

# **National Jewish Health and Subsidiary**

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

June 30, 2016 and 2015

# National Jewish Health and Subsidiary

## June 30, 2016 and 2015

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## Independent Auditor's Report

Board of Directors  
National Jewish Health  
Denver, Colorado

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Jewish Health and Subsidiary (National Jewish), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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.

Board of Directors  
National Jewish Health

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Jewish as of June 30, 2016 and 2015, 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.

### **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including the schedule of expenditures of federal awards, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016, on our consideration of National Jewish's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Jewish's internal control over financial reporting and compliance.

**BKD, LLP**

Denver, Colorado  
October 19, 2016

**National Jewish Health and Subsidiary**  
**Consolidated Statements of Financial Position**  
**June 30, 2016 and 2015**  
**(In thousands)**

	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and cash equivalents	\$ 2,159	\$ 3,166
Accounts receivable:		
Patient care, net of estimated uncollectibles of \$27,328 and \$22,033, respectively	25,147	19,724
Grant revenue receivable	3,297	4,775
Bequests, net of allowance for uncollectibles of \$54 and \$58, respectively	827	983
Pledges receivable, current portion, net of allowance for uncollectibles of \$419 and \$337, respectively	7,178	5,821
Other	5,597	8,348
Total receivables	42,046	39,651
Assets held by trustees – current portion	2,567	2,531
Prepaid expenses	1,808	2,102
Drugs and supplies	1,722	1,971
Total current assets	50,302	49,421
Assets whose use is limited:		
Internally-designated assets	38,516	34,414
Assets held by trustee, net of current portion	1,521	1,546
Assets reserved for gift annuities	8,579	9,161
Other	153	166
Total assets whose use is limited	48,769	45,287
Other assets:		
Long-term investments	57,875	60,579
Contributions receivable under unitrust agreements	2,634	2,071
Pledges receivable, net of current portion and allowance for uncollectibles of \$3,865 and \$3,259, respectively	23,763	20,681
Beneficial interest under perpetual trust agreements	11,912	13,168
Goodwill	900	900
Other	1,748	805
Total other assets	98,832	98,204
Property and equipment, at cost:		
Land	13,081	13,086
Buildings	119,218	119,271
Equipment and software	88,409	88,380
Construction-in-progress	1,099	12
	221,807	220,749
Less accumulated depreciation	(140,964)	(134,621)
Property and equipment, net	80,843	86,128
Total assets	\$ 278,746	\$ 279,040

**National Jewish Health and Subsidiary**  
**Consolidated Statements of Financial Position (continued)**  
**June 30, 2016 and 2015**  
**(In thousands)**

	<b>2016</b>	<b>2015</b>
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,763	\$ 8,008
Line of credit	5,010	8,014
Current portion of workers' compensation	169	147
Accrued salaries, wages, and employee benefits	7,334	6,938
Unearned revenue	6,938	4,810
Estimated settlements with third-party payors	719	508
Current portion of accrued vacation	3,133	3,110
Current portion of long-term debt, including capital lease	3,712	3,618
Current liability under annuity contracts	1,476	1,547
Current liability under unitrust agreements	155	148
Total current liabilities	<u>38,409</u>	<u>36,848</u>
Accrued vacation	1,032	867
Other	1,819	1,173
Liability under annuity contracts	8,967	9,574
Liability under unitrust agreements	2,170	1,725
Long-term debt, net of current portion	<u>36,723</u>	<u>39,464</u>
Total liabilities	<u>89,120</u>	<u>89,651</u>
Net assets:		
Unrestricted	72,367	80,561
Temporarily restricted	71,397	62,027
Permanently restricted	<u>45,862</u>	<u>46,801</u>
Total net assets	<u>189,626</u>	<u>189,389</u>
Total liabilities and net assets	<u><u>\$ 278,746</u></u>	<u><u>\$ 279,040</u></u>

**National Jewish Health and Subsidiary**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2016 and 2015**  
**(In thousands)**

	<b>2016</b>	<b>2015</b>
Changes in unrestricted net assets:		
Unrestricted revenue, gains, and other support:		
Net patient service revenue	\$ 145,214	\$ 130,955
Health initiatives revenue	7,885	8,419
Revenue from affiliates	4,880	3,892
Professional education revenue	1,859	1,641
Federal grant revenue	37,064	38,902
Other operating revenue	9,220	9,615
Major gifts	1,851	1,745
Direct mail	2,143	2,062
Special events, net of direct donor benefits of \$3,213 and \$2,783, respectively	1,711	1,199
Bequests	2,438	3,118
Gift annuity contributions	469	297
Investment income (loss), net	(702)	37
Total unrestricted revenue, gains, and other support	<u>214,032</u>	<u>201,882</u>
Net assets released from restriction:		
Net assets released from restriction – grants	10,293	9,759
Net assets released from restriction – public support	9,508	19,273
Total net assets released from restriction	<u>19,801</u>	<u>29,032</u>
Expenses:		
Academic services	92,470	91,649
Clinical services	84,348	79,003
Administration and fiscal support	29,449	27,673
Support services	11,481	11,774
Marketing and health initiatives	12,503	11,149
Professional education	1,442	1,193
Fund development	7,615	7,805
Bad debt expense	1,917	2,703
Total expenses	241,225	232,949
Increase in value of split-interest agreements	186	482
Loss on disposal of property and equipment	616	-
Total expenses and losses	<u>242,027</u>	<u>233,431</u>
Decrease in unrestricted net assets	<u>(8,194)</u>	<u>(2,517)</u>

