per medical incident/occurrence and \$300,000 in the aggregate. In addition, umbrella coverage is provided to National Jewish through a claims-made policy with COPIC Insurance. The liability limit under the umbrella policy is \$40,000,000 combined medical incident and in aggregate.

(c) Risks and Uncertainties

National Jewish 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 those changes could materially affect the investment amounts reported in the statements of financial position.

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(13) Promises to Give

Included as receivables are the following unconditional promises to give as of June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Pledges	\$ 6,877,000	\$ 10,649,000
Bequests	<u>10,906,000</u>	<u>2,815,000</u>
Unconditional promises to give before unamortized discount and allowance for uncollectables	17,783,000	13,464,000
Less unamortized discount - pledges	<u>(621,000)</u>	<u>(988,000)</u>
	17,162,000	12,476,000
Less:		
Allowance for uncollectables - pledges	(1,762,000)	(2,752,000)
Allowance for uncollectables - bequests	<u>(240,000)</u>	<u>(63,000)</u>
Net unconditional promises to give	<u><u>\$ 15,160,000</u></u>	<u><u>\$ 9,661,000</u></u>
Amounts due in		
Less than one year	\$ 14,751,000	\$ 8,154,000
One to five years	2,732,000	4,805,000
More than five years	<u>300,000</u>	<u>505,000</u>
Total	<u><u>\$ 17,783,000</u></u>	<u><u>\$ 13,464,000</u></u>

Discount rates ranged from 1.61% to 5.73% and 2.00% to 5.73% for 2009 and 2008, respectively.

(14) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Net assets reserved for future unrestricted uses	\$ 10,392,000	\$ 1,293,000
Restricted for research, education, patient care, and capital construction	6,532,000	8,718,000
Endowed assets not yet appropriated for expenditure	3,521,000	-
Unitrust agreements	4,141,000	5,351,000
Pooled income	<u>2,243,000</u>	<u>2,748,000</u>
	<u><u>\$ 26,829,000</u></u>	<u><u>\$ 18,110,000</u></u>

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Net assets reserved for future unrestricted uses represent contributions not yet received by National Jewish. Endowed assets not yet appropriated for expenditure represent earnings on permanently endowed funds that have not been appropriated for expenditure by National Jewish in a manner consistent with the standard of prudence prescribed by SPMIFA. See Note 19 for further discussion of SPMIFA.

(15) Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	<u>2009</u>	<u>2008</u>
Beneficial interest in perpetual trust agreement	\$ 7,516,000	\$ 8,617,000
Permanent endowments	<u>22,358,000</u>	<u>33,673,000</u>
Total	<u>\$ 29,874,000</u>	<u>\$ 42,290,000</u>

National Jewish is an income beneficiary of several perpetual trusts controlled by unrelated third-party trustees. The trust document or the trustees' policies govern the investment and distribution of trust assets. Trust income distributed to National Jewish for the years ended June 30, 2009 and 2008, was \$261,000 and \$367,000, respectively.

(16) Composition of Investment Returns

The following summarizes the investment return and its classification in the consolidated statements of activities:

	<u>2009</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted*</u>	<u>Permanently Restricted</u>
Interest income	\$ 2,768,000	\$ 1,354,000	\$ -
Gains:			
Realized gains	(2,688,000)	(4,730,000)	(1,350,000)
Unrealized losses	<u>(3,087,000)</u>	<u>(1,983,000)</u>	<u>-</u>
Total losses	<u>(5,775,000)</u>	<u>(6,713,000)</u>	<u>(1,350,000)</u>
Total return on investments in stock and bond portfolios	<u>\$ (3,007,000)</u>	<u>\$ (5,359,000)</u>	<u>\$ (1,350,000)</u>

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	2008		
	Unrestricted	Temporarily Restricted*	Permanently Restricted
Interest income	\$ 2,562,000	\$ 622,000	\$ 377,000
Gains:			
Realized gains	2,625,000	47,000	(501,000)
Unrealized gains	(5,027,000)	(715,000)	(3,221,000)
Total gains	(2,402,000)	(668,000)	(3,722,000)
Total return on investments in stock and bond portfolios	<u>\$ 160,000</u>	<u>\$ (46,000)</u>	<u>\$ (3,345,000)</u>

* Amounts included in change in value of split-interest agreements on the consolidated statements of activities.

