National Jewish Health and Subsidiary

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

June 30, 2019 and 2018

National Jewish Health and Subsidiary
June 30, 2019 and 2018

Contents

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Independent Auditor's Report

Board of Directors
National Jewish Health
Denver, Colorado

We have audited the accompanying consolidated financial statements of National Jewish Health and Subsidiary (National Jewish Health), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 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 auditor's 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.

Board of Directors
National Jewish Health

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Jewish Health as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 3 to the financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* and ASU 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to these matters.

BKD, LLP

Denver, Colorado
October 23, 2019

National Jewish Health and Subsidiary

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

	2019	2018
Current assets:		
Cash and cash equivalents	$ 4,327	$ 2,577
Short-term investments	3,000	-
Accounts receivable:		
Patient care, net	27,442	28,026
Grant revenue receivable	561	755
Bequests, net	1,910	2,266
Pledges, net	18,299	20,332
Contributions receivable - program services	7,940	5,493
Receivable from joint ventures	3,417	9,315
Other	4,870	1,829
Assets held by trustees – current portion	2,746	2,653
Prepaid expenses	2,924	2,203
Drugs and supplies	2,694	2,299
Total current assets	80,130	77,748
Assets whose use is limited:		
Internally-designated assets	47,543	46,732
Assets held by trustee, net of current portion	1,217	1,276
Assets reserved for gift annuities	7,719	8,021
Other	121	128
Total assets whose use is limited	56,600	56,157
Other assets:		
Long-term investments	66,060	63,918
Contributions receivable under unitrust agreements	1,649	2,001
Pledges, net of current portion and allowance	12,832	13,394
Beneficial interest under perpetual and other trust agreements	12,695	12,963
Other	2,476	2,311
Total other assets	95,712	94,587
Property and equipment, at cost:		
Land	13,053	13,053
Buildings	101,842	99,976
Equipment and software	78,204	81,941
Construction-in-progress	437	-
	193,536	194,970
Less accumulated depreciation	(121,749)	(121,590)
Property and equipment, net	71,787	73,380
Total assets	$ 304,229	$ 301,872

National Jewish Health and Subsidiary

Consolidated Statements of Financial Position (continued)

June 30, 2019 and 2018

(In thousands)

	2019	2018
Current liabilities:		
Accounts payable and accrued expenses	$ 7,471	$ 8,372
Line of credit	6,924	13,581
Refundable advances	3,062	1,270
Worker's compensation, current portion	172	144
Accrued salaries, wages, and employee benefits	8,081	7,695
Unearned revenue	2,438	2,997
Estimated settlements with third-party payors	2,807	1,798
Accrued vacation, current portion	3,321	3,335
Long-term debt, current portion (including capital leases)	5,912	4,040
Liability under annuity contracts, current portion	1,412	1,401
Liability under unitrust agreements, current portion	153	155
Total current liabilities	41,753	44,788
Accrued vacation, net of current portion	990	1,092
Liability under annuity contracts, net of current portion	7,679	8,453
Liability under unitrust agreements, net of current portion	1,520	2,234
Long-term debt, net of current portion	24,137	30,103
Other	1,346	1,409
Total liabilities	77,425	88,079
Net assets:		
Without donor restrictions	87,606	71,082
With donor restrictions	139,198	142,711
Total net assets	226,804	213,793
Total liabilities and net assets	$ 304,229	$ 301,872

National Jewish Health and Subsidiary

Consolidated Statements of Activities

Years Ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Changes in net assets without donor restrictions:		
Revenue, gains, and other support without donor restrictions:		
Net patient service revenue	$ 147,956	$ 140,965
Health initiatives revenue	14,030	9,711
Revenue from joint ventures	9,397	17,186
Professional education revenue	364	3,001
Grant research awards	56,016	40,670
Other operating revenue	31,367	14,077
Major gifts	2,183	1,789
Direct mail	2,342	2,258
Special events, net of direct donor benefits of $3,211 and $3,022, respectively	2,516	2,684
Bequests	2,551	2,464
Gift annuity contributions	411	346
Investment income, net	2,768	3,208
Total revenue, gains, and other support without donor restrictions	271,901	238,359
Net assets released from restriction:		
Net assets released from restriction – grants	695	10,351
Net assets released from restriction – public support	22,603	11,006
Net assets released from restriction – professional education	2,552	-
Total net assets released from restriction	25,850	21,357
Expenses:		
Academic services	103,937	98,794
Clinical services	108,506	92,900
Health initiatives and marketing	16,311	13,053
Professional education	2,215	2,232
Fund development	8,128	8,137
Administration and fiscal support	32,148	31,937
Support services	12,378	12,133
Bad debt expense	-	1,843
Total expenses	283,623	261,029
Other income (expense):		
Increase (decrease) in value of gift annuities	743	(16)
Loss on disposal of property and equipment	-	(20)
Net gain realized from insurance proceeds	1,653	-
Total other income (expense):	2,396	(36)
Increase (decrease) in net assets without donor restrictions	16,524	(1,349)

National Jewish Health and Subsidiary

Consolidated Statements of Activities (continued)

Years Ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Changes in net assets with donor restrictions:		
Grant support – restricted	695	10,850
Professional education revenues – restricted	4,278	-
Major gifts	9,141	15,396
Direct mail	207	191
Special events	1,160	1,161
Bequests	2,177	2,417
Change in value of split-interest agreements	1,980	2,757
Investment gain, net	1,579	1,741
Contributions – restricted in perpetuity	1,348	4,832
Change in beneficial interest in perpetual trusts	(228)	304
Total revenue with donor restrictions	22,337	39,649
Net assets released from restrictions – grants	(695)	(10,351)
Net assets released from restrictions – public support	(22,603)	(11,006)
Net assets released from restrictions – professional education	(2,552)	-
Total net assets released from restrictions	(25,850)	(21,357)
(Decrease) increase in net assets with donor restrictions	(3,513)	18,292
Increase in net assets	13,011	16,943
Net assets, beginning of year	213,793	196,850
Net assets, end of year	$ 226,804	$ 213,793

