

National Jewish Health and Subsidiary

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

June 30, 2013 and 2012

National Jewish Health and Subsidiary
June 30, 2013 and 2012

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Independent Auditor's Report

Board of Directors
National Jewish Health
Denver, Colorado

We have audited the accompanying financial statements of National Jewish Health and Subsidiary (National Jewish), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of National Jewish Health and Subsidiary (National Jewish) as of June 30, 2013 and 2012, 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.

BKD, LLP

Denver, Colorado
October 22, 2013

National Jewish Health and Subsidiary
Consolidated Statements of Financial Position
June 30, 2013 and 2012
(In thousands)

	2013	2012
Current assets:		
Cash and cash equivalents	\$ 7,578	\$ 3,000
Short-term investments	85	25
Accounts receivable:		
Patient care, net of estimated uncollectibles of \$17,338 and \$19,323, respectively	16,392	19,693
Grant revenue receivable	4,165	4,888
Bequests, net of allowance for uncollectibles of \$28 and \$50, respectively	378	3,729
Pledges receivable, current portion, net of allowance for uncollectibles of \$227 and \$168, respectively	1,723	1,385
Other	3,021	3,427
Total receivables	25,679	33,122
Assets held by trustees – current portion	1,750	1,856
Prepaid expenses	2,193	1,862
Drugs and supplies	1,355	1,270
Total current assets	38,640	41,135
Assets whose use is limited:		
Internally designated assets	38,618	41,202
Assets held by trustee, net of current portion	2,363	2,015
Assets reserved for gift annuities	9,216	9,273
Other	440	381
Total assets whose use is limited	50,637	52,871
Other assets:		
Long-term investments	57,235	55,986
Contributions receivable under unitrust agreements	4,245	4,154
Pledges receivable, net of current portion and allowance for uncollectibles of \$3,121 and \$1,493 respectively	13,453	1,962
Beneficial interest under perpetual trust agreements	10,722	10,497
Unamortized bond and lease issuance costs	595	639
Goodwill, net of accumulated amortization of \$656 and \$656, respectively	900	900
Other	2,062	2,378
Total other assets	89,212	76,516
Property and equipment, at cost:		
Land	13,086	13,086
Buildings	118,926	117,174
Equipment and software	83,024	76,296
Construction-in-progress	1,020	1,432
	216,056	207,988
Less accumulated depreciation	(118,974)	(109,735)
Property and equipment, net	97,082	98,253
Total assets	\$ 275,571	\$ 268,775

National Jewish Health and Subsidiary
Consolidated Statements of Financial Position
June 30, 2013 and 2012
(In thousands)

	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,105	\$ 11,760
Line-of-credit	8,167	7,066
Current portion of workers' compensation	298	434
Accrued salaries, wages, and employee benefits	6,550	6,388
Unearned grant revenue	2,905	1,618
Estimated settlements with third-party payors	989	562
Current portion of accrued vacation	2,504	2,300
Current portion of long-term debt, including capital lease	3,146	4,507
Current liability under annuity contracts	1,574	1,525
Current liability under unitrust agreements	150	147
Total current liabilities	<u>36,388</u>	<u>36,307</u>
Accrued vacation	1,596	1,475
Other	3,154	4,062
Liability under annuity contracts	9,216	9,282
Liability under unitrust agreements	1,775	1,781
Long-term debt, net of current portion	<u>47,134</u>	<u>45,851</u>
Total liabilities	<u>99,263</u>	<u>98,758</u>
Net assets:		
Unrestricted	88,992	93,099
Temporarily restricted	43,438	33,955
Permanently restricted	43,878	42,963
Total net assets	<u>176,308</u>	<u>170,017</u>
Total liabilities and net assets	<u>\$ 275,571</u>	<u>\$ 268,775</u>

National Jewish Health and Subsidiary
Consolidated Statements of Activities
Years Ended June 30, 2013 and 2012
(In thousands)

