

Thomas Jefferson University

Consolidated Financial Statements

June 30, 2020 and 2019

Thomas Jefferson University
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June 30, 2020 and 2019

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Report of Independent Auditors

To the Board of Trustees
Thomas Jefferson University:

We have audited the accompanying consolidated financial statements of Thomas Jefferson University and its subsidiaries (the "University"), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets without donor restrictions, of changes in net assets, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thomas Jefferson University and its subsidiaries as of June 30, 2020 and 2019, and the results of their operations and changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed the manner in which it presents the non-service cost component of the net periodic costs for its pension plans. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
October 13, 2020

Thomas Jefferson University
Consolidated Balance Sheets
June 30, 2020 and 2019
(In Thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$801,018	\$247,015
Short-term investments	2,094,997	2,130,332
Accounts receivable	493,372	699,742
Inventory	103,332	73,828
Pledges receivable, current	31,967	34,187
Insurance recoverable, current	43,412	32,412
Assets whose use is limited, current	791	1,308
Other current assets	64,288	49,068
Total current assets	<u>3,633,177</u>	<u>3,267,892</u>
Long-term investments	1,104,999	1,084,937
Assets whose use is limited, noncurrent	299,691	578,299
Assets held by affiliated foundations	40,183	43,098
Pledges receivable, noncurrent	97,494	97,846
Goodwill	-	162,932
Insurance recoverable, noncurrent	211,253	222,315
Loans receivable from students, net	22,057	23,959
Land, buildings and equipment, net	2,925,367	2,583,733
Other noncurrent assets	38,004	47,722
Total assets	<u>\$8,372,225</u>	<u>\$8,112,733</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of:		
Long-term obligations	\$25,336	\$34,856
Accrued professional liability claims	81,832	78,957
Accrued workers' compensation claims	14,122	14,359
Deferred revenues	20,111	20,906
Interest rate hedges	24,717	-
Advances	82,344	16,984
Accounts payable and accrued expenses	369,489	495,908
Accrued payroll and related costs	313,250	293,683
Total current liabilities	<u>931,201</u>	<u>955,653</u>
Long-term obligations	2,322,825	2,078,232
Accrued pension liability	787,422	479,398
Federal student loan advances	7,585	10,410
Deferred revenues and rent	40,980	15,822
Accrued professional liability claims	428,183	399,562
Accrued workers' compensation claims	15,546	15,250
Interest rate hedges	47,071	33,975
Advances	391,993	-
Other noncurrent liabilities	56,510	20,218
Total liabilities	<u>5,029,316</u>	<u>4,008,520</u>
Net assets:		
Net assets without donor restriction - Thomas Jefferson University	2,525,219	3,229,958
Noncontrolling interest in joint ventures	20,496	76,079
Total net assets without donor restriction	<u>2,545,715</u>	<u>3,306,037</u>
Net assets with donor restriction	797,194	798,176
Total net assets	<u>3,342,909</u>	<u>4,104,213</u>
Total liabilities and net assets	<u>\$8,372,225</u>	<u>\$8,112,733</u>

The accompanying notes are an integral part of the consolidated financial statements.

Thomas Jefferson University
Consolidated Statements of Operations and Changes in Net Assets without Donor Restriction
For the Years Ended June 30, 2020 and 2019
(In Thousands)

	2020	2019
Operating revenues, gains and other support:		
Net patient service revenue	\$4,155,428	\$4,409,942
Grants and contracts	123,118	126,854
Tuition and fees, net	215,184	212,494
Investment income	54,495	40,536
Contributions	3,478	4,650
Sale of controlling interest	-	58,191
Other revenue	339,195	314,189
Government support for COVID-19	325,058	-
Net assets released from restrictions	56,552	49,372
Total operating revenues, gains and other support	<u>5,272,508</u>	<u>5,216,228</u>
Operating expenses:		
Salaries and wages	2,528,534	2,332,723
Employee benefits	574,893	543,466
Supplies	884,014	859,594
Purchased services	582,650	549,318
Depreciation and amortization	262,708	247,934
Interest	60,055	53,648
Insurance	115,772	80,024
Utilities	66,156	65,816
Rent	83,253	78,998
Other	412,642	378,406
Total operating expenses	<u>5,570,677</u>	<u>5,189,927</u>
(Loss) Income from operations before nonrecurring items	(298,169)	26,301
Goodwill impairment	<u>(161,256)</u>	<u>-</u>
(Loss) Income from operations after nonrecurring items	<u>(459,425)</u>	<u>26,301</u>
Nonoperating items and other changes in net assets without donor restriction, net:		
Return on investments, net of amounts classified as operating revenue	60,547	108,347
Interest rate hedges	(41,258)	(11,867)
Reclassification of net assets	(1,972)	40
Contributions and government grants for capital projects	628	1,531
Net assets released from restrictions used for purchase of property and equipment	6,704	26,989
Increase in pension liability	(315,788)	(128,320)
Distributions to noncontrolling interest	(9,756)	(10,923)
Other	(2)	(290)
Decrease in nonoperating items and other changes in net assets without donor restriction	<u>(300,897)</u>	<u>(14,493)</u>
(Decrease) Increase in net assets without donor restriction	<u>(\$760,322)</u>	<u>\$11,808</u>

The accompanying notes are an integral part of the consolidated financial statements.

Thomas Jefferson University
Consolidated Statements of Changes in Net Assets
For the Years Ended June 30, 2020 and 2019
(In Thousands)

	2020	2019
Net assets without donor restriction:		
Revenues, gains and other support	\$5,272,508	\$5,216,228
Expenses, other than goodwill impairment	(5,570,677)	(5,189,927)
Goodwill impairment	(161,256)	-
Nonoperating items and other changes in net assets without donor restriction, net	<u>(300,897)</u>	<u>(14,493)</u>
 (Decrease) Increase in net assets without donor restriction	 <u>(760,322)</u>	 <u>11,808</u>
Net assets with donor restriction:		
Contributions	57,404	74,367
Gain on investments, net	6,778	15,810
Net loss on externally held trusts	(4,630)	(184)
Investment income	5,127	5,625
Net assets released from restrictions	(63,256)	(76,361)
Changes in net assets held by affiliated foundations	(2,915)	515
Change in value of split interest agreements	(1,462)	242
Reclassification of net assets	<u>1,972</u>	<u>(40)</u>
 (Decrease) Increase in net assets with donor restriction	 <u>(982)</u>	 <u>19,974</u>
 (Decrease) Increase in net assets	 <u>(761,304)</u>	 <u>31,782</u>
Net assets, beginning of year	<u>4,104,213</u>	<u>4,072,431</u>
Net assets, end of year	<u><u>\$3,342,909</u></u>	<u><u>\$4,104,213</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