National Jewish Health and Subsidiary

Consolidated Statements of Cash Flows

June 30, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Increase in net assets	$ 13,011	$ 16,943
Items not requiring (providing) cash		
Depreciation	7,432	8,007
Bad debt expense	-	1,843
Unrealized losses (gains)	1,081	(120)
Increase in net assets with donor restrictions in perpetuity	(1,120)	(5,136)
Bond premium, discount, and issuance cost amortization	(1,282)	(54)
Net gain realized from insurance proceeds	(1,653)	-
Changes in		
Transfer of internally designated assets to short term investments	3,000	-
Patient care accounts receivable	584	(814)
Grant receivables	194	(351)
Pledges receivable	2,595	(8,790)
Bequests receivable	356	(1,739)
Other current assets	1,741	(2,235)
Contributions receivable - program services	(2,447)	-
Contributions receivable - other	352	538
Beneficial interest under perpetual trust	268	(287)
Other assets	(165)	448
Estimated third-party payor settlements	1,009	24
Accounts payable and accrued expenses, workers compensation, accrued salaries, wages, and employees benefits and unearned grants	(1,108)	(6,383)
Refundable advances	1,792	-
Accrued vacation	(116)	63
Net cash provided by operating activities	25,524	1,957

National Jewish Health and Subsidiary
Consolidated Statements of Cash Flows (continued)
June 30, 2019 and 2018
(In thousands)

	2019	2018
Cash flows from investing activities:		
Purchases of property and equipment	(6,208)	(3,660)
Proceeds from insurance	2,022	-
Transfer of internally designated assets to short term investments	(3,000)	-
Purchases of internally designated assets	(7,489)	(12,430)
Proceeds from sale of internally designated assets	3,768	10,495
Proceeds from sale of assets held by trustees	3	103
Purchases of investments and assets reserved for gift annuities	(20,882)	(23,209)
Proceeds from sale of investments and assets reserved for gift annuities	17,842	22,379
Net cash used in investing activities	(13,944)	(6,322)
Cash flows from financing activities:		
Line of credit, net change	(6,657)	4,009
Repayment of long-term debt	(2,812)	(4,125)
Decrease in liability under gift annuity agreements	(764)	(979)
Decrease in liability under unitrust agreements	(717)	(595)
Increase in net assets with donor restrictions in perpetuity	1,120	5,136
Net cash (used in) provided by financing activities	(9,830)	3,446
Net increase (decrease) in cash and cash equivalents	1,750	(919)
Cash and cash equivalents, beginning of year	2,577	3,496
Cash and cash equivalents, end of year	$ 4,327	$ 2,577
Supplemental schedule of noncash activities:		
Capital lease obligation incurred for property and equipment	$ -	$ 1,012
Cash paid for interest	$ 1,658	$ 1,782

(1) Corporate Organization

(a) Organization

National Jewish Health and Subsidiary (National Jewish Health), 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 Health 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.

National Jewish Health 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.

In 2002, the National Jewish Illiquid Assets Holding Company, LLC, a wholly owned subsidiary of National Jewish Health, 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.

Joint Ventures

Effective December 2013, National Jewish Health formed a limited liability corporation in a joint venture with the Icahn School of Medicine doing business as the Mount Sinai – National Jewish Respiratory Institute to oversee the creation and operations of a joint respiratory institute at various sites in the Mount Sinai integrated health care system in New York City, New York.

Effective August 2014, National Jewish Health entered into a joint operating agreement with Sisters of Charity of Leavenworth (SCL) Health/St. Joseph Hospital for the joint management and operation of National Jewish Health's in-state patient care and St. Joseph Hospital. The new entity is overseen by a Board of Directors with representation from both entities.

Effective April 2017, National Jewish Health formed a limited liability corporation in a joint venture with Thomas Jefferson University doing business as the Jane and Leonard Korman Jefferson Health | National Jewish Health Respiratory Institute to oversee the development and operations of a joint respiratory institute at various sites in the Jefferson Health System in Philadelphia, Pennsylvania.

(b) Compliance with Health Care Industry Laws and Regulations

All hospitals and other providers of healthcare 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 healthcare providers throughout the country concerning possible violations of fraud and abuse statutes and regulations by these healthcare providers. Violations of these laws and regulations can result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes National Jewish Health is in substantial compliance with applicable government laws and regulations.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions which 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 or revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

(b) Contributions, Promises to Give and Bequests

National Jewish Health receives funding from a number of sources, such as donations from individuals, foundations, government and corporate grants for research, state public health departments for smoking cessation services and nicotine replacement, and pharmaceutical companies to fund continuing education for medical professionals.

Contributions received from donors and other funding agencies are recorded as net assets without donor restrictions, unless otherwise stipulated by the donor or agency. If the contribution is restricted, revenue is recorded to net assets with donor restrictions at the time of receipt or commitment is received, whichever is earlier. When the donor restriction expires, the contribution is reclassified to net assets without donor restrictions through net assets released from restriction in the consolidated statements of activities. All expenses directly related to donor restrictions are included in the appropriate expense category on the net assets without donor restrictions section of the consolidated statements of activities, creating a reduction in net assets without donor restrictions.

Unconditional promises to give expected to be collected within one year are recorded at fair value, while if collection is expected in future years they are 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 revenue, gains, and other support without donor restrictions until the conditions placed on the gift by the donor or agency are substantially met. When the contribution is both conditional and restricted to a purpose, and both of these are met simultaneously, National Jewish Health has elected to record contribution revenue directly to net assets without donor restrictions according to the simultaneous release accounting election provided in FASB Accounting Standards Codification 958-605-45-4B.

Bequest income is recognized when all of the following criteria are met: (1) National Jewish Health has received notification of the donor's death; (2) National Jewish Health 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 net assets with donor restrictions until received.

Contributions restricted to purchase property, plant, and equipment are reported as net assets with donor restrictions, then released to without donor restrictions when purchased and placed in service, unless the donor stipulates how long the assets must be used. In that case, the restriction is released as stipulated and the asset is depreciated over the asset's useful life.

(c) Pooled Income Gifts

National Jewish Health 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 Health. The remainder interest in the assets received is recognized as net assets with donor restrictions 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 assets received and the contribution revenue recognized is recorded as deferred revenue and reported in the liability under annuity contracts in the consolidated statements of financial position. This represents the amount of discount for future interest.

(d) Beneficial Interest in Perpetual Trusts

National Jewish Health 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 contribution revenue is classified as net assets with donor restrictions. Annual distributions from the trusts are reported as net investment income within assets without donor restrictions unless restricted by the donor.

(e) Charitable Remainder Trusts

National Jewish Health 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 Health 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 when the trust is established. For those trusts in which

National Jewish Health is the trustee, the assets are recorded at 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 net assets with donor restrictions. Changes in actuarial assumptions are recognized changes in value of split-interest agreements in the with donor restriction section of the consolidated statements of activities. 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 also 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 net assets with or without donor restrictions as appropriate.

When National Jewish Health is not the trustee, the agreement is recognized as an unconditional promise to give. National Jewish Health recognizes the estimated fair value of the contribution (present value of the estimated future benefits to be received) as donor-restricted contributions revenue and a receivable 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 net assets with or without donor restrictions as appropriate.