	2013	2012
Changes in unrestricted net assets:		
Unrestricted revenue, gains, and other support:		
Net patient service revenue	\$ 109,011	\$ 108,857
Health initiatives revenue	7,820	7,775
Professional education revenue	2,125	2,148
Federal grant revenue	41,036	47,674
Other operating revenue	7,790	7,900
Major gifts	2,062	1,073
Direct mail	2,431	2,386
Special events, net of direct donor benefits of \$2,864 and \$3,073, respectively	2,003	253
Bequests	5,028	4,974
Gift annuity contributions	537	282
Investment income, net	5,151	715
Total unrestricted revenue, gains, and other support	184,994	184,037
Net assets released from restriction:		
Net assets released from restriction – grants	7,842	6,693
Net assets released from restriction – public support	12,942	9,501
Total net assets released from restriction	20,784	16,194
Expenses:		
Academic services	87,008	88,069
Clinical services	61,236	57,417
Administration and fiscal support	24,408	24,120
Support services	11,033	11,172
Marketing and health initiatives	12,872	13,604
Professional education	1,911	2,317
Fund development	8,032	8,063
Bad debt expense	2,902	2,546
Total expenses	209,402	207,308
Loss on debt refunding	-	1,175
Increase (decrease) in value of split-interest agreements	483	(43)
Total expenses and losses	209,885	208,440
Decrease in unrestricted net assets	\$ (4,107)	\$ (8,209)

National Jewish Health and Subsidiary
Consolidated Statements of Activities (continued)
Years Ended June 30, 2013 and 2012
(In thousands)

	<u>2013</u>	<u>2012</u>
Changes in temporarily restricted net assets:		
Restricted grant support	7,760	7,030
Major gifts	15,637	3,836
Direct mail	328	288
Special events	710	3,246
Bequests	468	3,025
Contributions of split-interest agreements	67	71
Change in value of split-interest agreements	3,702	(1,047)
Investment gain, net	1,595	969
Total temporarily restricted revenue	<u>30,267</u>	<u>17,418</u>
Net assets released from restriction – grants	(7,842)	(6,693)
Net assets released from restriction – public support	(12,942)	(9,501)
Total net assets released from restriction	<u>(20,784)</u>	<u>(16,194)</u>
Increase in temporarily restricted net assets	<u>9,483</u>	<u>1,224</u>
Changes in permanently restricted net assets:		
Contributions	690	1,637
Investment gain net	225	341
Total permanently restricted gain	<u>915</u>	<u>1,978</u>
Increase in permanently restricted net assets	915	1,978
Increase (decrease) in net assets	6,291	(5,007)
Net assets, beginning of year	<u>170,017</u>	<u>175,024</u>
Net assets, end of year	<u>\$ 176,308</u>	<u>\$ 170,017</u>

National Jewish Health and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012
(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 6,291	\$ (5,007)
Items not requiring cash		
Depreciation	10,299	9,730
Bad debt expense	2,902	2,546
Unrealized (gains) losses	(2,185)	3,859
Permanently restricted revenue, net	(915)	(1,978)
Loss on disposal of property and equipment	496	131
Bond premium and discount amortization	(92)	901
Changes in		
Patient care accounts receivable	399	(5,785)
Grant receivables	723	(308)
Bequests receivable	3,351	358
Other current assets	(10)	(845)
Contribution receivable	(91)	443
Pledges receivable	(11,829)	375
Beneficial interest under perpetual trust	(225)	(341)
Other assets	358	(1,940)
Estimated third-party payor settlements	427	78
Accounts payable and accrued expenses, workers' compensation, accrued salaries, wages, and employee benefits and unearned grant revenue	(1,225)	4,491
Accrued vacation	325	98
Deferred contributions	(25)	(9)
Net cash provided by operating activities	<u>8,974</u>	<u>6,797</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,992)	(11,201)
Proceeds from sales of internally designated assets	11,556	9,659
Purchases of internally designated assets	(7,743)	(9,067)
(Purchases of) proceeds from sale of assets held by trustee	(242)	893
Purchases of investments and assets reserved for gift annuities	(17,305)	(26,185)
Proceeds from sale of investments and assets reserved for gift annuities	16,951	21,145
Net cash used in investing activities	<u>(1,775)</u>	<u>(14,756)</u>
Cash flows from financing activities:		
Line of credit	1,101	7,066
Repayment of long-term debt	(4,617)	(5,043)
Decrease in liability under gift annuity agreements	(17)	(924)
Increase (decrease) in liability under unitrust agreements	(3)	1,188
Increase in permanently restricted net assets	915	1,978
Net cash provided by (used in) financing activities	<u>(2,621)</u>	<u>4,265</u>
Net increase (decrease) in cash and cash equivalents	4,578	(3,694)
Cash and cash equivalents, beginning of year	<u>3,000</u>	<u>6,694</u>
Cash and cash equivalents, end of year	<u>\$ 7,578</u>	<u>\$ 3,000</u>
Supplemental schedule of noncash activities:		
Capital lease obligation incurred for property and equipment	<u>\$ 4,631</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 2,142</u>	<u>\$ 1,738</u>