**National Jewish Health and Subsidiary**  
**Consolidated Statements of Activities (continued)**  
**Years Ended June 30, 2016 and 2015**  
**(In thousands)**

	<b>2016</b>	<b>2015</b>
Changes in temporarily restricted net assets:		
Restricted grant support	\$ 9,541	\$ 9,675
Major gifts	17,732	17,669
Direct mail	241	188
Special events	1,126	1,751
Bequests	1,449	2,615
Change in value of split-interest agreements	(3,532)	(3,662)
Investment gain, net	2,614	3,542
Total temporarily restricted revenue	29,171	31,778
Net assets released from restriction – grants	(10,293)	(9,759)
Net assets released from restriction – public support	(9,508)	(19,273)
Total net assets released from restriction	(19,801)	(29,032)
Increase in temporarily restricted net assets	9,370	2,746
Changes in permanently restricted net assets:		
Contributions	298	710
Change in beneficial interest in perpetual trusts	(1,237)	540
Increase (decrease) in permanently restricted net assets	(939)	1,250
Increase in net assets	237	1,479
Net assets, beginning of year	189,389	187,910
Net assets, end of year	<u>\$ 189,626</u>	<u>\$ 189,389</u>



**National Jewish Health and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**  
**(In thousands)**

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Increase in net assets	\$ 237	\$ 1,479
Items not requiring cash		
Depreciation	9,413	9,634
Bad debt expense	1,917	2,703
Unrealized gains	8,485	9,113
Permanently restricted revenue, net	939	(1,250)
Loss on disposal of property and equipment	616	1
Bond premium, discount, and issuance cost amortization	(55)	(55)
Changes in		
Patient care accounts receivable	(7,340)	(2,752)
Grant receivables	1,478	637
Bequests receivable	156	1,209
Other current assets	3,294	(4,183)
Contribution receivable	(563)	1,960
Pledges receivable	(4,439)	(4,294)
Beneficial interest under perpetual trust	1,256	(519)
Other assets	(943)	(9)
Estimated third-party payor settlements	211	(228)
Accounts payable, accrued expenses, and unearned grant revenue	4,947	4,395
Accrued vacation	188	77
Net cash provided by operating activities	<u>19,797</u>	<u>17,918</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,686)	(3,266)
Proceeds from sales of internally designated assets	2,111	2,356
Purchases of internally designated assets	(8,768)	(7,727)
Proceeds (purchases) from sale of assets held by trustee	(11)	7
Purchases of investments and assets reserved for gift annuities	(15,448)	(16,067)
Proceeds from sale of investments and assets reserved for gift annuities	<u>12,817</u>	<u>12,234</u>
Net cash used in investing activities	<u>(12,985)</u>	<u>(12,463)</u>
Cash flows from financing activities:		
Line of credit, net change	(3,004)	(2,913)
Repayment of long-term debt	(3,650)	(3,320)
Decrease in liability under gift annuity agreements	(678)	(743)
Increase (decrease) in liability under unitrust agreements	452	(16)
Increase (decrease) in permanently restricted net assets	<u>(939)</u>	<u>1,250</u>
Net cash used in financing activities	<u>(7,819)</u>	<u>(5,742)</u>
Net decrease in cash and cash equivalents	<u>(1,007)</u>	<u>(287)</u>
Cash and cash equivalents, beginning of year	3,166	3,453
Cash and cash equivalents, end of year	<u>\$ 2,159</u>	<u>\$ 3,166</u>
Supplemental schedule of noncash activities:		
Capital lease obligation incurred for property and equipment	<u>\$ 1,058</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 1,714</u>	<u>\$ 1,839</u>

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

#### **(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.

Effective August 2014, National Jewish 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'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 December 2013, National Jewish formed a limited liability corporation in a joint venture with the Icahn School of Medicine at Mount Sinai to oversee the creation and operations of a joint respiratory institute at Mount Sinai in New York.

Total revenue from the two joint agreements as of June 30, 2016 and 2015 was approximately \$4,880,000 and \$3,892,000, respectively, which is included in the revenue from affiliates line on the consolidated statements of activities.

##### ***(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

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

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 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 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. At June 30, 2016, approximately 64% of promises to give were from four donors.

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

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

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.

#### ***(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

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

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.

#### **(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.

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

#### ***(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) 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.

#### ***(l) 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.

#### ***(m) 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 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.

No asset impairment was recognized during the years ended June 30, 2016 and 2015.

#### ***(n) 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.

#### ***(o) 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.

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

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

#### **(p) Reclassifications**

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. Including reclassifications made for the adoption of ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, that were deemed to be immaterial. These reclassifications had no effect on the change in net assets.

#### **(q) Subsequent Events**

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.

#### **(r) Presentation of Financial Statements**

Management has elected to present the financial statements under the not-for-profit model rather than that of a healthcare entity as National Jewish has historically had non-patient revenues, gains and other support in excess of patient revenue. The difference in presentation would have 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 direct and indirect costs for services furnished under its charity care policy aggregated approximately \$725,000 and \$1,069,000 in 2016 and 2015, 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.