(f) Charitable Lead Trusts

National Jewish Health is the beneficiary in a charitable lead annuity trust (CLAT) in which a donor establishes and funds a trust with specific distributions to be made to National Jewish Health over a specified period. The contribution is recognized when the trust is established. When National Jewish Health is not the trustee, the agreement is recognized as an unconditional promise to give. National Jewish Health recognizes its beneficial interest in the assets as contributions revenue with donor restrictions and as a receivable at the estimated fair value of the contribution (the present value of the estimated future cash flows). Distributions from the trust are reflected as a reduction in the receivable and are classified to net assets without donor restrictions.

(g) Gift Annuities

National Jewish Health receives charitable gift annuities. The donor contributes assets in exchange for National Jewish Health's 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 at the present value of future cash flows expected to be paid to the assigned beneficiary. Adjustments to the annuity liability to reflect amortization of the discount and changes in the life expectancy of the beneficiary are recognized as changes in the value of split-interest agreements in the donor-restricted section of the consolidated statements of activities. Upon the death of the beneficiary, the annuity liability is closed, and a change in the value of the split-interest agreements is recognized.

(In thousands)

(h) Grant Research Awards

Total grant research awards consists of grants from the federal government, charitable foundations, and private corporations. These grants are classified as exchange transactions if the grantor is receiving the direct benefit of the research and contributions if the grantor is not receiving the direct benefit. Most grants are contributions where the public receives the direct benefit. All grants have a restricted purpose and most are conditional. This determination is based on the provisions of the award document. Generally, both the condition and restricted purposes are met simultaneously and National Jewish Health has elected the expediency of recording these grant awards to revenues, gains and other support without donor restrictions when the conditions and restrictions have been met. Unconditional restricted contributions are recorded to revenue, gains and other support with donor restrictions at the time the grant is awarded, and released to revenue, gains, and other support without donor restrictions when the restricted purpose has been met. Exchange transactions are recorded directly to revenue, gains, and other support without donor restrictions as performance obligations are met over time. Both the contributions and the exchange transactions are recorded as grant research awards in the consolidated statement of activities. The composition of total grant revenue for the years ended June 30, 2019 and 2018 is as follows:

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Contributions	$ 53,028	$ 695	$ 53,723	$ 37,861	$ 10,850	$ 48,711
Exchange transactions	2,987	-	2,987	2,809	-	2,809
	$ 56,015	$ 695	$ 56,710	$ 40,670	$ 10,850	$ 51,520

At June 30, 2019, National Jewish Health had $51,656 of conditional contributions remaining, primarily consisting of federal grants whose conditions and restrictions relate to National Jewish Health expending allowable costs. These agreements have award end dates ranging from one month to three years.

(i) Cash and Cash Equivalents

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, donor restriction, legal requirements, or other contractual arrangements.

(j) Debt Issuance Costs

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.

(k) Investments and Net Investment Return

Investment income, net includes interest and other investment income, dividend, realized and unrealized gains and losses on investments, less external investment expenses. Investment income from endowment investments is reflected in net assets with donor restrictions, then is released from restriction when the Board appropriates the funds for expenditures. Other investment income is reflected in net assets without donor restrictions.

(l) Property and Equipment

Purchased property and equipment 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 net assets with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as net assets without donor restrictions. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the assets in accordance with American Hospital Association guidelines. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

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

Buildings	20 - 40 years
Equipment and software	3 - 15 years

(m) Long-lived Asset Impairment

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

During the fiscal year 2019, National Jewish Health incurred an impairment loss on several roofs affected by hail damage, which totaled $369. The gain in insurance proceeds was $2,022 resulting in a net gain of $1,653. There was no impairment loss in fiscal year ended June 30, 2018.

(n) Net Assets

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

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for operating reserves and an endowment.

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

(o) Net Patient Service Revenue

Patient service revenue is recognized as National Jewish Health satisfies performance obligations under its contracts with patients. Net patient service revenue is reported at the estimated transaction price or amount that reflects the consideration. National Jewish Health expects to be entitled in exchange for proving patient care. These amounts are due from patients, third-party payors, and others for services rendered, taking into consideration both explicit price concessions (such as contractual agreements) and implicit price concessions (such as uncollectible self-pay portions). National Jewish Health pursues collection of self-pay portions, but anticipates a small amount of loss based on historical results. Due to insurance plans, government programs, charitable financial policies (state and National Jewish Health), and uncollectibles, amounts received are generally less than established billing rates.

(p) Other Operating Revenue

Other operating revenue is primarily composed of contract pharmacy revenue totaling $23,600 and $6,698 for the years ended 2019 and 2018, respectively. The revenue is earned at a point in time as the performance obligation is met. Remaining other operating revenue also includes physician contracting services, radiology services, and other miscellaneous revenue.

(q) Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 financial statement presentation.

(r) Subsequent Events

Subsequent events have been evaluated through October 23, 2019, which is the date the consolidated financial statements were issued.

On October 16, 2019, Colorado Health Facilities Authority Revenue Bonds (NJH-SJH Center for Outpatient Health Project) Series 2019 in the aggregate principal amount of $72,050,000 were issued on behalf of the NJH-SJH Center for Outpatient Health LLC, a Colorado limited liability company (the Borrower). The Borrower will use the proceeds to (i) finance construction of The Center for Outpatient Health, an outpatient health care facility on the National Jewish Health campus, (ii) fund capitalized interest, and (iii) pay costs of issuance relating to the Bonds and other expenses authorized under the Indenture. The site for construction of the facility is owned by NJH. National Jewish Health leased the site on which the building is to be developed to the Borrower. NJH will purchase the facility from the Borrower under an Installment Sales Agreement at a price equal to the total debt service payable. Sisters of Charity of Leavenworth Health System, Inc. (SCL Health), guaranteed the full payment of debt service amounts due from NJH pursuant to the Installment Sale Contract. NJH's obligation to make payments under the Installment Sale Contract is a non-recourse obligation of NJH limited to NJH's interest in the Building and the Land. Since the facility is included in NJH's joint operating agreement (JOA) with SCL Health | St Joseph Hospital, 75% of the depreciation and interest for the facility will be recovered from SCL Health | St. Joseph Hospital through the JOA. The Bonds mature in 2050. Principal payments on the bonds will begin in January 2023.

(In thousands)

(s) Presentation of Financial Statements

Management has elected to present the financial statements under the not-for-profit model rather than the healthcare model since National Jewish Health's non-patient revenues, gains and other support are historically in excess of net patient revenue. The difference in presentation would have no effect on the change in net assets.