Thomas Jefferson University
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019
(In Thousands)

	2020	2019
Cash flows from operating activities:		
(Decrease) Increase in net assets	(\$761,304)	\$31,782
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Increase in pension liability	334,655	153,035
Depreciation and amortization	263,621	248,736
Bond premium amortization	(8,999)	(5,375)
Assets held by affiliated foundation	2,915	(515)
Gain on investments, net	(107,114)	(160,955)
Recognition of vesting in Premier stock	(3,647)	(5,621)
Net loss on interest rate hedges	41,258	9,534
Goodwill impairment	161,256	-
Distribution to noncontrolling interest	7,701	10,923
Funds received under the Medicare Accelerated and Advance Payment Program	447,993	-
Sale of controlling interest	3,719	(58,191)
Contributions and government grants designated for acquisition of long-term assets	(12,612)	(16,243)
Net change due to:		
Accounts receivable	205,499	(56,198)
Pledges receivable	2,572	(23)
Inventory	(29,504)	(4,612)
Other current and noncurrent assets	(6,263)	9,533
Accounts payable and accrued expenses	(126,228)	78,506
Accrued payroll and related costs	19,578	5,732
Grant and contract advances	9,360	(8,747)
Deferred revenues	24,349	3,262
Accrued pension liability	(26,631)	(22,583)
Insurance recoverable	62	(15,995)
Accrued professional liability claims	31,496	3,981
Accrued workers' compensation claims	59	(2,371)
Dividends received from joint ventures	18,067	15,197
Other current and noncurrent liabilities	36,910	(8,327)
Net cash provided by operating activities	<u>528,768</u>	<u>204,465</u>
Cash flows from investing activities:		
Assets whose use is limited increase	(13,041)	(442,671)
Assets whose use is limited decrease	292,166	161,650
Sale of controlling interest	(145)	40,363
Purchase of land, buildings and equipment	(599,383)	(428,628)
Purchases of investments	(5,291,089)	(3,743,315)
Sales of investments	5,394,993	3,750,287
Student loans issued	(3,519)	(3,654)
Student loans repaid	5,421	4,808
Net cash used in investing activities	<u>(214,597)</u>	<u>(661,160)</u>
Cash flows from financing activities:		
Distribution to noncontrolling interest	(7,701)	(10,923)
Contributions and government grants designated for acquisition of long-term assets	12,612	16,243
Federal student loan advances	(2,825)	96
Deferred financing fees	-	(4,275)
Proceeds from long-term obligations	261,000	497,019
Repayment of long-term obligations	(23,254)	(71,944)
Net cash provided by financing activities	<u>239,832</u>	<u>426,216</u>
Net increase (decrease) in cash and cash equivalents	554,003	(30,479)
Cash and cash equivalents at beginning of period	<u>247,015</u>	<u>277,494</u>
Cash and cash equivalents at end of period	<u>\$801,018</u>	<u>\$247,015</u>
Supplemental disclosures:		
Interest paid (net of amount capitalized)	\$74,582	\$59,110
Accounts payable related to buildings and equipment	\$34,520	\$48,749

The accompanying notes are an integral part of the consolidated financial statements.

Thomas Jefferson University
Notes to Consolidated Financial Statements
June 30, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements represent the consolidated financial position, changes in net assets and cash flows of Thomas Jefferson University (“TJU”), including TJUH System (“TJUHS”), Abington Health (“Abington”), Aria Health System (“Aria”), Philadelphia University, Kennedy Health System (“Kennedy”) and Magee Rehabilitation Hospital (“Magee”).

TJU is an independent, non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and recognized as a tax-exempt organization pursuant to Section 501(c) (3) of the Internal Revenue Code. TJU has a tripartite mission of education, research and patient care. TJU conducts research and offers undergraduate and graduate instruction through the Sidney Kimmel Medical College, the Jefferson College of Nursing, the Jefferson College of Pharmacy, the Jefferson College of Health Professions, the Jefferson College of Population Health, the Jefferson College of Biomedical Sciences, the Jefferson College of Rehabilitation Sciences, the Kanbar College of Design, Engineering and Commerce, the School of Continuing and Professional Studies, the College of Architecture and the Built Environment, and the College of Science, Health and the Liberal Arts. The combined institution has approximately 7,150 students and is located in Philadelphia, Pennsylvania, with additional campus locations in the Greater Philadelphia Region and Atlantic City, New Jersey.

TJUHS, Abington, Aria, Kennedy and Magee are integrated healthcare organizations that provide inpatient, outpatient and emergency care services through acute care, ambulatory care, rehabilitation care, physician and other primary care services for residents of the Greater Philadelphia Region. TJU is the sole corporate member of TJUHS, Abington, Aria, Kennedy and Magee.

TJU includes the accounts of subsidiaries of Thomas Jefferson University including 1100 Walnut Associates; 925 Walnut Corporation; and the accounts of subsidiaries of TJUHS, including Thomas Jefferson University Hospitals, Inc. (“TJUH”); Jefferson University Physicians (“JUP”); Jefferson Physician Services; the Atrium Corporation; Jeffex, Inc.; Methodist Associates in Healthcare, Inc.; JeffCare, Inc.; JeffCare Alliance, LLC; Jefferson University Radiology Associates (“JURA”, an 80% owned joint venture); Jefferson Comprehensive Concussion Center (“JCCC”, a 66% owned joint venture); the Riverview Surgery Center at the Navy Yard, LP (“Riverview”, a 51% owned joint venture); Rothman Orthopaedic Specialty Hospital, LLC (“ROSH”, a 54% owned joint venture); and the accounts of subsidiaries of Abington including Abington Memorial Hospital; Lansdale Hospital Corporation; and Abington Health Foundation; and the accounts of subsidiaries of Aria including Aria Health; Aria Physician Services; Aria Health Orthopaedics; System Service Corporation; Aria IPE, LLC; Medical Imaging Associates (an 83% owned joint venture); T.F. Development, Inc.; Health Care, Inc.; TMB Enterprises and Jefferson Health – Northeast Foundation; and the accounts of Philadelphia University; and the accounts of subsidiaries of

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Kennedy including Kennedy University Hospital, Inc.; Kennedy Health Care Foundation; STAT Medical Transport, Inc.; Kennedy Property Corporation; Kennedy Health Facilities, Inc.; Kennedy Medical Group Practice PC, d/b/a Kennedy Health Alliance; Kennedy Management Group, Inc.; Professional Medical Management Group, Inc.; and Garden State Radiology Network, LLC (“Garden State Radiology”, a 51% owned joint venture); and the accounts of Magee.