See Accompanying Notes to the Consolidated Financial Statements

National Jewish Health and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(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 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 that National Jewish 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 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.

National Jewish Health and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2013 and 2012

(b) Contributions, Promises to Give and Bequests

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 increases those respective 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.

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.

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.

(c) Pooled Income Gifts

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

(d) Beneficial Interest in Perpetual Trusts

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.

National Jewish Health and Subsidiary
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(e) Charitable Remainder Trusts

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 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.

(f) Charitable Lead Trusts

National Jewish 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 over a specified period. The contribution is recognized in the period in which the trust is established. For the trust of which National Jewish is not the trustee, the agreement is recognized as an unconditional promise to give. National Jewish recognizes its beneficial interest in the assets 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 cash flows. Distributions from the trust are reflected as a reduction in the receivable and as reclassifications from temporarily restricted net assets to unrestricted net assets.

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(g) Gift Annuities

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) Grant Revenue

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.

(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 or other arrangements.

(j) Short-term Investments

Short-term investments consist principally of bond funds 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) Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, assets limited as to use, long-term investments, contributions receivable, beneficial interest in perpetual trusts, accounts payable, and long-term debt. The carrying amounts reported in the balance sheets for cash and cash equivalents, short-term investments, accounts receivable, assets limited as to use, long-term investments, contributions receivable, beneficial interest in perpetual trusts, and accounts payable approximate fair value. The estimated fair value of long-term debt is discussed in Note 12.

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(l) 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.

(m) Goodwill

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 evaluated annually for impairment.

(n) Property and Equipment

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.

(o) Long-lived Asset Impairment

National Jewish 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 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.

No asset impairment was recognized during the years ended June 30, 2013 and 2012.

(p) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by National Jewish has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by National Jewish in perpetuity.

(q) Net Patient Service Revenue

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

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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.

(r) Subsequent Events

Subsequent to year-end National Jewish has signed letters of intent to partner with other organizations to expand clinical programs. In both, National Jewish remains independent and committed to our mission of discovering knowledge, providing education and bringing comfort to those who suffer regardless of age, race, religion or financial resources.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

(s) Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

(3) Charity Care

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. National Jewish's unreimbursed direct and indirect costs for services furnished and not reimbursed under its charity care policy aggregated approximately \$3,085,000 and \$2,491,000 in 2013 and 2012, 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.

(4) 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:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. National Jewish is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by National Jewish and audits thereof by the Medicare fiscal intermediary.

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Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services.

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.

National Jewish provides services in Colorado to patients from throughout the United States and internationally. As of June 30, 2013 and 2012, National Jewish’s net patient receivable for services rendered was approximately \$16,392,000 and \$19,693,000, respectively. Possible credit losses are provided for in National Jewish’s allowance for uncollectible accounts and contractual adjustments.