(3) Changes in Accounting Principle for Fiscal Year Ended June 30, 2019

(a) Revenue from Contracts with Customers

The Financial Accounting Standards Board (FASB) issued ASU 2014-09 revenue recognition standard (Topic 606) which became effective for National Jewish Health on July 1, 2018. Topic 606 outlines a five-step framework that intends to clarify the principles for recognizing revenue and eliminate industry-specific guidance. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. National Jewish Health adopted ASC 606 using the modified retrospective approach to all patient contracts at the date of initial application. Under the modified retrospective method, the fiscal year 2018 amounts were not impacted by the adoption of Topic 606. The following table shows how revenue recognition would have been reported in fiscal year 2019 had Topic 606 not been adopted:

	2019 Before Transition	2019 After Transition	Change
Refundable advances	$ 2,102	$ 3,062	$ 960
Accounts payable and accrued expense	8,431	7,471	(960)
Patient service revenues, gross	320,023	320,023	-
Deductions from revenue for implicit price concessions - previously termed bad debt	169,926	172,066	2,140
Net patient services revenues	150,096	147,956	(2,140)
Bad debt expense	2,140	-	(2,140)
Change in net assets	$ 13,011	$ 13,011	$ -

(b) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

The Financial Accounting Standards Board issued ASU 2018-08, *Not-for-Profit Entities (Topic 958-605)*, became effective for National Jewish Health on July 1, 2018. It clarifies definitions and application regarding exchange transactions vs. contributions and conditional vs. unconditional contributions. National Jewish Health has adopted the ASU using the modified prospective method and applied it to agreements that either were not completed as of July 1, 2018 or were entered into after that date. Per the FASB requirements, no prior-period results were restated, and no cumulative-effect adjustments to opening net assets were made. Adoption had the effect of a revenue catch-up for fiscal year ended June 30, 2019 for both professional education and grants revenue, increasing net assets by $1,806 for contract commitments from the previous year, where the event had not yet occurred. Contributions receivable of $7,940 were transferred from contract receivable accounts to a dedicated financial statement line. In addition, National Jewish Health transferred refundable advances to a dedicated financial statement line, including $2,102 for conditional contributions paid in advance originally recorded as unearned for grants and health initiatives, and $960 for Topic 606 for contract refundable advances, mostly resulting from patient services revenue.

(c) Presentation of Financial Statements of Not-for-Profits Entities

The Financial Accounting Standards Board issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*, became effective for National Jewish Health on June 30, 2019. According to these requirements, National Jewish Health made additional required disclosures and changed the classification of unrestricted assets of $87,606 to net assets without donor restrictions and combined the $85,722 of temporarily restricted and $53,476 of permanently restricted to $139,198 of net assets with donor restrictions.

(4) Patient Service Revenue

Net patient service revenue generally relates to contracts with patients in which the performance obligations are to provide health care services to patients over a period of time. Revenue is estimated for patients who have not been discharged as of the reporting period based on actual charges incurred to date in relation to total expected charges. National Jewish Health believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The contractual relationship with patients also typically involves a third-party payer (Medicare, Medicaid, managed care plans, and commercial insurance companies), and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payers. The payment arrangements with third-party payers for the services provided to the related patients typically specify payment or reimbursement to National Jewish Health at other-than-standard charges.

(In thousands)

Because all of its performance obligations relates to contracts with a duration of less than one year, National Jewish Health has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations which are unsatisfied or partially unsatisfied at the end of the reporting period. National Jewish Health has also elected the practical expedient allowed under FASB ASC 606-10-32-18 and, therefore, does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time of service is provided to a patient and the time the patient or a third-party payor pays for that service will be one year or less. Generally, National Jewish Health bills within several days for services provided. The majority of receivables are paid within one year of service or less. National Jewish Health does enter into contracts where payments extend beyond one year. In these limited cases, the financing component is not deemed to be significant to the contract.

National Jewish Health determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with its policy, and implicit price concessions provided to uninsured patients. National Jewish Health determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. National Jewish Health determines its estimate of implicit price concessions based on its historical collection experience with private pay and uninsured patients. For the fiscal year ended June 30, 2019, implicit price concessions were approximately $2,140. For the fiscal year ended June 30, 2018, which was prior to the adoption of Topic 606, the bad debt expense was approximately $1,843 and was recorded as an operating expense in the consolidated statements of activities.

National Jewish Health has determined the nature, amount, timing and uncertainty of revenue and cash flows are affected by payor class. The composition of patient service revenue by primary payor for the fiscal years ended 2019 and 2018 is as follows:

	2019	2018
Medicare	$ 40,655	$ 36,920
Medicaid	22,173	19,179
Managed Care, Commercial and Other	84,559	80,921
Self-Pay	569	3,945
Total patient service revenue	$ 147,956	$ 140,965

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the National Jewish Health's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon National Jewish Health. In addition, the contracts National Jewish Health has with commercial payors also provide for retroactive audit and review of claims.

National Jewish Health provides services in Colorado to patients from throughout the United States and internationally. As of June 30, 2019 and 2018, National Jewish Health's net patient receivable for services rendered was approximately $27,442 and $28,026, respectively. Possible credit losses are provided for in National Jewish Health's allowance for uncollectible accounts and contractual adjustments in 2018 and as price concessions in 2019 after the adoption of Topic 606.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits and reviews are variable consideration and are included in the determination of the estimated transaction price for providing patient care. This includes an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or no longer subject to such audits and reviews. Adjustments arising from a change in the transaction price were not significant in 2019 and 2018.

Consistent with National Jewish Health's mission, care is provided to patients regardless of their ability to pay. Financial assistance is made available to patients based upon their ability to pay, and determinations in individual cases are made during National Jewish Health's preadmission process. Because National Jewish Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Expansion of eligibility coverage under Medicaid by the Affordable Care Act has decreased charity care substantially, with National Jewish Health's direct and indirect costs for services furnished under its charity care policy totaled approximately $374 and $463 in 2019 and 2018, respectively. National Jewish Health also participates in the Medicare and Medicaid programs. Under these programs, National Jewish Health provides care to patients at payment rates determined by governmental agencies, regardless of actual cost. Governmental rates are frequently below cost.

(5) Natural and Functional Expense Analysis

The tables below present expenses by both their nature and their function for the fiscal years ended June 30, 2019 and 2018.