# National Jewish Health and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2016 and 2015

#### (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.

*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, 2016 and 2015, National Jewish's net patient receivable for services rendered was approximately \$25,147,000 and \$19,724,000, 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	
	2016	2015
Medicare	38%	37%
Medicaid	16%	16%
Blue Cross	13%	13%
Managed care	21%	21%
Other third-party payors	12%	13%
	<u>100%</u>	<u>100%</u>



**National Jewish Health and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

**(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, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Federal grants	\$ 37,064,000	\$ 38,902,000
Charitable foundation and private corporation grants	9,541,000	9,675,000
	<u>\$ 46,605,000</u>	<u>\$ 48,577,000</u>

**(6) Promises to Give**

Included as receivables are the following unconditional promises to give as of June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Pledges	\$ 37,623,000	\$ 32,281,000
Bequests	881,000	1,041,000
Unconditional promises to give before unamortized discount and allowance for uncollectibles	38,504,000	33,322,000
Less unamortized discount - pledges	<u>(2,398,000)</u>	<u>(2,183,000)</u>
	36,106,000	31,139,000
Less:		
Allowance for uncollectibles - pledges	(4,284,000)	(3,596,000)
Allowance for uncollectibles - bequests	<u>(54,000)</u>	<u>(58,000)</u>
Net unconditional promises to give	<u>\$ 31,768,000</u>	<u>\$ 27,485,000</u>
Amounts due in		
Less than one year	\$ 9,013,000	\$ 7,748,000
One to five years	22,171,000	19,214,000
More than five years	<u>7,320,000</u>	<u>6,360,000</u>
Total	<u>\$ 38,504,000</u>	<u>\$ 33,322,000</u>

Discount rates are established when the promise to give is made. Discount rates ranged from 0.48% to 5.01% and 0.34% to 5.01% for June 30, 2016 and 2015, respectively.

# National Jewish Health and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2016 and 2015

#### (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, 2016 and 2015 is set forth below:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 6,845,000	\$ 2,324,000
Common stocks and equity funds	10,053,000	10,127,000
International securities and equities	9,822,000	10,151,000
Fixed income securities	7,940,000	7,749,000
U.S. government and agency obligations	540,000	623,000
Alternative investments	3,316,000	3,440,000
	<u>\$ 38,516,000</u>	<u>\$ 34,414,000</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, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 1,387,000	\$ 2,913,000
Convertible securities and equities	20,783,000	18,819,000
International securities and equities	14,022,000	17,663,000
Fixed income securities	9,300,000	9,832,000
U.S. government and agency obligations	661,000	746,000
Alternative investments	11,722,000	10,556,000
LLC/Mount Sinai	-	50,000
	<u>\$ 57,875,000</u>	<u>\$ 60,579,000</u>

**National Jewish Health and Subsidiary**  
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**(9) Composition of Investment Returns**

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

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted *</b>	<b>Permanently Restricted</b>
Interest income	\$ 1,072,000	\$ 1,375,000	\$ -
Gains and losses:			
Realized gains and losses	1,710,000	2,615,000	(1,237,000)
Unrealized losses	<u>(3,484,000)</u>	<u>(5,003,000)</u>	<u>-</u>
Total gains and losses	<u>(1,774,000)</u>	<u>(2,388,000)</u>	<u>(1,237,000)</u>
Total return on investments in stock and bond portfolios	<u><u>\$ (702,000)</u></u>	<u><u>\$ (1,013,000)</u></u>	<u><u>\$ (1,237,000)</u></u>
	<b>2015</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted *</b>	<b>Permanently Restricted</b>
Interest income	\$ 1,049,000	\$ 1,513,000	\$ -
Gains and losses:			
Realized gains	3,030,000	3,542,000	540,000
Unrealized losses	<u>(4,042,000)</u>	<u>(5,071,000)</u>	<u>-</u>
Total gains and losses	<u>(1,012,000)</u>	<u>(1,529,000)</u>	<u>540,000</u>
Total return on investments in stock and bond portfolios	<u><u>\$ 37,000</u></u>	<u><u>\$ (16,000)</u></u>	<u><u>\$ 540,000</u></u>

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

**National Jewish Health and Subsidiary**  
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**(10) Split-interest Agreements**

National Jewish has the following split-interest agreements:

	<b>2016</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
Gift annuities	\$ 38,248,000	\$ 10,020,000	\$ 28,228,000
Unitrust agreements:			
National Jewish trusteeships	2,317,000	2,325,000	(8,000)
Third-party trusteeship, net	3,027,000	-	3,027,000
Term endowments	2,189,000	-	2,189,000
Pooled income agreements	566,000	388,000	178,000
Total	<u>\$ 46,347,000</u>	<u>\$ 12,733,000</u>	<u>\$ 33,614,000</u>

  

	<b>2015</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
Gift annuities	\$ 38,889,000	\$ 10,709,000	\$ 28,180,000
Unitrust agreements:			
National Jewish trusteeships	2,463,000	1,873,000	590,000
Third-party trusteeship, net	2,483,000	-	2,483,000
Term endowments	2,589,000	-	2,589,000
Pooled income agreements	612,000	412,000	200,000
Total	<u>\$ 47,036,000</u>	<u>\$ 12,994,000</u>	<u>\$ 34,042,000</u>

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 2016 and 2015.

Though the assets received under gift annuity agreements are generally available for unrestricted use and the liability is a general obligation of National Jewish, National Jewish is required by several states to set assets aside to pay the regulatory minimum annuity obligation. These funds are classified as assets reserved for gift annuities on the consolidated statements of financial position. These assets are invested in equities and bonds, which are stated at fair value, as determined by the most recent market quotations or an estimate based on significant other observable inputs, and totaled \$8,579,000 and \$9,161,000 at June 30, 2016 and 2015, respectively.