Subsequent Events

TJU has performed an evaluation of subsequent events through October 13, 2020, which is the date the financial statements were issued.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of TJU and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on an accrual basis.

TJU classifies net assets as follows:

Net Assets without Donor Restrictions are those assets that are not subject to donor-imposed restrictions and may be expended for any purpose in fulfilling the mission of TJU. These net assets may be used at the discretion of TJU’s management and the Board of Trustees.

Net Assets with Donor Restrictions are those assets whose use by TJU has been limited by donors to a specific time period or purpose. Some donor restrictions are temporary in nature; those restrictions will be met by actions of TJU and/or the passage of time. Other donor restrictions are perpetual in nature, where the funds are to be maintained in perpetuity by TJU, per the stipulation of the donor.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restriction in the consolidated statements of operations and changes in net assets.

TJU’s operating activities within the consolidated statements of operations included revenues and expenses from providing education, research and patient services, including grants and contracts, unrestricted contributions, net assets released from restriction, distributions of investment returns based on TJU’s spending policy.

TJU’s non-operating activities within the consolidated statements of operations include investment returns and other activities related to endowment, long-term benefit plan obligation funding changes, student loan net assets and contributions related to land, buildings and equipment that are not part of the TJU’s operating activities.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements including, but not limited to, recognition of net patient service revenue, which includes implicit price concessions; recognition of estimates for healthcare professional and general liabilities; determination of fair values of certain financial instruments; and assumptions for measurement of pension obligations. Management relies on historical experience and other assumptions believed to be reasonable relative to the circumstances in making judgments and estimates. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments in highly liquid debt instruments with a maturity of three months or less when purchased and are carried at cost, which approximates fair value. All short-term, highly liquid investments, including any such investments purchased with funds on deposit with bond trustees, otherwise qualifying as cash equivalents or restricted cash equivalents, within the TJU's investments and assets whose use is limited are treated as investments, at fair value and are therefore excluded from Cash and cash equivalents in the Statements of Cash Flows.

Short-term investments

Investments classified as short-term investments are available to fund current operations as needed and exclude quasi-endowment funds, donor restricted endowment funds (including beneficial interests in perpetual trusts administered by third parties), investments held under split-interest agreements and investments subject to the equity method.

Charitable Medical Care Provided

TJU provides medically necessary services to all patients regardless of their ability to pay. Some patients qualify for charity care based on policies established by TJU and are therefore not responsible for payment for all or a part of their healthcare services. These policies allow for the provision of free or discounted care in circumstances where requiring payment would impose financial hardship on the patient.

TJU maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished. Such amounts have been excluded from net patient service revenue. Management estimates that the cost of charity care provided by TJU was \$58.4 million and \$59.3 million for the years ended June 30, 2020 and 2019, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the TJU total expenses divided by gross charges.

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Notes to Consolidated Financial Statements
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Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which TJU expects to be entitled in exchange for providing patient care.

TJU determines the transaction price based on gross charges for services provided, less contractual adjustments provided to third-party payers based upon agreements, discounts provided to uninsured patients pursuant to TJU's policies, and implicit price concessions provided to uninsured patients and patients with insurance that are responsible for co-pay and/or deductible amounts. TJU determines its estimate of implicit price concessions based upon historical collection experience using a portfolio approach as a practical expedient. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenues in the period of change.

TJU determines performance obligations based upon the nature of the services provided. Net patient service revenue is recognized as performance obligations are satisfied. TJU recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. Generally, performance obligations satisfied over time relate to patients in our hospitals receiving inpatient acute care services or patients receiving services in our outpatient centers. TJU measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to point when there are no further services required for the patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and TJU does not believe it is required to provide additional goods or services to the patient.

As substantially all of TJU's patient service performance obligations relate to contracts with a duration of less than one year, TJU has elected to not disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks after the end of the reporting period.

Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Revenue from the Medicare and Medicaid programs accounted for approximately 39.8% and 12.0%, respectively, and 30.0% and 9.0%, respectively of net patient service revenue in 2020 and 2019, respectively. Most payments to TJU from the Medicare and Medicaid programs for inpatient hospital services are made on a prospective basis. Under these programs, payments

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are made at a pre-determined specific rate for each discharge based on a patient's diagnosis. Additional payments are made to TJU teaching and disproportionate share hospitals, as well as for cases that have unusually high costs. Laws governing the Medicare and Medicaid programs are complex and subject to interpretation. Services billed to the Medicare program are subject to external review for both medical necessity and billing compliance. Medicare cost reports for all years, except 2017, 2018, 2019 and 2020 have been audited and final settled as of June 30, 2020. No significant adjustments are expected. In addition, TJU received funds from the Philadelphia Hospital Assessment program and the Medical Assistance Modernization Act-Quality Care Assessment program in the amount of \$167.3 million and \$135.5 million in 2020 and 2019, respectively, and are recorded in net patient service revenue. TJU paid taxes in respect to these programs amounting to \$118.3 million and \$89.4 million in 2020 and 2019, respectively, and are recorded in other operating expenses. Both programs were designed to provide supplemental funding for licensed acute care hospitals with the Philadelphia Hospital Assessment program specifically designated for hospital emergency services.

TJU has also entered into agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to TJU under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates and capitated rates. Revenue from Blue Cross and Aetna USHC amounted to 26.2% and 11.2%, respectively, and 23.0% and 14.2%, respectively, of TJU's net patient service revenue in 2020 and 2019, respectively.

Grants and Contracts

Grants and contracts revenue primarily represents research activity sponsored by governmental and private sources. TJU's primary source of federal sponsored support is the Department of Health and Human Services. In 2020 and 2019, revenue earned from federal sources totaled \$86.7 million and \$78.6 million, respectively. Facilities and administrative costs recovered on federally sponsored programs are generally based on predetermined rates negotiated with the Federal Government while recovery on all other sponsored projects is based on rates negotiated with the respective sponsor. Funds received for sponsored research activity are subject to audit. Based upon information currently available, management believes that any liability resulting from such audits will not materially affect the financial position or operations of the TJU.