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

	Revenue	
	2013	2012
Medicare	37%	34%
Medicaid	7%	7%
Blue Cross	14%	15%
Managed care	22%	22%
Other third-party payors	20%	22%
	<u>100%</u>	<u>100%</u>

(5) 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, 2013 and 2012, is as follows:

	2013	2012
Federal grants	\$ 41,036,000	\$ 47,674,000
Charitable foundation and private corporation grants	<u>7,760,000</u>	<u>7,030,000</u>
	<u>\$ 48,796,000</u>	<u>\$ 54,704,000</u>

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(6) Promises to Give

Included as receivables are the following unconditional promises to give as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Pledges	\$ 20,519,000	\$ 5,429,000
Bequests	<u>406,000</u>	<u>3,779,000</u>
Unconditional promises to give before unamortized discount and allowance for uncollectibles	20,925,000	9,208,000
Less unamortized discount - pledges	<u>(1,995,000)</u>	<u>(422,000)</u>
	18,930,000	8,786,000
Less:		
Allowance for uncollectibles - pledges	(3,348,000)	(1,660,000)
Allowance for uncollectibles - bequests	<u>(28,000)</u>	<u>(50,000)</u>
Net unconditional promises to give	<u>\$ 15,554,000</u>	<u>\$ 7,076,000</u>
	<u>2013</u>	<u>2012</u>
Amounts due in		
Less than one year	\$ 2,681,000	\$ 5,459,000
One to five years	9,289,000	1,746,000
More than five years	<u>8,955,000</u>	<u>2,003,000</u>
Total	<u>\$ 20,925,000</u>	<u>\$ 9,208,000</u>

Discount rates ranged from 0.34% to 5.17% for 2013 and 2012.

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(7) 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, 2013 and 2012, is set forth below:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,723,000	\$ 1,064,000
Common stocks and equity funds	9,244,000	9,341,000
International securities and equities	9,832,000	8,319,000
Fixed income securities	13,465,000	19,271,000
U.S. government and agency obligations	933,000	949,000
Alternative investments	3,421,000	2,258,000
	<u>\$ 38,618,000</u>	<u>\$ 41,202,000</u>

(8) 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, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 3,524,000	\$ 1,915,000
Convertible securities and equities	17,771,000	20,016,000
International securities and equities	17,013,000	18,411,000
Fixed income securities	9,223,000	8,538,000
U.S. government and agency obligations	1,093,000	1,689,000
Alternative investments	7,925,000	4,714,000
Pooled income funds	686,000	703,000
	<u>\$ 57,235,000</u>	<u>\$ 55,986,000</u>

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(9) Composition of Investment Returns

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

	2013		
	Unrestricted	Temporarily Restricted *	Permanently Restricted
Interest income	\$ 2,562,000	\$ 2,486,000	\$ -
Gains:			
Realized gains	1,399,000	1,772,000	225,000
Unrealized gains	1,190,000	995,000	-
Total gains	<u>2,589,000</u>	<u>2,767,000</u>	<u>225,000</u>
Total return on investments in stock and bond portfolios	<u>\$ 5,151,000</u>	<u>\$ 5,253,000</u>	<u>\$ 225,000</u>
	2012		
	Unrestricted	Temporarily Restricted *	Permanently Restricted
Interest income	\$ 1,904,000	\$ 989,000	\$ -
Gains and losses:			
Realized gains	628,000	1,028,000	341,000
Unrealized losses	(1,817,000)	(2,044,000)	-
Total gains and losses	<u>(1,189,000)</u>	<u>(1,016,000)</u>	<u>341,000</u>
Total return on investments in stock and bond portfolios	<u>\$ 715,000</u>	<u>\$ (27,000)</u>	<u>\$ 341,000</u>

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

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(10) Split-interest Agreements

National Jewish has the following split-interest agreements:

	2013		
	Assets	Liabilities	Net
Gift annuities	\$ 37,086,000	\$ 10,790,000	\$ 26,295,000
Unitrust agreements:			
National Jewish trusteeships	2,448,000	1,925,000	523,000
Third-party trusteeship, net	4,245,000	-	4,245,000
Term endowments	2,187,000	-	2,187,000
Pooled income agreements	696,000	439,000	257,000
Total	\$ 46,662,000	\$ 13,154,000	\$ 33,507,000
	2012		
	Assets	Liabilities	Net
Gift annuities	\$ 35,857,000	\$ 10,807,000	\$ 25,050,000
Unitrust agreements:			
National Jewish trusteeships	2,257,000	1,928,000	329,000
Third-party trusteeship, net	4,154,000	-	4,154,000
Term endowments	2,096,000	-	2,096,000
Pooled income agreements	713,000	464,000	249,000
Total	\$ 45,077,000	\$ 13,199,000	\$ 31,878,000

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% as of June 30, 2013, and 0.75% to 1.20% as of June 30, 2012.