# National Jewish Health and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2016 and 2015

#### (11) Construction in Progress

National Jewish is currently implementing two Laboratory Information Management Systems (LIMS) in the Advanced Diagnostics Laboratories. In addition, National Jewish's Facilities Department is adding additional security card access for Health Insurance Portability and Accountability (HIPAA) compliance. Therefore, at June 30, 2016, National Jewish had two uncompleted projects. Total projected costs are estimated at \$3,030,000. As of June 30, 2016, National Jewish has expended \$1,099,000 related to these projects.

#### (12) Long-term Debt

Long-term debt at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Revenue Bonds, Series 2012 (a)	\$ 21,075,000	\$ 22,640,000
Revenue Bonds, Series 2005 (b)	10,300,000	10,700,000
Gove School Property (c)	6,000,000	6,750,000
Unamortized Bond Premium		
Revenue Bonds, Series 2012	984,000	1,077,000
Capital Lease/Financing Arrangement (d)	2,555,000	2,433,000
	40,914,000	43,600,000
Less: Unamortized debt issuance costs	(479,000)	(518,000)
Less: Current portion	(3,712,000)	(3,618,000)
	<u>\$ 36,723,000</u>	<u>\$ 39,464,000</u>

#### (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, 2016:

2017	\$ 1,640,000
2018	1,730,000
2019	1,810,000
2020	1,910,000
2021	2,000,000
Thereafter	11,985,000
	<u>\$ 21,075,000</u>

# National Jewish Health and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2016 and 2015

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 is in compliance with all covenants for the years ended June 30, 2016 and 2015. Unamortized debt issuance costs for the 2012 Bonds were \$315,000 and \$345,000 at June 30, 2016 and 2015, respectively.

#### **(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. Unamortized debt issuance costs for the 2005 Bonds were \$164,000 and \$173,000 at June 30, 2016 and 2015, 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, 2016:

2017	\$ 400,000
2018	400,000
2019	400,000
2020	400,000
2021	400,000
Thereafter	<u>8,300,000</u>
	<u><u>\$ 10,300,000</u></u>

The 2005 Bonds bear a variable rate of interest based on the rate at which the bonds could be remarketed at their face value and are secured by the rights to all future revenue derived from National Jewish's property, excluding revenue derived from donor restricted property if such revenue is unavailable for debt service. The interest rate at June 30, 2016 was .51%. The 2005 Bonds are backed by an irrevocable transferable letter of credit, which will be automatically extended without amendment for an additional period of 24 months beginning on March 1, 2015. The letter of credit expires April 1, 2017, 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, 2016 and 2015, 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 is in compliance with all covenants for the years ended June 30, 2016 and 2015.

# National Jewish Health and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2016 and 2015

#### **(c) 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, and will be used for furthering National Jewish's clinical, research and educational missions. Principal payments as of June 30, 2016, are as follows:

2017	\$ 750,000
2018	1,000,000
2019	1,250,000
2020	<u>3,000,000</u>
	<u><u>\$ 6,000,000</u></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 balloon payment of the remaining principal outstanding is due May 23, 2020. The note is collateralized by the land.

#### **(d) Capital Lease**

In August 2012, National Jewish entered into multiple five year capital leases with U.S. Bank for the purchase of a new ERP system and clinical equipment totaling \$4,636,000. The interest rates are approximately 2% and principal and interest are paid in quarterly installments of approximately \$246,000. The leases are collateralized by property and equipment.

In December 2015, National Jewish 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 is \$3,000,000, and draws are made on the financing as vendor invoices are submitted. As of June, 30, 2016, \$1,058,000 has been drawn. The interest rate is based on LIBOR plus 200 basis points. No principal payments are due until the final draw, at which time the five year repayment schedule will be finalized. During 2016, NJH made interest payments totaling \$7,157. The lease is collateralized by property and equipment.

Included in the equipment and software in the accompanying financial statements are assets under U.S. Bank and Commerce Bank leases, as follows:

	<b>2016</b>	<b>2015</b>
Classes of assets		
Equipment and software	\$ 5,694,000	\$ 4,636,000
Less accumulated depreciation	<u>(1,541,000)</u>	<u>(998,000)</u>
	<u><u>\$ 4,153,000</u></u>	<u><u>\$ 3,638,000</u></u>

**National Jewish Health and Subsidiary**  
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Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2016, are as follows:

2017	\$ 947,000
2018	581,000
Less amount representing interest	<u>(31,000)</u>
Present value of current lease payments	1,497,000
Present value of lease payments in-process	<u>1,058,000</u>
Present value of future minimum lease payments	<u><u>\$ 2,555,000</u></u>

**(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. The composition of these funds stated at contractual value, which approximates fair value, at June 30, 2016 and 2015, is as follows:

	<b>2016</b>	<b>2015</b>
	<b>Cash and Cash Equivalents</b>	<b>Cash and Cash Equivalents</b>
2012 Bonds		
Bond Reserve Fund	\$ 2,777,000	\$ 2,721,000
Bond Interest/Principal Fund	<u>527,000</u>	<u>573,000</u>
	<u><u>\$ 3,304,000</u></u>	<u><u>\$ 3,294,000</u></u>
2005 Bonds		
Bond Reserve Fund	\$ 783,000	\$ 783,000
Bond Interest/Principal Fund	<u>1,000</u>	<u>-</u>
	<u><u>\$ 784,000</u></u>	<u><u>\$ 783,000</u></u>



# National Jewish Health and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2016 and 2015

#### (13) Line of Credit

National Jewish has a \$15,000,000 unsecured revolving bank line of credit expiring on March 1, 2018. At June 30, 2016 and 2015, there was \$5,010,000 and \$8,014,000, 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% as of both June 30, 2016 and 2015.