Tuition and Fees

Tuition and fees revenue is recognized in the fiscal year in which the academic programs are delivered. Tuition and fees received in advance of services to be rendered are reported as deferred revenue on the consolidated balance sheets. TJU provides financial aid to eligible students in the form of institutional scholarships, loans and employment during the academic year. Tuition and fees have been reduced by certain institutional grants and scholarships in the amount of \$69.4 million and \$61.3 million in 2020 and 2019, respectively.

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Contributions

Contributions, including unconditional promises to donate cash and other assets, are recognized at fair value on the date of receipt, recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on with or without donor restrictions. Pledges received which are to be paid in future periods, and contributions restricted by the donor for specific purposes are reported as net assets with donor restriction support. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction.

Collections

TJU capitalizes works of art, historical treasures, or similar assets (collectively, Collections). Collections are recorded at fair value at the date of the contribution. Collections of approximately \$5.7 million are included in other noncurrent assets on the consolidated balance sheets at June 30, 2020 and 2019.

Investments

Investments are stated at fair value. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. As a practical expedient, TJU is permitted under the *Fair Value Measurement* standard to estimate the fair value of an investment in an investment company at the measurement date using the reported net asset value (NAV). Adjustment is required if TJU expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with US generally accepted accounting principles (US GAAP). TJU's investments are valued based on the most current NAV adjusted for cash flows when the reported NAV is not at the measurement date. This amount represents fair value of these investments at June 30, 2020 and 2019. TJU performs additional procedures including due diligence reviews on its alternative investments and other procedures with respect to the capital account or NAV provided to ensure conformity and compliance with valuation procedures in place, the ability to redeem at NAV at the TJU measurement date and existence of certain redemption restrictions at the measurement date. TJU reviews the values as provided by the investment managers and believes that the carrying amount of these investments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Rather, the Pennsylvania Act governs the investment, use and management of TJU's endowment funds. The Pennsylvania Act allows a nonprofit to elect to appropriate for expenditure an investment policy that seeks the long-term preservation of the real value of the investments. In accordance with the Pennsylvania Act, the objectives of TJU's investment policy is to provide a level of spendable income which is sufficient to meet the current and

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future budgetary requirements of TJU and which is consistent with the goal of protecting the purchasing power of the investments. The calculation of the spendable income for endowment funds of TJU is based on 75% of the prior year spendable income and 25% of the calculated two year average of the endowment market value multiplied by 4.75%; the sum of which is adjusted by an inflation factor.

TJU's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments. These funds are held in various high-quality financial institutions managed by TJU personnel and outside advisors. TJU maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits.

Assets Held by Affiliated Foundations

The Methodist Hospital Foundation ("MHF") and Magee Rehabilitation Hospital Foundation ("MRHF") are separate entities not under the control of TJU. MHF and MRHF accept gifts and bequests and engage in fundraising activities for the benefit of Methodist Hospital and Magee, respectively. The Board of Trustees of MHF and MRHF, at their sole discretion, are authorized to contribute funds to Methodist Hospital and Magee, respectively.

While the sole purpose of MHF and MRHF are to support Methodist Hospital and Magee, this accounting treatment does not imply that MHF and MRHF assets or investment income are those of TJU. The consolidated balance sheets do not reflect or establish the legal relationship, agency or otherwise, between MHF, MRHF and TJU, or any right to assets owned by MHF and MRHF. The by-laws of MHF and MRHF provide that all assets they hold shall not be subject to attachments, execution, or sequestration for any debt, obligation or liability of TJU or any other person or entity. In particular, MHF and MRHF are not party to or obligated by any debt instrument of TJU, and assets owned by MHF and MRHF, are not subject to the lien of any such debt instrument.

Underlying investments held by MHF and MRHF with restrictions benefiting only Methodist Hospital and Magee, respectively, are presented in the consolidated balance sheets as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Methodist Hospital Foundation	\$9,970	\$10,002
Magee Rehabilitation Hospital Foundation	<u>30,213</u>	<u>33,096</u>
Total	<u>\$40,183</u>	<u>\$43,098</u>

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Split Interest Agreements

TJU's split-interest agreements consist of charitable gift annuities, pooled income funds, charitable remainder trusts and charitable lead trusts. Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments. Contribution revenue for pooled income funds is recognized upon establishment of the agreement at the fair value of the estimated future receipts discounted for the estimated time period to complete the agreement.

Loans Receivable from Students

Many students receive financial aid that consists of scholarship grants, work-study opportunities and student loans. TJU participates in various federal revolving loan programs, in addition to administering institutional loan programs. Student loan programs are funded by donor contributions, other institutional sources, and governmental programs, primarily the Federal Perkins Loan Program.

The amounts received from the federal government's portion of federal loan programs are ultimately refundable to the federal government and are reported as a liability on TJU's consolidated balance sheets as federal student loan advances. Determination of the fair value of student loans receivable is not practicable.

Student loans receivable, net of allowance for doubtful accounts, consists of the following at June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Direct student loans	\$21,694	\$22,238
Allowance for doubtful accounts	<u>(4,640)</u>	<u>(4,327)</u>
Net	17,054	17,911
Federally-sponsored student loans	<u>5,003</u>	<u>6,048</u>
Total	<u>\$22,057</u>	<u>\$23,959</u>

TJU assesses the adequacy of the allowance for doubtful accounts related to direct student loans receivable by performing evaluations of the student loan portfolio, including a review of the aging of the student loan receivable balances and of the default rate by loan program in comparison to prior years. The level of allowance is adjusted based on the results of this analysis. The federally-sponsored student loans receivable represents amounts due from current and former students under various Federal Government loan programs. For direct student loans it is TJU's policy to reserve 100% of a loan when the loan is delinquent 2 years or more; a reserve of 85% is recorded for loans delinquent more than 270 days and less than 2 years. TJU considers the allowance recorded at June 30, 2020 and 2019 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

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Land, Buildings, and Equipment, net

Land, buildings, and equipment are carried at cost on the date of acquisition or fair value on the date of donation in the case of gifts. Depreciation expense is computed on a straight-line basis over the estimated useful lives of the assets, excluding land. All gifts of land, buildings, and equipment are recorded as unrestricted non-operating activities unless explicit donor stipulations specify how the donated assets must be used. Interest expense on borrowed funds used for construction, net of interest income earned on unexpended amounts, is capitalized through the completion of construction.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Any excess of the purchase price over the estimated fair value of the identifiable net assets acquired is recorded as goodwill. The determination of the estimated fair value of net assets acquired requires management's judgment and often involves the use of significant estimates and assumptions.