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 \$9,216,000 and \$9,273,000 at June 30, 2013 and 2012, respectively.

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(11) 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. In addition, National Jewish's Information Systems and Technology Department is internally developing software for management of its tobacco cessation programs and for a Patient Portal; both are solely for their own use. Accordingly, at June 30, 2013, National Jewish had seven unfinished projects. Total projected costs are estimated at \$2,273,000. As of June 30, 2013, National Jewish has expended \$1,662,000 related to these projects.

(12) Long-term Debt

Long-term debt at June 30, 2013 and 2012, is summarized as follows:

	2013	2012
Revenue Bonds, Series 2012	\$ 25,595,000	\$ 26,790,000
Revenue Bonds, Series 2005	11,400,000	11,700,000
Gove School Property	7,750,000	7,750,000
Unamortized Bond Premium		
Revenue Bonds, Series 2012	1,260,000	1,355,000
Capital Lease/Financing Arrangement	4,275,000	2,763,000
	50,280,000	50,358,000
Less: Current Portion	(3,146,000)	(4,507,000)
	\$ 47,134,000	\$ 45,851,000

(a) Series 2012 Revenue Bonds

The Colorado Health Facilities Authority issued \$26,790,000 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. National Jewish recorded a loss on the early extinguishment of debt relative to the Series 1998 and Series 1998B Bonds of approximately \$1,175,000. 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, 2013:

2014	\$ 1,450,000
2015	1,505,000
2016	1,565,000
2017	1,640,000
2018	1,730,000
Thereafter	17,705,000
	\$ 25,595,000

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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's property, excluding revenue derived from donor-restricted property if such revenue is unavailable for debt service. The 2012 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, 2013 and 2012.

(b) 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, 2013:

2014	\$	300,000
2015		400,000
2016		400,000
2017		400,000
2018		400,000
Thereafter		<u>9,500,000</u>
	<u>\$</u>	<u>11,400,000</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, 2013 was .12%. The 2005 Bonds are backed by an irrevocable transferable letter of credit, which will be automatically extended without amendment for an additional period of 12 months beginning on March 1, 2013. The letter-of-credit expires April 1, 2014, 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, 2013 and 2012, 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, 2013 and 2012.

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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:

	2013		2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Revenue Bonds, Series 2012	\$ 26,855,000	\$ 27,554,000	\$ 28,145,000	\$ 29,090,000
Revenue Bonds, Series 2005	11,400,000	11,400,000	11,700,000	11,700,000

(c) Capital Lease

In August 2012, National Jewish entered into a capital lease with U.S. Bank to purchase software, hardware, and consulting fees for implementation of a new ERP system; and clinical equipment. As of June 30, 2013, \$4,631,000 has been used to acquire the aforementioned items.

A capital lease of approximately \$13,000,000, used to purchase new radiology equipment for the Institute for Biomedical Imaging™, ended in March 2013. National Jewish retained ownership of all fixed assets.

Included in the equipment and software in the accompanying financial statements are assets under capital leases, as follows:

	2013	2012
Classes of assets		
Equipment and software	\$ 4,631,000	\$ 13,062,000
Less accumulated depreciation	(77,000)	(9,672,000)
	<u>\$ 4,554,000</u>	<u>\$ 3,390,000</u>

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2013, are as follows:

2014	\$ 980,000
2015	980,000
2016	980,000
2017	980,000
2018	581,000
Less amount representing interest	(226,000)
Present value of future minimum lease payments	<u>\$ 4,275,000</u>