(17) Split-interest Agreements

National Jewish has the following split-interest agreements:

	2009		
	Assets	Liabilities	Net
Gift annuities	\$ 29,801,000	\$ 10,497,000	\$ 19,304,000
Unitrust agreements			
National Jewish trusteeships	1,034,000	816,000	218,000
Third-party trusteeship, net	3,923,000	-	3,923,000
Term endowments	1,982,000	-	1,982,000
Pooled income agreements	703,000	442,000	261,000
Total	<u>\$ 37,443,000</u>	<u>\$ 11,755,000</u>	<u>\$ 25,688,000</u>
	2008		
	Assets	Liabilities	Net
Gift annuities	\$ 32,021,000	\$ 11,417,000	\$ 20,604,000
Unitrust agreements			
National Jewish trusteeships	1,359,000	837,000	522,000
Third-party trusteeship, net	4,828,000	-	4,828,000
Term endowments	2,492,000	-	2,492,000
Pooled income agreements	722,000	465,000	257,000
Total	<u>\$ 41,422,000</u>	<u>\$ 12,719,000</u>	<u>\$ 28,703,000</u>

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For the above split-interest agreements, a risk-free rate, obtained using U.S. Treasury bonds at the date of the gift, was used in conjunction with actuarially determined life expectancies to calculate present values. The interest rates ranged from 1.50% to 10.48% for 2009 and 2.10% to 10.48% for 2008.

Though the assets received under gift annuity agreements are generally available for unrestricted use and the liability is a general obligation of National Jewish, National Jewish is required by several states to set assets aside to pay the regulatory minimum annuity obligation. These funds are classified as assets reserved for gift annuities on the consolidated statements of financial position. These assets are invested in equities and bonds, which are stated at fair value, as determined by the most recent market quotations or an estimate based on significant other observable inputs, and totaled \$8,966,000 and \$9,741,000 at June 30, 2009 and 2008, respectively.

(18) Related-party Transactions

National Jewish, from time to time in the normal course of business and within the guidelines of its conflict of interest policy, has entered into transactions with companies for which certain members of the companies' management also serve on the board of National Jewish. Management believes that prices paid by National Jewish have been equal to or less than the prices that would have been paid in transactions with parties not related to National Jewish.

(19) Endowment

National Jewish's endowment consists of approximately 64 individual, donor-restricted funds established as endowments and intended for a variety of purposes. The board of directors has interpreted the State of Colorado Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, and adoption of Financial Accounting Standards Board Staff Position 117-1 during the year ended June 30, 2009, National Jewish classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. The organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purpose of the organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation

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- 5) The expected total return from income and appreciation of investments
- 6) The resources of the organization
- 7) The investment policies of the organization

(a) Investment Policy

National Jewish has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while balancing fund growth. Under this policy, approved by the board of directors, the assets are invested in a manner that is intended to produce results that exceed CPI plus 5% per year as measured over a rolling 36-month period. To satisfy this long-term rate of return objective, National Jewish relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. National Jewish targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

(b) Spending Policy

National Jewish's spending policy varies by the purpose of the endowment and was established by the board of directors after considering all seven factors outlined by SPMIFA above. Funds with donor specific purposes have a spending policy of between 3% and 4% of the market value of the fund averaged over the past 12 fiscal quarters preceding the fiscal year in which the distribution is made.

(c) 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 SPMIFA requires National Jewish to retain as an endowment. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$65,000 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. There were no such deficiencies as of June 30, 2008.

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Changes in endowment net assets for fiscal year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,492,000	\$ 33,673,000	\$ 36,165,000
Reclassification as a result of change in law	-	11,835,000	(11,835,000)	-
Contributions and other increases	-	-	520,000	520,000
Investment income	-	1,249,000	-	1,249,000
Net assets released from restriction	-	(3,638,000)	-	(3,638,000)
Loss on sale of investments	-	(4,652,000)	-	(4,652,000)
Unrealized loss on investments	-	(1,849,000)	-	(1,849,000)
Contribution for underwater endowments	(65,000)	65,000	-	-
	<u>(65,000)</u>	<u>65,000</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ (65,000)</u>	<u>\$ 5,502,000</u>	<u>\$ 22,358,000</u>	<u>\$ 27,795,000</u>