National Jewish Health and Subsidiary

Notes to the Consolidated Financial Statements
June 30, 2019 and 2018
(In thousands)

Natural and Functional Expense Analysis as of Fiscal Year Ended June 30, 2019

	Program Activities			Supporting Activities		
	Academic Services	Clinical Services	Other Services	Fund Development	Administration, Fiscal, and Support Services	FY19 Total Expenses
Salaries and fringe benefits expense	$ 75,571	$ 47,305	$ 8,634	$ 4,700	$ 30,029	$ 166,239
Professional services expense	15,851	4,316	1,192	529	2,151	24,039
Medical supplies and drugs expense	4,807	43,294	3,885	-	1,032	53,018
Occupancy expense	491	1,494	453	685	3,312	6,435
Advertising expense	158	14	1,839	179	84	2,274
Office expense	1,193	1,611	1,012	1,339	4,580	9,735
Equipment and depreciation expense	3,927	5,122	415	216	2,349	12,029
Other expense	1,939	5,349	1,096	480	990	9,854
Total expense	$ 103,937	$ 108,505	$ 18,526	$ 8,128	$ 44,527	$ 283,623

The consolidated financial statements report certain categories of expenses attributable to more than one program or support function. Therefore, these expenses require allocation on a reasonable basis that is applied consistently. The expenses include building and equipment depreciation and interest allocated based on the percentage of total expenses.

Natural and Functional Expense Analysis as of Fiscal Year Ending June 30, 2018

	Program Activities			Supporting Activities		
	Academic Services	Clinical Services	Other Services	Fund Development	Administration, Fiscal, and Support Services	FY18 Total Expenses
Salaries and fringe benefits expense	$ 72,953	$ 46,270	$ 9,557	$ 4,637	$ 29,389	$ 162,806
Professional services expense	11,296	4,288	1,562	494	2,186	19,826
Medical supplies and drugs expense	5,876	29,429	2	-	1,097	36,404
Occupancy expense	543	1,494	413	619	3,398	6,467
Advertising expense	176	38	1,985	130	64	2,393
Office expense	1,226	1,512	473	1,500	4,410	9,121
Equipment and depreciation expense	2,445	4,662	898	498	806	9,309
Other expense	4,279	5,207	395	259	2,720	12,860
Total expense	98,794	92,900	15,285	8,137	44,070	259,186
Bad debt expense	-	1,843	-	-	-	1,843
Total expense	$ 98,794	$ 94,743	$ 15,285	$ 8,137	$ 44,070	$ 261,029

Compared to fiscal year ended June 30, 2018, bad debt expense is not separately disclosed in fiscal year ended June 30, 2019. Instead of being reported as an expense, it is reported as a deduction to patient service revenue. This is a result of adopting ASC 606 revenue recognition guidance.

(In thousands)

(6) Liquidity and Availability of Funds

The following reflects National Jewish Health's liquid financial assets available to meet cash needs for general expenditures for the period of one year after the consolidated statements of financial position date of June 30, 2019.

Cash and cash equivalents	$	4,327
Short-term investments		3,000
Patient care, net		27,442
Grant revenue receivable		561
Contributions receivable, without donor restrictions		7,651
Bequests, net		1,910
Receivable from joint ventures		3,417
Other		4,870
Total liquid financial assets	$	53,178

National Jewish Health also has board-designated and donor-restricted assets limited to use which the institution does not intend to spend outside of approved expenditures. Of these, the board-designated and board-designated – quasi accounts, a total of $30,998 at June 30, 2019, may be drawn upon, if necessary, to meet unexpected liquidity needs. National Jewish Health maintains a line of credit in the amount of $15,000, which it could draw upon in the event of liquidity needs. The current unused portion of this line of credit is $8,076 (see Note 15).

National Jewish Health invests cash in excess of daily requirements in various short-term instruments as allowed by the investment policy.

(In thousands)

(7) Promises to Give

The following are unconditional promises to give recognized as receivables as of June 30, 2019 and 2018:

	2019	2018
Pledges	$ 36,099	$ 42,478
Bequests	2,049	2,426
Unconditional promises to give before unamortized discount and allowance for uncollectibles	38,148	44,904
Less unamortized discount – pledges	(1,375)	(1,726)
	36,773	43,178
Less:		
Allowance for uncollectibles – pledges	(3,593)	(7,026)
Allowance for uncollectibles – bequests	(139)	(160)
Net unconditional promises to give	$ 33,041	$ 35,992
Amounts due in:		
Less than one year	$ 24,070	$ 26,569
One to five years	9,188	13,531
More than five years	4,890	4,804
Total	$ 38,148	$ 44,904

Discount rates are established when the promise to give is made. Discount rates ranged from 0.48% to 3.42% for both fiscal years ended June 30, 2019 and 2018.

(In thousands)

(8) Contributions Receivable

Contributions receivable for the fiscal years ended June 30, 2019 and 2018, consists of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Grants	$ 4,767	$ -	$ 4,767
Health initiatives	2,690	-	2,690
Professional education	194	289	483
Total	$ 7,651	$ 289	$ 7,940

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Grants	$ 2,618	$ -	$ 2,618
Health initiatives	2,875	-	2,875
Total	$ 5,493	$ -	$ 5,493

All contributions receivable are due to National Jewish Health as follows:

	2019			
	Professional Education	Health Initiatives	Grants	Total
Less than one year	$ 483	$ 2,690	$ 4,668	$ 7,841
One to five years	-	-	99	99
Over five years	-	-	-	-
Total	$ 483	$ 2,690	$ 4,767	$ 7,940

	2018			
	Professional Education	Health Initiatives	Grants	Total
Less than one year	$ -	$ 2,875	$ 2,364	$ 5,239
One to five years	-	-	254	254
Over five years	-	-	-	-
Total	$ -	$ 2,875	$ 2,618	$ 5,493

(In thousands)

(9) Internally-designated Assets

The governing body has designated certain assets for strategic and other future purposes. On June 30, 2019 and 2018, 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 are stated below:

	2019	2018
Cash and cash equivalents	$ 3,060	$ 8,381
Common stocks and equity funds	14,090	9,131
International securities and equities	6,578	10,130
Fixed income securities	19,892	15,225
U.S. government and agency obligations	628	584
Alternative investments	3,295	3,281
	$ 47,543	$ 46,732

(10) 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, 2019 and 2018 is as follows:

	2019	2018
Cash and cash equivalents	$ 426	$ 307
Convertible securities and equities	25,916	28,174
International securities and equities	14,053	9,838
Fixed income securities	13,806	14,105
U.S. government and agency obligations	755	285
Alternative investments	11,104	11,209
	$ 66,060	$ 63,918

(In thousands)

(11) Composition of Investment Returns

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

	2019	
	Without Donor Restriction	With Donor Restriction*
Interest income, net	$ 1,750	$ 2,738
Gains:		
Realized gains	885	1,351
Unrealized gains	133	(1,214)
Total gains	1,018	137
Total return on investments in stock and bond portfolios	$ 2,768	$ 2,875