During the fourth quarter of fiscal year 2020, TJU performed its required annual impairment test of goodwill. Beginning in March 2020, TJU's operations were significantly impacted by the COVID-19 pandemic. All elective healthcare procedures and office visits were canceled as a result of governmental stay-at-home orders that were in effect in the region into June 2020. Projections for fiscal year 2021 reflect a continued reduction in patient services volume from pre-COVID-19 levels. The impairment test showed that the fair value was lower than the carrying value resulting in a \$161.3 million goodwill impairment charge in 2020. The fair value was determined using a discounted cash flow method.

The change in the carrying amount of goodwill for the year ended June 30, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Beginning balance:		
Goodwill	\$163,704	\$163,704
Accumulated impairment losses	<u>(772)</u>	<u>(772)</u>
	162,932	162,932
Goodwill acquired	47	-
Sale of Garden State Radiology Network	(1,723)	-
Impairment losses	(161,256)	-
Ending balance:		
Goodwill	162,028	163,704
Accumulated impairment losses	<u>(162,028)</u>	<u>(772)</u>
	<u><u>\$0</u></u>	<u><u>\$162,932</u></u>

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Sale of Controlling Interest

In June 2019, Kennedy University Hospitals, Inc. (KUH) entered into a joint venture with an unrelated entity to provide outpatient renal dialysis services. KUH contributed to the joint venture certain assets used to operate its outpatient renal dialysis programs in exchange for \$43.2 million and a 30% ownership interest. KUH recognized its non-controlling investment in the joint venture at fair value of \$15.3 million and recorded a gain of \$58.2 million.

Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

New Accounting Standards

The FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) in February 2016. The update requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting guidance. The amendments in this update were initially effective for fiscal years beginning after December 15, 2018. In June 2020, FASB issued ASU 2020-05, Revenue from Contracts with Customers and Leases which deferred the effective date for public NFP entities for fiscal years beginning after December 15, 2019. TJU is adopting this guidance effective July 1, 2020 and has elected to implement the modified retrospective method.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which adds and clarifies guidance in the presentation of the changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. This ASU does not provide a definition of restricted cash. The ASU is effective for TJU beginning July 1, 2019. The effect of adoption did not have an impact on the financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. As amended by ASU 2019-10, the standard is effective for nonpublic entities for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2022 but can be early adopted for any goodwill impairment tests performed on or after January 1, 2017. TJU early adopted the guidance effective July 1, 2019 and applied the provisions prospectively to future goodwill impairment tests. The effect of adoption did not have an impact on the financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Cost and Net Periodic Postretirement Cost. The ASU requires that in instances where an operating measure is included in the consolidated statements of operations, the service cost component of the net periodic cost be included as a component of the operating measure and other components of net periodic costs be presented separately in the nonoperating section of

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the consolidated statement of operations. ASU 2017-07 allows a practical expedient that permits an employer to use the amounts disclosed in its pension benefits plan note for the prior period as the estimation basis for applying the retrospective presentation requirements. In fiscal year 2020, TJU adopted the provision of this standard retrospectively and applied the practical expedient. The non-service cost component of the net periodic costs for its pension plans, gains of \$18.9 million and \$24.7 million for the years ended June 30, 2020 and 2019, respectively, were recorded within increase in pension liability in the consolidated statement of operations. The service cost component of the net periodic costs for its pension plans of \$39.0 million and \$38.7 million for the years ended June 30, 2020 and 2019, respectively, were recorded within employee benefits in the consolidated statement of operations.

2. BUSINESS COMBINATIONS

On September 14, 2018, TJU and Albert Einstein Healthcare Network (“EHN”) entered into a system integration agreement pursuant to which TJU and EHN will combine assets and operations, TJU will become the sole member of EHN, and EHN will designate a number of members to the TJU Board of Trustees, subject to required regulatory consents and approvals and certain conditions precedent (collectively, the “Integration”). On February 27, 2020, the Federal Trade Commission (“FTC”) authorized an action to block the Integration. The FTC issued an administrative complaint alleging that the Integration would reduce competition in both Philadelphia and Montgomery counties. The FTC authorized staff to seek a temporary restraining order and a preliminary injunction to prevent the parties from consummating the Integration, and to maintain the status quo pending the administrative proceeding. The FTC, jointly with the Pennsylvania Attorney General, filed a complaint in federal district court. At this time, TJU and EHN are in litigation with the FTC and Pennsylvania Attorney General regarding the complaint. TJU can give no assurances as to if or when the regulatory, accreditation and other third-party approvals will be obtained or what the conditions of any such approvals will be.

Aria Health, a wholly controlled subsidiary of TJU, entered into an agreement dated December 16, 2019 with Temple to purchase Temple’s membership interests in Health Partners Plans, Inc. Health Partners Plans, Inc. is a health maintenance organization that offers Medicaid, Medicare and Children’s Health Insurance Program plans to members in Southeastern Pennsylvania. The finalization of the purchase of Temple’s membership interest is subject to a number of closing conditions, including the approval of Health Partners Plans, Inc. TJU can give no assurances as to if or when the transition of membership interests to Aria will close. TJU hopes to obtain the required regulatory approvals but cannot predict the timing to receive all such approvals.

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3. NET ASSETS

Net assets consisted of the following at June 30, 2020 and 2019 (in thousands):

Detail of net assets	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating	\$2,110,435	\$181,912	\$2,292,347	\$2,865,652	\$174,362	\$3,040,014
Capital gifts	-	13,348	13,348	-	15,721	15,721
Student loan funds	21,650	25,213	46,863	21,034	22,026	43,060
Endowment funds	413,630	527,395	941,025	419,351	534,826	954,177
Assets held by affiliated foundations	-	40,183	40,183	-	43,098	43,098
Deferred giving	-	9,143	9,143	-	8,143	8,143
Total	<u>\$2,545,715</u>	<u>\$797,194</u>	<u>\$3,342,909</u>	<u>\$3,306,037</u>	<u>\$798,176</u>	<u>\$4,104,213</u>

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited presented in the consolidated balance sheets at June 30, 2020 and 2019 consist of the following (in thousands):

	2020	2019
Held by trustee under indenture agreement	\$283,411	\$561,065
Women's Board and Medical Staff funds	881	1,355
Restricted for capital purposes	12,942	12,691
Deferred compensation fund	1,562	2,812
Other	1,686	1,684
Total	<u>\$300,482</u>	<u>\$579,607</u>
Less current portion	<u>(791)</u>	<u>(1,308)</u>
Noncurrent portion	<u>\$299,691</u>	<u>\$578,299</u>