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(d) 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. The composition of these funds stated at contractual value, which approximates fair value, at June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
	Cash and Cash Equivalents	Cash and Cash Equivalents
2012 Bonds		
Bond Reserve Fund	\$ 2,705,000	\$ 2,705,000
Bond Interest/Principal Fund	625,000	383,000
	<u>\$ 3,330,000</u>	<u>\$ 3,088,000</u>
2005 Bonds		
Bond Reserve Fund	\$ 783,000	\$ 783,000
Bond Interest/Principal Fund	-	-
	<u>\$ 783,000</u>	<u>\$ 783,000</u>

(e) Gove Middle School Property Promissory Note

In February 2011, National Jewish 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 \$9,000,000. The property is located adjacent to National Jewish's main campus. The purchase of the property was final on November 16, 2011. This property will be used for furthering National Jewish's clinical, research and educational missions. Principal payments as of June 30, 2013, are as follows:

2014	\$ 500,000
2015	500,000
2016	500,000
2017	6,250,000
	<u>\$ 7,750,000</u>

DPS issued a non-recourse promissory note in the amount of \$8,750,000 which bears interest at a fixed rate of 4%. Interest only payments are due in August, November, February, and May of each year the note is outstanding. A final payment of the remaining principal outstanding is due in a balloon payment on May 23, 2017. The note is collateralized by the land.

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(13) Line-of-Credit

National Jewish has a \$15,000,000 unsecured revolving bank line-of-credit expiring on February 1, 2014. At June 30, 2013 and 2012, there was \$8,167,000 and \$7,066,000, respectively, borrowed against this line, including accrued interest. Interest accrues at the greater of the prime rate less 1%; 30, 60, or 90 day LIBOR rate plus 175 basis points; or 2.75%. National Jewish's borrowing interest rate was 2.75% and 2.75% on June 30, 2013 and 2012, respectively.

(14) 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, 2013, that have initial or remaining non-cancelable lease terms equal to or greater than one year are as follows:

2014	\$	1,349,000
2015		1,273,000
2016		1,227,000
2017		1,080,000
2018		560,000
Total future minimum payments	\$	5,489,000

Rental expense for operating leases was approximately \$1,571,000 and \$1,788,000 for the years ended June 30, 2013 and 2012, respectively.

(b) Professional Liability

Reserves for professional liability claims were \$2,196,000 and \$2,656,000 at June 30, 2013 and 2012, respectively. The professional liability claims for fiscal year 2013 are stated at gross. As a result, National Jewish recorded an additional \$1,606,000 and \$1,972,000 of professional liability reserves and an equal amount of insurance coverage receivables at June 30, 2013 and 2012, respectively.

The current portion of the above reserves, \$162,000 and \$127,000 at June 30, 2013 and 2012, respectively, is included in other accrued expenses in the accompanying consolidated balance sheets. The provision for losses related to professional liability risks is presented net of expected insurance recoveries in the consolidated statements of operations and was (\$64,000) and \$206,000 for 2013 and 2012, respectively.

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Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserve 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 that this estimate could change materially in the near term.

(c) 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.

(d) 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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(15) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Net assets reserved for future unrestricted uses	\$ 408,000	\$ 3,732,000
Restricted for research, education, patient care, and capital construction	21,805,000	10,473,000
Endowed assets not yet appropriated for expenditure	14,042,000	12,923,000
Unitrust agreements	4,767,000	4,482,000
Pooled income	<u>2,444,000</u>	<u>2,345,000</u>
	<u>\$ 43,466,000</u>	<u>\$ 33,955,000</u>

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 17 for further discussion.

(16) Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Beneficial interest in perpetual trust agreement	\$ 10,722,000	\$ 10,497,000
Permanent endowments	<u>33,156,000</u>	<u>32,466,000</u>
Total	<u>\$ 43,878,000</u>	<u>\$ 42,963,000</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, 2013 and 2012, was \$454,000 and \$359,000, respectively.

(17) Endowment

National Jewish's endowment consists of approximately 74 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, 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

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(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
- 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. There were no such deficiencies as of June 30, 2013.