	2018	
	Without Donor Restriction	With Donor Restriction*
Interest income	$ 1,328	$ 2,420
Gains:		
Realized gains	1,801	2,045
Unrealized gains	79	41
Total gains	1,880	2,086
Total return on investments in stock and bond portfolios	$ 3,208	$ 4,506

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

(In thousands)

(12) Split-interest Agreements

National Jewish Health has the following split-interest agreements:

	2019		
	Assets	Liabilities	Net
Gift annuities	$ 40,290	$ 8,652	$ 31,638
Unitrust agreements:			
National Jewish Health trusteeships	2,667	1,672	995
Third-party trusteeship, net	1,968	-	1,968
Term endowments	2,383	-	2,383
Pooled income agreements	537	439	98
Total	$ 47,845	$ 10,763	$ 37,082

	2018		
	Assets	Liabilities	Net
Gift annuities	$ 39,314	$ 9,378	$ 29,936
Unitrust agreements:			
National Jewish Health trusteeships	2,713	2,389	324
Third-party trusteeship, net	2,360	-	2,360
Term endowments	2,422	-	2,422
Pooled income agreements	520	432	88
Total	$ 47,329	$ 12,199	$ 35,130

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 0.48% to 10.00% for 2019 and 2018.

Though the assets received under gift annuity agreements are generally available for unrestricted use and the liability is a general obligation, National Jewish Health 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 approximately $7,719 and $8,021 at June 30, 2019 and 2018, respectively.

(In thousands)

(13) Construction in Progress

At June 30, 2019, National Jewish Health had several on-going construction projects. The total projected costs related to these projects are estimated at $2,226. As of June 30, 2019, National Jewish Health has expended $437 related to these projects.

(14) Long-term Debt

Long-term debt at June 30, 2019 and 2018 is summarized as follows:

	2019	2018
Revenue Bonds, Series 2012 (a)	$ 15,895	$ 17,705
Revenue Bonds, Series 2005 (b)	9,100	9,500
Gove School Property (c)	3,000	4,250
Unamortized Bond Premium		
Revenue Bonds, Series 2012	705	799
Capital Lease/Financing Arrangement (d)	1,711	2,291
	30,411	34,545
Less: unamortized debt issuance costs	(362)	(402)
Less: current portion	(5,912)	(4,040)
	$ 24,137	$ 30,103

(a) Series 2012 Revenue Bonds

The Colorado Health Facilities Authority issued $26,790 aggregate principal amount of its Refunding Revenue Bonds Series 2012 (the 2012 Bonds) dated March 1, 2012. The proceeds were used to refund the Series 1998 and Series 1998B Bonds. The 2012 Bonds are subject to a mandatory sinking fund redemption beginning January 1, 2026. Final principal payments on the bonds are due in January 2027. Redemption amounts are as follows at June 30, 2019:

2020	$ 1,910
2021	2,000
2022	2,105
2023	2,205
2024	2,315
Thereafter	5,360
	$ 15,895

(In thousands)

The 2012 Bonds bear interest at fixed rates varying from 3.00% to 5.00% and are secured by the rights to all future revenue derived from National Jewish Health's property, excluding revenue derived from donor-restricted property if such revenue is unavailable for debt service. The 2012 Bonds are subject to covenants which impose certain operating and financial restrictions on National Jewish Health. Management believes National Jewish Health is in compliance with all covenants for the years ended June 30, 2019 and 2018. Unamortized debt issuance costs for the 2012 Bonds were $225 and $255 at June 30, 2019 and 2018, respectively.

(b) Series 2005 Revenue Bonds

In January 2005, the Colorado Health Facilities Authority issued $13,500 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. Unamortized debt issuance costs for the 2005 Bonds were $137 and $147 at June 30, 2019 and 2018, respectively.

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, 2019:

2020	$ 400
2021	400
2022	400
2023	500
2024	500
Thereafter	6,900
	$ 9,100

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 Health's property, excluding revenue derived from donor-restricted property if such revenue is unavailable for debt service. The interest rate at June 30, 2019 was 2.02%. The 2005 Bonds are backed by an irrevocable transferable letter of credit, which is automatically extended without amendment for an additional period of 12 months. The letter of credit expires April 1, 2020, and is automatically extended by one year, each year, beginning April 1, unless otherwise terminated before the updated expiration date. Unless certain events occur, such as the expiration date of the letter of credit, advances made on the letter of credit are not due for 366 days from the date of the advance. At June 30, 2019 and 2018, no borrowings were outstanding. The 2005 Bonds are subject to covenants, which impose certain operating and financial restrictions on National Jewish Health. Management believes National Jewish Health is in compliance with all covenants for the years ended June 30, 2019 and 2018.

(In thousands)

(c) Gove Middle School Property Promissory Note

In February 2011, National Jewish Health entered into a contract with School District No. 1, in the City and County of Denver and State of Colorado (DPS) to purchase the closed Gove Middle School property for $9,000. DPS issued a non-recourse promissory note, collateralized by the land, in the amount of $8,750 which bears interest at a fixed rate of 4%. The principal balance of $3,000 at June 30, 2019 is due May 23, 2020 and is the final balloon payment. The property is located adjacent to National Jewish Health's main campus, and will be used for furthering National Jewish Health's clinical, research and educational mission.

(d) Capital Lease

In December 2015, National Jewish Health entered into a five-year capital lease with Commerce Bank for the purchase of a new Laboratory Information Management System (LIMS). The total approved under the lease agreement was $3,000, and draws were made on the financing as vendor invoices were submitted. A total of $2,828 has been drawn. Two repayment schedules were finalized on March 1, 2017 and December 27, 2017 both ending March 1, 2022 for $1,816 and $1,012 with interest rates of 3.58% and 4.08%, respectively.