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5. INVESTMENTS

Investments are presented in the consolidated balance sheets under the following classifications (in thousands):

	<u>2020</u>	<u>2019</u>
Short-term investments	\$2,094,997	\$2,130,332
Assets whose use is limited, current	791	1,308
Long-term investments	1,104,999	1,084,937
Assets whose use is limited, noncurrent	<u>299,691</u>	<u>578,299</u>
	<u>\$3,500,478</u>	<u>\$3,794,876</u>

A summary of investments at June 30, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$231,816	\$689,197
Equity securities	31,153	16,583
Fixed income securities	317,512	262,962
Funds:		
Global equity	1,271,799	1,230,692
Fixed income	884,518	883,312
Real estate	122,032	101,928
Other mutual funds	29,244	3,311
Private equity	233,457	166,456
Real estate	3,100	5,174
Hedge funds	100,554	153,619
External trusts	119,660	132,931
Investments subject to equity method and other	<u>155,633</u>	<u>148,711</u>
	<u>\$3,500,478</u>	<u>\$3,794,876</u>

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where TJU commits a specified amount of capital upon inception of the fund (i.e., committed capital) which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit subscriptions by new or existing investors. Accordingly, TJU generally holds interests in such funds for which there is no active market, although in some situations, a transaction may occur in the "secondary market" where an investor purchases a limited partner's existing interest and remaining commitment. The fund managers may value the underlying private investment based on an appraised value, discounted cash flow, industry comparable or some other method. TJU values these limited partnerships at NAV.

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Unlike private investment funds, hedge funds are generally open-end funds as they typically offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by such fund's governing documents. The amount of liquidity provided to investors in a particular fund is generally consistent with the liquidity and risk associated with the underlying portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). The fund managers invest in a variety of securities which may not be quoted in an active market. Illiquid investments may be valued based on appraised value, discounted cash flow, industry comparable or some other method.

The methods described above may produce a fair value calculation that may not be indicative of a net realized value or reflective of future fair values. Furthermore, while TJU believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

TJU's direct investments in equity and fixed income securities are considered liquid assets because they are traded on established markets with enough participants to absorb sale transactions without materially impacting the current price of the asset. The underlying assets in TJU's investments in equity and fixed income funds are traded on established markets with enough participants to absorb sale transactions without materially impacting the current price. The funds are priced daily and provide next day availability on all transaction requests. TJU's investment in real asset funds provide for monthly liquidity on transaction requests.

Private equity investments have limited liquidity or redemption options. Liquidity for private investments can be accomplished via a secondary sale transaction. When available, distributions typically take place on a quarterly basis. TJU has made commitments to various private equity and real asset limited partnerships. The total amount of unfunded commitments is \$293.3 million and \$245.6 million at June 30, 2020 and 2019, respectively. TJU expects these funds to be called over the next 3 to 5 years (in thousands):

	<u>2020</u>	<u>2019</u>
Private equity	\$279,992	\$232,321
Real estate	<u>13,336</u>	<u>13,317</u>
	<u>\$293,328</u>	<u>\$245,638</u>

Hedge funds provide quarterly liquidity with 60 to 90 days' notice prior to the quarter's end limiting TJU's ability to respond quickly to changes in market conditions. Liquidity of individual hedge funds vary based on various factors and may include "gates", "holdbacks" and "side pockets" imposed by the manager of the hedge fund, as well as redemption fees which may also apply. Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption

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and/or subscription activity. In the cases of a holdback, TJU considers the significance of the holdback, its impact on the overall valuation and the associated risk that the holdback amount will not be fully realized based on a prior history of adjustments to the initially reported NAV.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the calendar year are available, the valuations will be based on the most recent capital account statement (monthly/quarterly), adjusted for interim cash flow activity (contributions, distributions, fees).

Beneficial interests in perpetual trusts, which are administered by independent trustees, are mainly comprised of domestic and international equity securities and domestic fixed income securities.

TJU accounts for investments in the following entities under the equity method: Five Pointe Professional Liability Insurance Company (“Five Pointe”) (50% owned joint venture insurance entity); Mountain Laurel Risk Retention Group, Inc. (“MLRRG”) (50% owned joint venture insurance entity); Delaware Valley Accountable Care Organization (“DVACO”) (50% owned joint venture); MLJH, LLC (50% owned joint venture); Health Partners Plans (“HPP”) (25% membership interest joint venture) and Fresenius Medical Care Voorhees, LLC (“FMCV”) (30% owned joint venture). A summary of investments subject to the equity method and other investments is as follows at June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Equity method:		
Five Pointe	\$44,810	\$45,225
MLRRG	4,327	5,425
HPP	39,152	27,003
DVACO	6,543	2,327
MLJH, LLC	30,686	31,489
FMCV, LLC	15,782	15,300
Other equity method investments	3,739	4,101
Other	<u>10,594</u>	<u>17,841</u>
	<u>\$155,633</u>	<u>\$148,711</u>

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A summary of investments held under split-interest agreements is as follows at June 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Charitable gift annuities	\$12,979	\$14,062
Pooled income funds	918	1,006
Charitable lead trusts	929	3,715
Charitable remainder trusts	5,598	7,026
	<u>\$20,424</u>	<u>\$25,809</u>

Investment income, realized gains and unrealized gains included in the consolidated statements of operations and changes in net assets are comprised of the following in 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Investment income included in operating income:		
Interest and dividends	\$19,670	\$15,086
Endowment payout	21,402	20,871
Net realized gains on sales of investments	1,247	-
DVACO	(2,824)	(3,514)
HPP	12,149	6,029
MLJH, LLC	2,151	3,142
Other joint ventures	700	(1,078)
	<u>54,495</u>	<u>40,536</u>
Investment income included in nonoperating income:		
Net realized and unrealized gains (losses)	81,754	126,657
Interest and dividends	195	2,561
Endowment payout	(21,402)	(20,871)
	<u>60,547</u>	<u>108,347</u>
Total	<u>115,042</u>	<u>\$148,883</u>

6. ENDOWMENT FUNDS

TJU's endowments consist of 1,017 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with each of these groups of funds are classified and reported based upon the existence or absence of donor-imposed restrictions. The University reports all endowment investments at fair value. Cash equivalents in endowments are treated as investments.