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The composition of net assets by type of endowment fund at June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 16,229,000	\$ 33,156,000	\$ 49,385,000
Board-designated endowment funds	12,772,000	-	-	12,772,000
Total Funds	\$ 12,772,000	\$ 16,229,000	\$ 33,156,000	\$ 62,157,000

Changes in endowment net assets for fiscal year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 11,561,000	\$ 15,019,000	\$ 32,466,000	\$ 59,046,000
Contributions	-	-	690,000	690,000
Endowment transfer	-	(3,442,000)	-	(3,442,000)
Investment income	623,000	2,252,000	-	2,875,000
Net assets released from restriction	-	(63,000)	-	(63,000)
Gain (loss) on sale of investments	(5,000)	1,652,000	-	1,647,000
Unrealized gain on sale of investments	593,000	811,000	-	1,404,000
Endowment net assets, end of year	\$ 12,772,000	\$ 16,229,000	\$ 33,156,000	\$ 62,157,000

The composition of net assets by type of endowment fund at June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 15,019,000	\$ 32,466,000	\$ 47,485,000
Board-designated funds	11,561,000	-	-	11,561,000
Total Funds	\$ 11,561,000	\$ 15,019,000	\$ 32,466,000	\$ 59,046,000

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Changes in endowment net assets for fiscal year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 11,589,000	\$ 15,616,000	\$ 30,829,000	\$ 58,034,000
Contributions	-	-	1,637,000	1,637,000
Endowment transfer	55,000	(376,000)	-	(321,000)
Investment income	427,000	795,000	-	1,222,000
Net assets released from restriction	-	(61,000)	-	(61,000)
Gain on sale of investments	30,000	999,000	-	1,029,000
Unrealized (loss) on sale of investments	(540,000)	(1,954,000)	-	(2,494,000)
Endowment net assets, end of year	<u>\$ 11,561,000</u>	<u>\$ 15,019,000</u>	<u>\$ 32,466,000</u>	<u>\$ 59,046,000</u>

(18) 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. There is a hierarchy of three levels of inputs that 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 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 no market activity and that are significant to the fair value of the assets or liabilities.

(a) Recurring Measurements

The following table represents the fair value measurement of assets recognized in the accompanying balance sheet 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, 2013 and 2012:

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**Fair Value Measurements
at Reporting Date Using**

Description	June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments				
Common stocks and equity funds	\$ 60,000	\$ 60,000	\$ -	\$ -
Bonds and notes	25,000	25,000	-	-
Total short-term investments	<u>85,000</u>	<u>85,000</u>	<u>-</u>	<u>-</u>
Internally-designated assets				
Common stocks and equity funds	9,244,000	9,244,000	-	-
International securities and equities	9,832,000	9,832,000	-	-
Fixed income securities	13,465,000	13,465,000	-	-
U.S. government and agency securities	933,000	933,000	-	-
Alternative investments	3,421,000	-	3,421,000	-
Total internally-designated assets	<u>36,895,000</u>	<u>33,474,000</u>	<u>3,421,000</u>	<u>-</u>
Assets reserved for gift annuities				
Fixed-income securities	4,794,000	4,794,000	-	-
Convertible securities and equities	4,422,000	4,422,000	-	-
Total assets reserved for gift annuities	<u>9,216,000</u>	<u>9,216,000</u>	<u>-</u>	<u>-</u>
Long-term investments				
Convertible securities and equities	17,771,000	17,772,000	-	-
International securities and equities	17,013,000	17,013,000	-	-
Fixed income securities	9,223,000	9,223,000	-	-
U.S. government and agency securities	1,093,000	1,093,000	-	-
Alternative investments	7,925,000	-	7,925,000	-
Pooled income funds	686,000	686,000	-	-
Total long-term investments	<u>53,711,000</u>	<u>45,787,000</u>	<u>7,925,000</u>	<u>-</u>
Other				
Bonds and notes	440,000	311,000	129,000	-
Beneficial interest in perpetual trust	10,722,000	-	10,722,000	-
Total other	<u>11,162,000</u>	<u>311,000</u>	<u>10,851,000</u>	<u>-</u>
Total assets above	<u>111,069,000</u>	<u>88,873,000</u>	<u>22,197,000</u>	<u>-</u>
Cash and cash equivalents not included above	<u>5,247,000</u>			
Total	<u>\$ 116,316,000</u>			