The following leased equipment and software is included in the accompanying consolidated financial statements as of June 30, 2019 and 2018

	2019		2018	
Classes of assets:				
Equipment and software - Commerce Lease	$	2,706	$	2,712
Less accumulated depreciation		(995)		(350)
	$	1,711	$	2,362

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2019, are as follows:

2020	$	656
2021		656
2022		492
2023		-
Less amount representing interest		(93)
Present value of current lease payments	$	1,711

(In thousands)

(e) Held by Trustee

Assets held by trustees represent funds designated by the bond indenture to pay principal and interest on the 2012 and 2005 Bonds. These funds, which are comprised of cash and cash equivalents, relate to the following as of June 30, 2019 and 2018:

	2019	2018
2012 Bonds		
Bond Reserve Fund	$ 2,771	$ 2,698
Bond Interest/Principal Fund	397	443
	$ 3,168	$ 3,141
2005 Bonds		
Bond Reserve Fund	$ 790	$ 783
Bond Interest/Principal Fund	5	5
	$ 795	$ 788

(15) Line of Credit

National Jewish Health has a $15,000 unsecured revolving bank line of credit expiring on March 1, 2021. At June 30, 2019 and 2018, there was $6,924 and $13,581, respectively, borrowed against this line, including accrued interest. Interest accrues at a floating per annum rate of interest at borrower's option of (a) 30 day LIBOR rate plus 175 basis points or (b) prime rate less 1%. Either selection shall not be less than 2.75%. National Jewish Health's borrowing interest rate was 4.15% and 4.00% on June 30, 2019 and 2018.

(In thousands)

(16) Commitments and Contingencies

(a) Operating Leases

National Jewish Health leases certain facilities and equipment under operating leases. The leases expire in various years through 2027. These leases generally require National Jewish Health to pay all executory costs (property taxes, maintenance, and insurance). Future minimum rental payments as of June 30, 2019 which have initial or remaining non-cancelable lease terms equal to or greater than one year are as follows:

2020	$	2,459
2021		2,215
2022		1,899
2023		1,358
2024		539
Thereafter		1,280
Total future minimum payments	$	9,750

Rental expense for operating leases was $2,495 and $2,735 for the years ended June 30, 2019 and 2018, respectively.

(b) Professional Liability

Reserves for professional liability claims were $797 and $815 at June 30, 2019 and 2018, respectively. For claims covered by insurance, National Jewish Health recorded an additional $553 and $492 of professional liability reserves and an equal amount of insurance coverage receivables at June 30, 2019 and 2018, respectively.

The current portion of the above reserves, $66 and $65 at June 30, 2019 and 2018, respectively, is included in other accrued expenses in the accompanying consolidated statements of financial position. The provision for losses related to professional liability risks is presented net of expected insurance recoveries in the consolidated statements of activities and was $88 and ($33) for 2019 and 2018, respectively.

Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated statements of financial position. The reserves for unpaid losses and loss expenses are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible this estimate could change materially in the near term.

(In thousands)

(c) Other

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

National Jewish Health maintains professional and general liability coverage through a claims-made policy with COPIC Insurance. The policy's liability is $1,000 per medical incident and $3,000 in the aggregate, with deductibles of $100 per medical incident/occurrence and $300 in the aggregate. In addition, umbrella coverage is provided to National Jewish Health through a claims-made policy with COPIC Insurance. The liability limit under the umbrella policy is $10,000 combined medical incident and in aggregate.

(d) Risks and Uncertainties

National Jewish Health 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 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 consolidated statements of financial position.

(17) Net Assets

(a) Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, are restricted for the following purpose or periods:

Net assets reserved for future unrestricted uses represent contributions not yet received by National Jewish Health. Endowed assets not yet appropriated for expenditure represent earnings on permanently endowed funds which have not been appropriated for expenditure by National Jewish Health in a manner consistent with the standard of prudence prescribed by State of Colorado Prudent Management of Institutional Funds Act (SPMIFA).

	2019	2018
Net assets reserved for future unrestricted uses	$ 2,146	$ 2,268
Subject to expenditure for specified purpose:		
Research, education, patient care and capital construction	58,994	64,917
Endowed assets not yet appropriated for expenditure	19,250	18,142
Unitrust and pooled income agreements	5,496	5,192
Beneficial interest in perpetual trust agreements	12,376	12,604
Permanent endowments	40,936	39,588
	$ 139,198	$ 142,711

(In thousands)

National Jewish Health 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 Health for the years ended June 30, 2019 and 2018 was $620 and $482, respectively.

(b) Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30 are comprised of both designated and undesignated amounts as follows:

	2019	2018
Undesignated	$ 56,607	$ 41,477
Designated by the board for operating reserve	18,660	17,843
Designated by the board for endowment	12,339	11,762
Net assets without donor restrictions	$ 87,606	$ 71,082

(c) Net Assets Released from Restrictions

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

	2019	2018
Expiration of time restrictions	$ 2,297	$ 558
Subject to expenditures for specified purposes:		
Research, education, patient care and capital construction	18,529	8,170
Grants	695	10,351
Professional education	2,552	-
Distributions (proceeds are not restricted by donors)		
Beneficial interests in charitable trusts held by others	291	208
Release of appropriated endowment amounts without purpose restrictions	411	753
Release of appropriated endowment amounts with purpose restrictions	1,075	1,317
	$ 25,850	$ 21,357

(18) Endowment

National Jewish Health's endowment consists of approximately 80 individual donor-restricted funds established as endowments and intended for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by United States of America generally accepted accounting principles (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted 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, National Jewish Health classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board appropriates such amounts for expenditure. Most of those net assets are also subject to the purpose restrictions which must be met before classifying those net assets to net assets without donor restrictions. The Board of Directors has also interpreted SPMIFA 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. National Jewish Health has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. As of June 30, 2019, there were no such endowments with underwater funds. National Jewish Health 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 National Jewish Health and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and appreciation of investments
6) The resources of National Jewish Health
7) The investment policies of National Jewish Health

(In thousands)

(a) Investment Policy

National Jewish Health has adopted investment and spending policies for endowment assets which 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 intended to produce results which exceed Consumer Price Index plus 5% per year as measured over a rolling 36-month period. To satisfy this long-term rate of return objective, National Jewish Health relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. National Jewish Health 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 Health'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.

National Jewish Health has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor stipulations or laws and regulations. No expenditures from underwater endowment funds were appropriated for during the years ended June 30, 2019 and 2018.