#### (14) Commitments and Contingencies

##### (a) Operating Leases

National Jewish leases certain facilities and equipment under operating leases. The leases expire in various years through 2025. These leases generally require National Jewish to pay all executory costs (property taxes, maintenance, and insurance). Future minimum rental payments as of June 30, 2016, that have initial or remaining non-cancelable lease terms equal to or greater than one year are as follows:

2017	\$ 2,413,000
2018	1,768,000
2019	950,000
2020	802,000
2021	672,000
Thereafter	<u>1,145,000</u>
Total future minimum payments	<u>\$ 7,750,000</u>

Rental expense for operating leases was approximately \$2,429,000 and \$2,423,000 for the years ended June 30, 2016 and 2015, respectively.

##### (b) Professional Liability

Reserves for professional liability claims were \$1,305,000 and \$651,000 at June 30, 2016 and 2015, respectively. For claims covered by insurance, National Jewish recorded an additional \$847,000 and \$257,000 of professional liability reserves and an equal amount of insurance coverage receivables as of June 30, 2016 and 2015, respectively. 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 \$144,000 for 2016 and 2015, respectively.

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

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.

**National Jewish Health and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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**(15) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>2016</b>	<b>2015</b>
Net assets reserved for future unrestricted uses	\$ 830,000	\$ 985,000
Restricted for research, education, patient care, and capital construction	52,668,000	39,703,000
Endowed assets not yet appropriated for expenditure	12,514,000	15,478,000
Unitrust agreements and pooled income agreements	5,385,000	5,861,000
	<u>\$ 71,397,000</u>	<u>\$ 62,027,000</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 18 for further discussion.

**(16) Permanently Restricted Net Assets**

Permanently restricted net assets consist of the following:

	<b>2016</b>	<b>2015</b>
Beneficial interest in perpetual trust agreement	\$ 11,519,000	\$ 12,756,000
Permanent endowments	34,343,000	34,045,000
Total	<u>\$ 45,862,000</u>	<u>\$ 46,801,000</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, 2016 and 2015 was \$642,000 and \$561,000, respectively.

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

#### **(17) Endowment**

National Jewish's endowment consists of approximately 76 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 (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.

**National Jewish Health and Subsidiary**  
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**(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, 2016.

The composition of net assets by type of endowment fund at June 30, 2016:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 14,588,000	\$ 34,343,000	\$ 48,931,000
Board-designated endowment funds	10,200,000	-	-	10,200,000
Total funds	<u>\$ 10,200,000</u>	<u>\$ 14,588,000</u>	<u>\$ 34,343,000</u>	<u>\$ 59,131,000</u>

Changes in endowment net assets for fiscal year ended June 30, 2016:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 10,502,000	\$ 17,952,000	\$ 34,045,000	\$ 62,499,000
Contributions	-	-	298,000	298,000
Endowment transfer	-	(1,735,000)	-	(1,735,000)
Investment income	665,000	1,045,000	-	1,710,000
Net assets released from restriction	-	(350,000)	-	(350,000)
Gain on sale of investments	9,000	2,568,000	-	2,577,000
Unrealized loss on sale of investments	(976,000)	(4,892,000)	-	(5,868,000)
Endowment net assets, end of year	<u>\$ 10,200,000</u>	<u>\$ 14,588,000</u>	<u>\$ 34,343,000</u>	<u>\$ 59,131,000</u>

The composition of net assets by type of endowment fund at June 30, 2015:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 17,952,000	\$ 34,045,000	\$ 51,997,000
Board-designated funds	10,502,000	-	-	10,502,000
Total funds	<u>\$ 10,502,000</u>	<u>\$ 17,952,000</u>	<u>\$ 34,045,000</u>	<u>\$ 62,499,000</u>

# National Jewish Health and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2016 and 2015

Changes in endowment net assets for fiscal year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 10,626,000	\$ 20,246,000	\$ 33,335,000	\$ 64,207,000
Contributions	-	-	710,000	710,000
Endowment transfer	-	(1,771,000)	-	(1,771,000)
Investment income	635,000	1,171,000	-	1,806,000
Net assets released from restriction	-	(62,000)	-	(62,000)
Gain on sale of investments	96,000	3,327,000	-	3,423,000
Unrealized gain on sale of investments	(855,000)	(4,959,000)	-	(5,814,000)
Endowment net assets, end of year	<u>\$ 10,502,000</u>	<u>\$ 17,952,000</u>	<u>\$ 34,045,000</u>	<u>\$ 62,499,000</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 tables represent the fair value measurement of assets recognized in the accompanying balance sheets 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, 2016 and 2015:

**National Jewish Health and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2016</b>				
Internally designated assets				
Common stocks and equity funds	\$ 10,053,000	\$ 10,053,000	\$ -	\$ -
International securities and equities	9,822,000	9,822,000	-	-
Fixed income securities	7,940,000	7,940,000	-	-
U.S. government and agency securities	540,000	540,000	-	-
Alternative investments (A)	3,316,000	-	-	-
Total internally designated assets	31,671,000	28,355,000	-	-
Assets reserved for gift annuities				
Convertible securities and equities	404,000	404,000	-	-
International securities and equities	3,760,000	3,760,000	-	-
Fixed income securities	3,815,000	3,815,000	-	-
U.S. government and agency securities	600,000	600,000	-	-
Total assets reserved for gift annuities	8,579,000	8,579,000	-	-
Long-term investments				
Convertible securities and equities	20,783,000	20,783,000	-	-
International securities and equities	14,022,000	14,022,000	-	-
Fixed income securities	9,300,000	9,300,000	-	-
U.S. government and agency securities	661,000	661,000	-	-
Alternative investments (A)	11,722,000	-	-	-
Total long-term investments	56,488,000	44,766,000	-	-
Other				
Bonds and notes	153,000	130,000	23,000	-
Beneficial interest in perpetual trust	11,519,000	-	11,519,000	-
Total other	11,672,000	130,000	11,542,000	-
Total assets above	108,410,000	81,830,000	11,542,000	-
Cash and cash equivalents not included above	9,871,000			
Total	\$ 118,281,000			

(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 statement of financial position.

**National Jewish Health and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
<b>June 30, 2015</b>				
Short-term investments				
Common stocks and equity funds	\$ 28,000	\$ 28,000	\$ -	\$ -
Bonds and notes	13,000	13,000	-	-
Total short-term investments	41,000	41,000	-	-
Internally designated assets				
Common stocks and equity funds	10,127,000	10,127,000	-	-
International securities and equities	10,151,000	10,151,000	-	-
Fixed income securities	7,749,000	7,749,000	-	-
U.S. government and agency securities	623,000	623,000	-	-
Alternative investments (A)	3,440,000	-	-	-
Total internally designated assets	32,090,000	28,650,000	-	-
Assets reserved for gift annuities				
Fixed income securities	3,693,000	3,693,000	-	-
Convertible securities and equities	1,598,000	1,598,000	-	-
International securities and equities	3,540,000	3,540,000	-	-
International securities and equities	330,000	330,000	-	-
Total assets reserved for gift annuities	9,161,000	9,161,000	-	-
Long-term investments				
Convertible securities and equities	18,819,000	18,819,000	-	-
International securities and equities	17,663,000	17,663,000	-	-
Fixed income securities	9,832,000	9,832,000	-	-
U.S. government and agency securities	746,000	746,000	-	-
Alternative investments (A)	10,556,000	-	-	-
LLC/Mount Siani	50,000	-	50,000	-
Total long-term investments	57,666,000	47,060,000	50,000	-
Other				
Bonds and notes	166,000	132,000	34,000	-
Beneficial interest in perpetual trust	12,756,000	-	12,756,000	-
Total other	12,922,000	132,000	12,790,000	-
Total assets above	111,880,000	85,044,000	12,840,000	-
Cash and cash equivalents not included above	5,237,000			
Total	\$ 117,117,000			

(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 statement of financial position.



# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2016 and 2015**

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, 2016.

#### ***(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 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.

**National Jewish Health and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

**(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, 2016				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of Funds (A)	\$ 15,038,000	\$ 2,994,000	Quarterly or Fund Termination	60 Days or Fund Termination

  

June 30, 2015				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fund of Funds (A)	\$ 13,996,000	\$ 3,655,000	Quarterly or Fund Termination	60 Days or Fund Termination

(A) This category includes investments in fund 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, 2016, it is probable that all investments in this category will be sold at an amount different from the net asset value of National Jewish'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.

**National Jewish Health and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2016 and 2015**

**(e) 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, 2016 and 2015:

		<b>Fair Value Measurements during Reporting Year</b>		
<b>Description</b>	<b>June 30, 2016</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Charitable remainder unitrust	\$ 93,000	\$ -	\$ 93,000	\$ -
Gift annuities	469,000	-	469,000	-
<b>Total</b>	<b>\$ 562,000</b>	<b>\$ -</b>	<b>\$ 562,000</b>	<b>\$ -</b>

		<b>Fair Value Measurements during Reporting Year</b>		
<b>Description</b>	<b>June 30, 2015</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Charitable remainder unitrust	\$ 53,000	\$ -	\$ 53,000	\$ -
Gift annuities	297,000	-	297,000	-
<b>Total</b>	<b>\$ 350,000</b>	<b>\$ -</b>	<b>\$ 350,000</b>	<b>\$ -</b>

**(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 2016 and 2015 approximated \$5,400,000 and \$5,500,000, respectively.