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**Fair Value Measurements
at Reporting Date Using**

Description	June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments				
Common stocks and equity funds	\$ 10,000	\$ 10,000	\$ -	\$ -
Bonds and notes	15,000	15,000	-	-
Total short-term investments	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Internally-designated assets				
Common stocks and equity funds	9,341,000	9,341,000	-	-
International securities and equities	8,319,000	8,319,000	-	-
Fixed income securities	19,271,000	19,271,000	-	-
U.S. government and agency securities	949,000	949,000	-	-
Alternative investments	<u>2,258,000</u>	<u>-</u>	<u>2,258,000</u>	<u>-</u>
Total internally-designated assets	<u>40,138,000</u>	<u>37,880,000</u>	<u>2,258,000</u>	<u>-</u>
Assets reserved for gift annuities				
Fixed-income securities	6,806,000	6,806,000	-	-
Convertible securities and equities	<u>2,467,000</u>	<u>2,467,000</u>	<u>-</u>	<u>-</u>
Total assets reserved for gift annuities	<u>9,273,000</u>	<u>9,273,000</u>	<u>-</u>	<u>-</u>
Long-term investments				
Convertible securities and equities	20,016,000	20,016,000	-	-
International securities and equities	18,411,000	18,411,000	-	-
Fixed income securities	8,538,000	8,538,000	-	-
U.S. government and agency securities	1,689,000	1,689,000	-	-
Alternative investments	4,714,000	-	4,714,000	-
Pooled income funds	<u>703,000</u>	<u>703,000</u>	<u>-</u>	<u>-</u>
Total long-term investments	<u>54,071,000</u>	<u>49,357,000</u>	<u>4,714,000</u>	<u>-</u>
Other				
Bonds and notes	381,000	304,000	77,000	-
Beneficial interest in perpetual trust	<u>10,497,000</u>	<u>-</u>	<u>10,497,000</u>	<u>-</u>
Total other	<u>10,878,000</u>	<u>304,000</u>	<u>10,574,000</u>	<u>-</u>
Total assets above	<u>114,385,000</u>	<u>96,839,000</u>	<u>17,546,000</u>	<u>-</u>
Cash and cash equivalents not included above	<u>2,979,000</u>			
Total	<u>\$ 117,364,000</u>			

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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 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, 2013.

(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.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the Organization expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the Organization does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

(c) Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

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(d) 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, 2013 and 2012:

Description	June 30, 2013	Fair Value Measurements during Reporting Year		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)
Contributions and promises to give	\$ 15,035,000	\$ -	\$ 15,035,000	\$ -
Charitable remainder trusts	67,000	-	67,000	-
Gift annuities	537,000	-	537,000	-
Goodwill	900,000	-	-	900,000
Total	<u>\$ 16,539,000</u>	<u>\$ -</u>	<u>\$ 15,639,000</u>	<u>\$ 900,000</u>

Description	June 30, 2012	Fair Value Measurements during Reporting Year		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)
Contributions and promises to give	\$ 1,615,000	\$ -	\$ 1,615,000	\$ -
Charitable remainder trusts	172,000	-	172,000	-
Gift annuities	878,000	-	878,000	-
Goodwill	900,000	-	-	900,000
Total	<u>\$ 3,565,000</u>	<u>\$ -</u>	<u>\$ 2,665,000</u>	<u>\$ 900,000</u>

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(e) Goodwill

Goodwill is valued at fair value on June 30, 2013. The fair value is estimated using recent market transactions on similar assets and discounted cash flows. Key inputs include comparability discounts, weighted average cost of capital and long-term growth rates which cannot be corroborated by observable market data and, therefore, are classified within Level 3 of the valuation hierarchy.

Testing and measuring impairment of goodwill and other intangibles is completed by the National Jewish's management. Valuations and significant inputs are reviewed by management on an annual basis.

(19) 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 2013 and 2012 approximated \$4,931,000 and \$4,711,000, respectively.

(20) 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.