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At June 30, 2020, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	\$0	\$527,395	\$527,395
Quasi-endowment funds	413,630	-	413,630
Total funds	<u>\$413,630</u>	<u>\$527,395</u>	<u>\$941,025</u>

Changes in endowment net assets for the fiscal year ended June 30, 2020, consisted of the following (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$419,352	\$534,825	\$954,177
Investment returns	9,574	8,713	18,287
Contributions	263	10,683	10,946
Appropriation of assets for expenditure	(21,113)	(23,280)	(44,393)
Transfers of University resources and other	5,554	(3,546)	2,008
Endowment net assets, end of year	<u>\$413,630</u>	<u>\$527,395</u>	<u>\$941,025</u>

At June 30, 2019, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	\$0	\$534,826	\$534,826
Quasi-endowment funds	419,351	-	419,351
Total funds	<u>\$419,351</u>	<u>\$534,826</u>	<u>\$954,177</u>

Changes in endowment net assets for the fiscal year ended June 30, 2019, consisted of the following (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$405,956	\$526,941	\$932,897
Investment returns	24,169	17,134	41,303
Contributions	974	13,902	14,876
Appropriation of assets for expenditure	(20,871)	(17,024)	(37,895)
Transfers of University resources and other	9,123	(6,127)	2,996
Endowment net assets, end of year	<u>\$419,351</u>	<u>\$534,826</u>	<u>\$954,177</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires TJU to retain as a fund of perpetual duration. Shortfalls of this nature are classified as a reduction of donor-restricted net assets and were \$2.1 million and \$1.3 million as of June 30, 2020 and 2019, respectively.

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These shortfalls resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by TJU.

7. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

TJU's financial assets available within one year of the balance sheet date for general expenditure are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$801,018	\$247,015
Accounts receivable	493,372	699,742
Pledge payments available for operations	15,212	23,491
Short-term investments	1,887,885	1,930,639
Subsequent year's endowment payout	<u>71,646</u>	<u>39,047</u>
Total financial assets available within one year	3,269,133	2,939,934
Liquidity resources:		
Bank lines of credit	377,300	48,000
Total financial assets and liquidity resources available within one year	<u>\$3,646,433</u>	<u>2,987,934</u>

TJU's endowment funds consist of donor-restricted and quasi-endowment funds. Income from donor-restricted endowment funds is restricted for specific purposes and therefore, is not available for general expenditures. Although TJU does not intend to spend from its quasi-endowment funds in excess of the endowment payout amount calculated pursuant to its spendable income policy described in Note 1, additional amounts from its quasi-endowment could be made available with Board approval.

As part of TJU's liquidity management, it has a practice to structure its financial assets in a manner to be available to satisfy general expenditures and other obligations as they come due. To manage unanticipated liquidity needs, TJU had available unsecured lines of credit from various banks of \$638.3 million and \$48.0 million at June 30, 2020 and 2019, respectively, under which there was borrowing of \$261.0 million and \$0 at June 30, 2020 and 2019, respectively.

8. FAIR VALUE MEASUREMENT

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that TJU has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are not currently observable.

Inputs are used in applying the various valuations techniques and broadly refer to the assumption that market participants use to make valuation decisions. An investments level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment. The categorization of an investment within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to TJU’s perceived risk of that instrument.

Level 1 - Investments, whose values are based on quoted market prices in active markets, are therefore classified within Level 1. Typically, securities traded on the NYSE, AMEX, NASDAQ and other major exchanges will be classified as Level 1. These assets include active listed equities, certain U.S. government obligations, mutual funds and certain money market securities. For investments regularly traded on any recognized securities or commodities exchange, the closing price on such exchange (or, if applicable, as reported on the consolidated transactions reporting system) on the last trading date at the end of the fiscal year is used. In the case of securities regularly traded in the over-the-counter market, the closing bid quotations for long positions and the closing asked quotation for short positions on the trading date ending on or preceding the end of the fiscal year is used.

Level 1 - Liquidity – Daily based on quoted market value at time of transaction or at daily NAV.

Level 2 - Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. They include investments in common trust equity and fixed income funds, corporate grade bonds, high yield bonds and certain mortgage products. These assets are valued based on quoted market prices in active markets or dealer quotations and are categorized as Level 2. There were no transfers between Levels 1 and 2 during 2020 and 2019.

Level 2 - Liquidity – Daily based on quoted market value at time of transaction or at daily NAV.

Level 3 - Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include externally held trust funds.

Level 3 - Liquidity – No liquidity available as the assets are mainly comprised of donor restricted externally held trust funds of which TJU has a perpetual interest in the annual income stream.

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The following table presents the short term and long term investments, and assets whose use is limited carried on the consolidated balance sheets by level within the valuation hierarchy or NAV as of June 30, 2020 and 2019 (in thousands):

	Level 1	Level 2	Level 3	NAV	2020
Cash and cash equivalents	\$231,816	\$0	\$0	\$0	\$231,816
Equity securities	15,674	12,979	-	2,500	31,153
Fixed income securities	152,596	146,415	-	18,501	317,512
Funds:					
Global equity	34,645	-	-	1,237,154	1,271,799
Fixed income	-	-	-	884,518	884,518
Real asset	-	3,553	-	118,479	122,032
Other mutual funds	29,244	-	-	-	29,244
Private equity	-	-	-	233,457	233,457
Real estate	-	-	-	3,100	3,100
Hedge funds	-	-	-	100,554	100,554
External trusts	-	-	119,660	-	119,660
Total	\$463,975	\$162,947	\$119,660	\$2,598,263	\$3,344,845
	Level 1	Level 2	Level 3	NAV	2019
Cash and cash equivalents	\$689,197	\$0	\$0	\$0	\$689,197
Equity securities	42	14,041	-	2,500	16,583
Fixed income securities	84,618	161,652	-	16,692	262,962
Funds:					
Global equity	33,816	-	-	1,196,876	1,230,692
Fixed income	-	-	-	883,312	883,312
Real asset	-	4,579	-	97,349	101,928
Other mutual funds	3,311	-	-	-	3,311
Private equity	-	-	-	166,456	166,456
Real estate	-	-	-	5,174	5,174
Hedge funds	-	-	-	153,619	153,619
External trusts	-	-	132,931	-	132,931
Total	\$810,984	\$180,272	\$132,931	\$2,521,977	\$3,646,165

Investments not subject to fair value leveling or fair value at NAV at June 30, 2020 and 2019 totaled \$155.6 million and \$148.7 million, respectively.

The fair value of TJU's interest rate swaps related to its debt obligations are based on third-party valuations independent of the counterparties. As the fair values of interest rate swaps are determined based on inputs that are readily available or can be derived from information available in public markets, TJU has categorized interest rate swaps as Level 2.