The composition of net assets by type of endowment at June 30, 2019 is:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 62,454	$ 62,454
Board-designated endowment funds	12,339	-	12,339
Total funds	$ 12,339	$ 62,454	$ 74,793

National Jewish Health and Subsidiary
Notes to the Consolidated Financial Statements
June 30, 2019 and 2018
(In thousands)

Changes in endowment net assets for fiscal year ended June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 11,762	$ 60,038	$ 71,800
Contributions	-	1,348	1,348
Endowment transfer	-	(1,486)	(1,486)
Investment income	268	2,406	2,674
Net assets released from restriction	-	(139)	(139)
Gain on sale of investments	251	1,292	1,543
Unrealized gain (loss) on investments	58	(1,005)	(947)
Endowment net assets, end of year	$ 12,339	$ 62,454	$ 74,793

The composition of net assets by type of endowment fund at June 30, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 60,038	$ 60,038
Board-designated endowment funds	11,762	-	11,762
Total funds	$ 11,762	$ 60,038	$ 71,800

Changes in endowment net assets for fiscal year ended June 30, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 11,538	$ 53,660	$ 65,198
Contributions	-	4,832	4,832
Endowment transfer	(500)	(2,057)	(2,557)
Investment income	410	2,186	2,596
Net assets released from restriction	-	(141)	(141)
Gain on sale of investments	150	1,546	1,696
Unrealized gain on investments	164	12	176
Endowment net assets, end of year	$ 11,762	$ 60,038	$ 71,800

(19) Fair Value Disclosure

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

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

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

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

(In thousands)

(a) Recurring Measurements

The following tables represent the fair value measurement of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fall at June 30, 2019 and 2018:

		Fair Value Measurements at Reporting Date Using		
June 30, 2019	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term invesments and internally-designated assets				
Common stocks and equity funds	$ 14,090	$ 14,090	$ -	$ -
International securities and equities	6,578	6,578	-	-
Fixed income securities	19,892	19,892	-	-
U.S. government and agency securities	628	628	-	-
Alternative investments (A)	3,295	-	-	-
Total short-term investments and internally-designated assets	44,483	41,188	-	-
Assets reserved for gift annuities				
Convertible securities and equities	996	996	-	-
International securities and equities	2,529	2,529	-	-
Fixed income securities	3,246	3,246	-	-
U.S. government and agency securities	948	948	-	-
Total assets reserved for gift annuities	7,719	7,719	-	-
Long-term investments				
Convertible securities and equities	25,916	25,916	-	-
International securities and equities	14,053	14,053	-	-
Fixed income securities	13,806	13,806	-	-
U.S. government and agency securities	755	755	-	-
Alternative investments (A)	11,104	-	-	-
Total long-term investments	65,634	54,530	-	-
Other				
Bonds and notes	121	118	3	-
Beneficial interest in perpetual trust	12,376	-	-	12,376
Total other	12,497	118	3	12,376
Total assets above	130,333	$ 103,555	$ 3	$ 12,376
Cash and cash equivalents not included above	6,632			
Total	$ 136,965			

(In thousands)

		Fair Value Measurements at Reporting Date Using		
June 30, 2018	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Internally-designated assets				
Common stocks and equity funds	$ 9,131	$ 9,131	$ -	$ -
International securities and equities	10,130	10,130	-	-
Fixed income securities	15,224	15,224	-	-
U.S. government and agency securities	584	584	-	-
Alternative investments (A)	3,281	-	-	-
Total internally-designated assets	38,350	35,069	-	-
Assets reserved for gift annuities				
Convertible securities and equities	2,063	2,063	-	-
International securities and equities	2,143	2,143	-	-
Fixed income securities	3,815	3,815	-	-
U.S. government and agency securities	1,401	1,401	-	-
Total assets reserved for gift annuities	9,422	9,422	-	-
Long-term investments				
Convertible securities and equities	28,174	28,174	-	-
International securities and equities	9,838	9,838	-	-
Fixed income securities	14,105	14,105	-	-
U.S. government and agency securities	285	285	-	-
Alternative investments (A)	11,208	-	-	-
Total long-term investments	63,610	52,402	-	-
Other				
Bonds and notes	135	132	3	-
Beneficial interest in perpetual trust	12,604	-	-	12,604
Total other	12,739	132	3	12,604
Total assets above	124,121	$ 97,025	$ 3	$ 12,604
Cash and cash equivalents not included above	8,838			
Total	$ 132,959			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

(In thousands)

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019.

(b) Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases, where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

(c) Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the trust assets using quoted market prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters. Due to the trusts being held into perpetuity, National Jewish Health will not have the ability to redeem the corpus, and therefore it is classified within Level 3 of the hierarchy.

(d) Alternative Investments

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following:

	June 30, 2019			
	Fair Value	Unfunded	Redemption Frequency	Redemption Notice Period
Funds of Funds	$ 14,399	$ 6,262	Quarterly or Fund Termination	60 Days or Fund Termination

	June 30, 2018			
	Fair Value	Unfunded	Redemption Frequency	Redemption Notice Period
Funds of Funds	$ 14,489	$ 4,404	Quarterly or Fund Termination	60 Days or Fund Termination

(In thousands)

This category includes investments in funds of funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects, private equity, pooled income vehicles and arbitrage investments. However, as of June 30, 2019, it is probable all investments in this category will be sold at an amount different from the net asset value of National Jewish Health's ownership interest in partners' capital. Therefore, the fair values of the investments in this category have been estimated using recent observable transaction information for similar investments. Investments with quarterly redemptions require lock-up periods of one year which has expired on the funds currently held. Of the remaining funds, they cannot be liquidated prior to the termination of the fund without the approval of the General Manager of the fund. Investment in the funds is intended to be long-term.

(e) Level 3 Reconciliation

The following is a reconciliation and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trust
Balance, July 1, 2017	$ 12,300
Unrealized appreciation on investments in net assets	304
Balance, June 30, 2018	12,604
Unrealized depreciation on investments in net assets	(228)
Balance, June 30, 2019	$ 12,376

(f) Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

Description	Fair Value June 30, 2019	Valuation Technique	Unobservable Inputs	Range Weighted Average
Beneficial Interest in Perpetual Trusts	$ 12,376	Fair value of trust assets	Lack of redeemability	Not Applicable

(In thousands)

Description	Fair Value June 30, 2018	Valuation Technique	Unobservable Inputs	Range Weighted Average
Beneficial Interest in Perpetual Trusts	$ 12,604	Fair value of trust assets	Lack of redeemability	Not Applicable

(g) Nonrecurring Measurements

The following tables present the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019 and 2018:

		2019		
Description	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Receivables related to:				
Charitable Remainder Unitrust	$ 80	$ -	$ 80	$ -
Gift Annuities	411	-	411	-
Total	$ 491	$ -	$ 491	$ -

		2018		
Description	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Receivables related to:				
Charitable Remainder Unitrust	$ 67	$ -	$ 67	$ -
Gift Annuities	346	-	346	-
Total	$ 413	$ -	$ 413	$ -

(20) Employee Benefit Plans

National Jewish Health maintains a defined contribution plan (the Plan) covering substantially all benefit eligible employees. Under the terms of the Plan, National Jewish Health 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 Health to match a portion of employee contributions. Expenses under the Plan for 2019 and 2018 approximated \$6,260 and \$5,920, respectively.

(21) Related-party Transactions

National Jewish Health 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 Health. Management believes prices paid by National Jewish Health have been equal to or less than the prices that would have been paid in transactions with parties not related to National Jewish Health.