# **National Jewish Health and Subsidiary**

## **Notes to Consolidated Financial Statements**

**June 30, 2016 and 2015**

### **(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.

## **Supplementary Information**

# National Jewish Health and Subsidiary

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity	Pass-through Identifying Number, If Applicable	Total Expenditures	Passed-through to Subrecipients
<b>Research and Development Cluster</b>					
<b>Environmental Protection Agency:</b>					
Science to Achieve Results (STAR) Research Program	66.509	N/A	N/A	\$ 5,731	\$ -
Subtotal Environmental Protection Agency				5,731	-
<b>National Institutes of Health:</b>					
Allergy and Immunology	93.AI27220	N/A	N/A	884,967	822,084
National Heart, Lung and Blood Institute	93.HL26820	N/A	N/A	242,321	189,005
National Heart, Lung and Blood Institute	93.HR76185	N/A	N/A	3,036	-
			HHSN268009 BR, HHSN268009EX, HHSN2682009000014C_Amd4, HHSN268009MM, HHSN268009-01	(107,586)	-
National Heart, Lung and Blood Institute	93.2682009	University of California, San Francisco			-
Environmental Health	93.113	N/A	N/A	1,115,175	42,257
			RES025534-01,		
Environmental Health	93.113	University of Colorado Denver	PES011810B-05, UES015678C-10	333,901	-
Total 91.113				1,449,076	42,257
National Center for Sleep Disorders Research	93.233	N/A	N/A	465,877	51,455
Mental Health Research Grants	93.242	N/A	N/A	185,678	35,278
National Center for Advancing Translational Sciences	93.350	University of Colorado Denver	UL1TR001082A-02, UL1TR001082A-03, ULTR001082A-04	889,688	-
Nursing Research	93.361			1,713	-
Cancer Cause and Prevention Research	93.393	University of Colorado Denver	PCA046934-09	24,099	-
Cancer Treatment Research	93.395	University of Nebraska Medical Center	RCA178888A-01, RCA178888A-02	23,060	-
Cancer Centers Support Grants	93.397	University of Colorado Denver	PCA046934-08	(431)	-
Cardiovascular Diseases Research	93.837	N/A	N/A	2,777,444	562,201
Cardiovascular Diseases Research	93.837	Brigham & Women's Hospital	RHL125583-01A1	2,703	-
Cardiovascular Diseases Research	93.837	Emory University	1R56HL12562-01	12,482	-
Cardiovascular Diseases Research	93.837	Penn State Hershey Medical Center	U10HL098115D	50,001	-
Cardiovascular Diseases Research	93.837	Pennsylvania State University	HL098115-01MS, U10HL098115A, UHL098115-01, U10HL098115	503,349	89,922
Cardiovascular Diseases Research	93.837	Seattle Children's Hospital	1umhl119073-01	11,336	-
Cardiovascular Diseases Research	93.837	University of North Carolina	UHL096458A-04, UHL096458A-85, UHL096458A-86	25,558	-
Cardiovascular Diseases Research	93.837	University of Nebraska Medical Center	UM1HL112958-Core, UM1HL112958-02, UM1HL112958-92	135,591	-
Total 93.837				3,518,464	652,123

# National Jewish Health and Subsidiary

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity	Pass-through Identifying Number, If Applicable	Total Expenditures	Passed-through to Subrecipients
Lung Diseases Research	93.838	N/A	N/A	15,125,848	2,098,010
Lung Diseases Research	93.838	Denver Health & Hospital Authority	UHL074424-02	1,652	-
Lung Diseases Research	93.838	University California San Francisco	PHL107202A-04, PHL107202A-05, RHL101251-03, RHL062410A-15, RHL062410A-16, RHL062410A-17, RHL114587A-02, PHL014985H-41A1-01A, PHL014985H-41A1-01, U01HL123010, RHL097163-06A1-01, RHL123385-01 UCD U01HL11270702-01, RHL125128-01, U01HL112707-03, RHL125128-02 RHL114055A-03	221,311	-
Lung Diseases Research	93.838	University of Colorado Denver		176,914	-
Lung Diseases Research	93.838	University of Pittsburgh		136,587	-
Lung Diseases Research	93.838	Weill Cornell Medical College		5,810	-
Total 93.838				15,668,122	2,098,010
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	N/A	N/A	206,293	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Colorado Denver	R01AR065951-UCD, RAR065951-UCD02, RAR065951-UCD03	103,981	-
Total 93.846				310,274	-
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847	University of Colorado Denver	RD100340A-02 UCD U01NS083422-01,	37,680	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Colorado Denver	U01NS083422-02, U01NS083422-03	169,617	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Colorado Boulder	DOD-DARPA-01	(12)	-
Total 93.853				169,605	-
Allergy, Immunology and Transplantation Research	93.855	N/A	N/A	10,804,713	3,722,349
Allergy, Immunology and Transplantation Research	93.855	Benaroya Research Institute at VA Mason	UM1AI109565-01	114,540	-
Allergy, Immunology and Transplantation Research	93.855	Duke University	PAI081672A-05	(100)	-
Allergy, Immunology and Transplantation Research	93.855	La Jolla Institution for Allergy Immunology	UA100275A-03, UA100275A-04, UA100275A-92	49,981	-
Allergy, Immunology and Transplantation Research	93.855	Mt. Sinai School of Medicine - NYU	U9AI066738-08, U9AI066738-10, UAI066738-11	331,911	-
Allergy, Immunology and Transplantation Research	93.855	Northwestern University	R56AI057460, RAI057460E-01 RAI09929-02, RAI099029-03, R56AI103023a, RAI101205A-05, RAI101205A-04	33,748	-
Allergy, Immunology and Transplantation Research	93.855	University of Colorado Denver		19,125	-
Allergy, Immunology and Transplantation Research	93.855	Yale University	RAI097218A-03, RAI097218A-04	144,554	-
Total 93.855				11,498,472	3,722,349

# National Jewish Health and Subsidiary

## Schedule of Expenditures of Federal Awards

### Year Ended June 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity	Pass-through Identifying Number, If Applicable	Total Expenditures	Passed-through to Subrecipients
Biomedical Research and Research Training	93.859	N/A	N/A	324,917	-
Vision Research	93.867	N/A	N/A	349,491	-
Research and Training in Complementary and Integrative Health	93.213	Wake Forest University	P50AT002782	11,147	-
Drug Abuse and Addiction Research Programs	93.279			151,974	-
Cancer Biology Research	93.396	University of Colorado Denver	R01CA201230-01	10,510	-
Medical Library Assistance	93.879	University of Utah	HHSN-27620110006C-NLM	750	-
Subtotal National Institutes of Health				36,112,904	7,612,561
<b>Centers for Disease Control:</b>					
Occupational Safety and Health Program	93.262	University of Colorado Denver	T42OH009229	(625)	-
STOP MTB	93.A113395	University of California San Francisco	A113395	17,673	-
Subtotal Centers for Disease Control:				17,048	-
<b>Department of Defense:</b>					
Military Medical Research and Development	12.420	N/A	N/A	(1,395)	-
Military Medical Research and Development	12.420	University of Alabama Birmingham	UAB20160001	2,766	-
Total 12.420				1,371	-
<b>Department of Health and Human Services:</b>					
Grants for Education, Prevention, and Early Detection of Radiogenic Cancers and Diseases	93.257	N/A	N/A	214,293	-
<b>Department of Energy:</b>					
Office of Science Financial Assistance Program	81.049	N/A	N/A	42,940	9,000
<b>Department of State:</b>					
AEECA/ESF PD Programs	19.900	N/A	N/A	30,016	14,410
<b>Office of Personnel Management:</b>					
Intergovernmental Personnel Act (IPA) Mobility Program	27.011	VA Eastern Colorado Health Care System	None Provided	44,946	-
<b>Total Research and Development Cluster</b>				36,469,249	7,635,971



**National Jewish Health and Subsidiary**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity</b>	<b>Pass-through Identifying Number, If Applicable</b>	<b>Total Expenditures</b>	<b>Passed-through to Subrecipients</b>
<b>Other Programs</b>					
<b>National Institutes of Health:</b>					
Coal Miners Respiratory Impairment Treatment Clinics and Services	93.965	N/A	N/A	576,698	-
Coal Miners Respiratory Impairment Treatment Clinics and Services	93.965	University of Illinois	U3ARH27243	18,047	-
Total 93.965				594,745	-
<b>Total Other Programs</b>				594,745	-
<b>Total Federal Expenditures</b>				<u>\$ 37,063,994</u>	<u>\$ 7,635,971</u>

See accompanying notes to the schedule of expenditures of federal awards.

**National Jewish Health and Subsidiary**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

**Notes to Schedule**

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of National Jewish Health and Subsidiary (National Jewish) under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of National Jewish, it is not intended to and does not present the financial position, changes in net assets, or cash flows of National Jewish.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 45 CFR Part 74 Appendix E, *Principles for Determining Cash Applicable to Research and Development Under Grants and Contracts with Hospitals*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. National Jewish has elected to use its federally approved indirect cost rate.

**Independent Auditor's Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Based on an Audit  
of the Financial Statements Performed in Accordance with  
Government Auditing Standards**

Board of Directors  
National Jewish Health and Subsidiary  
Denver, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of National Jewish Health and Subsidiary (National Jewish) which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 19, 2016.

***Internal Control Over Financial Reporting***

Management of National Jewish is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered National Jewish's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of National Jewish's internal control. Accordingly, we do not express an opinion on the effectiveness of National Jewish's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of National Jewish's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
National Jewish Health and Subsidiary

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether National Jewish's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the National Jewish's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Jewish's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Denver, Colorado  
October 19, 2016

## **Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance**

Board of Directors  
National Jewish Health and Subsidiary  
Denver, Colorado

### **Report on Compliance of Each Major Federal Program**

We have audited National Jewish Health and Subsidiary's (National Jewish) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2016. National Jewish's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for National Jewish's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about National Jewish's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of National Jewish's compliance.

#### ***Opinion on the Major Federal Program***

In our opinion, National Jewish complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of National Jewish is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered National Jewish's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of National Jewish's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*BKD, LLP*

Denver, Colorado  
October 19, 2016

**National Jewish Health and Subsidiary**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

**Section I – Summary of Auditor's Results**

*Financial Statements*

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP):

☒ Unmodified      ☐ Qualified      ☐ Adverse      ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?      ☐ Yes      ☒ None Reported

Material weakness(es)?      ☐ Yes      ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

☐ Yes      ☒ No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?      ☐ Yes      ☒ None Reported

Material weakness(es)?      ☐ Yes      ☒ No

5. The opinion(s) expressed in the independent auditor's report on compliance for major federal awards was (were):

☒ Unmodified      ☐ Qualified      ☐ Adverse      ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

☐ Yes      ☒ No

**National Jewish Health and Subsidiary**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year Ended June 30, 2016**

7. The Organization's major programs were:

CFDA Number	Cluster/Program
12.420, 19.900, 27.011, 66.509, 81.049, 93.113, 93.213, 93.233, 93.242, 93.257, 93.262, 93.2682009, 93.279, 93.350, 93.361, 93.393, 93.395, 93.396, 93.397, 93.837, 93.838, 93.846, 93.847, 93.853, 93.855, 93.859, 93.867, 93.879, 93.A113395, 93.AI27220, 93.HL26820, 93.HR76185	Research and Development Cluster

8. The dollar threshold used to distinguish between Type A and Type B programs was: \$1,111,920

9. The Organization qualified as low-risk auditee?

☒ Yes ☐ No



**National Jewish Health and Subsidiary**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year Ended June 30, 2016**

**Section II – Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>
	No matters are reportable

**National Jewish Health and Subsidiary**  
**Schedule of Findings and Questioned Costs (continued)**  
**Year Ended June 30, 2016**

**Section III – Findings Required to be Reported by the Uniform Guidance**

Reference Number	Finding	Questioned Costs
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No matters are reportable.

# **National Jewish Health and Subsidiary**

## **Summary Schedule of Prior Audit Findings**

**Year Ended June 30, 2016**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
No matters are reportable		