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The following table presents the other liabilities carried on the consolidated balance sheets by level within the valuation hierarchy as of June 30, 2020 and 2019 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>2020</u>
Interest rate hedges	<u>\$0</u>	<u>\$71,788</u>	<u>\$0</u>	<u>\$0</u>	<u>\$71,788</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>2019</u>
Interest rate hedges	<u>\$0</u>	<u>\$33,975</u>	<u>\$0</u>	<u>\$0</u>	<u>\$33,975</u>

The following tables include a roll-forward of the amounts for the year ended June 30, 2020 and 2019 (in thousands) for external trust investments classified within Level 3.

	<u>2020</u>	<u>2019</u>
Beginning balance	\$132,931	\$135,118
Unrealized gain/(loss), net	(4,606)	(2,187)
Transfers	(8,665)	-
Ending balance	<u>\$119,660</u>	<u>\$132,931</u>

9. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2020 and 2019, respectively (in thousands):

	<u>2020</u>	<u>2019</u>
Unconditional promises expected to be collected in:		
Less than one year	\$31,967	\$34,187
One year to five years	46,617	80,039
Over five years	86,820	54,501
	<u>165,404</u>	<u>168,727</u>
Less: unamortized discount and allowance for doubtful accounts	<u>(35,942)</u>	<u>(36,694)</u>
	<u>\$129,461</u>	<u>\$132,033</u>

The discount rate ranges from 0.4% to 5.5%. TJU's largest pledge comprises 47% and 48% of the pledge receivable at June 30, 2020 and 2019, respectively.

At June 30, 2020, TJU was the recipient of a conditional pledge of \$70.0 million for the construction of a building. This conditional pledge is not included as an asset in the consolidated balance sheets.

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10. LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment is as follows at June 30, 2020 and 2019, respectively (in thousands):

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$204,634	\$197,315
Buildings and building improvements	2,781,505	2,673,369
Equipment	2,164,907	1,963,593
Leasehold improvements	174,412	120,422
Construction in progress	528,812	299,990
Less: accumulated depreciation	<u>(2,928,902)</u>	<u>(2,670,956)</u>
Total land, buildings and equipment, net	<u>\$2,925,367</u>	<u>\$2,583,733</u>

TJU uses straight-line depreciation over the assets' estimated lives, which are as follows:

Land improvements	10-20 years
Buildings and building improvements	18-40 years
Equipment	3-15 years
Leasehold improvements	5-20 years

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11. LONG-TERM OBLIGATIONS

A summary of long-term obligations is as follows at June 30, 2020 and 2019, respectively (in thousands):

	Final Maturity	Interest Rate at June 30, 2020	2020	2019
Revenue bonds:				
Fixed rate obligations:				
1993 Series A Revenue Bonds	2022	6.00%	\$5,930	\$5,930
Unamortized issue costs			(37)	(56)
2006 Series B Revenue Bonds	2020	4.00%-5.25%	-	5,785
Unamortized premium and issue costs			-	9
2012 Series Revenue Bonds	2042	3.00%-5.00%	37,155	38,355
Unamortized premium and issue costs			1,679	1,823
2012 Series A Revenue Bonds	2032	3.25%-5.00%	35,930	40,340
Unamortized premium and issue costs			1,635	2,001
2015 Series A Revenue Bonds	2051	3.00%-5.25%	301,805	301,805
Unamortized premium and issue costs			19,413	20,317
2017 Series A Revenue Bonds	2048	2.875%-5.50%	262,270	262,270
Unamortized premium and issue costs			11,987	12,656
2018 Series A Revenue Bonds	2050	4.00%-5.00%	353,370	356,285
Unamortized premium and issue costs			24,419	26,998
2018 Series B Revenue Bonds	2030	2.98%-3.88%	34,140	35,075
Unamortized issue costs			(217)	(254)
2019 Series A Revenue Bonds	2051	4%	449,745	449,745
Unamortized premium and issue costs			39,415	42,999
Total fixed rate obligations			<u>1,578,639</u>	<u>1,602,083</u>
Variable rate obligations:				
2015 Series B Revenue Bonds	2046	1.92%	60,000	60,000
Unamortized issue costs			(481)	(502)
2015 Series C Revenue Bonds	2042	2.36%	34,495	34,620
Unamortized issue costs			(108)	(117)
2015 Series D Revenue Bonds	2042	2.43%	34,250	34,375
Unamortized issue costs			(108)	(116)
2015 Series E Revenue Bonds	2042	2.37%	34,490	34,615
Unamortized issue costs			(108)	(117)
2015 Series F Revenue Bonds	2042	2.43%	34,250	34,375
Unamortized issue costs			(108)	(116)
2015 Series G Revenue Bonds	2042	2.33%	20,575	20,650
Unamortized issue costs			(65)	(70)
2015 Series H Revenue Bonds	2042	3.59%	28,525	28,630
Unamortized issue costs			(93)	(101)
2017 Series B Revenue Bonds	2050	1.92%	50,565	50,565
Unamortized issue costs			(502)	(519)
2017 Series C Revenue Bonds	2050	2.28%	50,000	50,000
Unamortized issue costs			(281)	(291)
2018 Series C Revenue Bonds	2052	2.23%	100,000	100,000
Unamortized issue costs			(826)	(854)
2018 Series D Revenue Bonds	2051	1.92%	49,950	49,950
Unamortized issue costs			(413)	(426)
Total variable rate obligations			<u>494,007</u>	<u>494,551</u>
Total Revenue bonds			<u>2,072,646</u>	<u>2,096,634</u>
Line of credit	2022	0.50-0.52%	261,000	-
Capital lease obligations	2025		14,355	15,459
Other	2037		159	995
Total long-term debt obligations			<u>\$2,348,161</u>	<u>\$2,113,088</u>

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TJU is a party to the Amended and Restated Master Trust Indenture (the “MTI”), dated as of February 1, 2017 and effective on December 1, 2017, by and among TJU, each other Member of the Obligated Group (as described below) and Master Trustee. The MTI provides for the issuance from time to time of obligations as a joint and severable obligation of each Member of the Obligated Group, evidencing or securing particular indebtedness.

To secure its payment obligations under the MTI, each Member of the Obligated Group has granted to the Master Trustee for the equal and ratable benefit of the holders of all obligations issued and outstanding under the MTI (other than subordinated obligations) a first lien on and security interest in the gross revenues of each Member of the Obligated Group.

The Members of the Obligated Group consist of the following: TJU, TJUHS, TJUH, JUP, Abington Health, Abington Memorial Hospital, Abington Health Foundation, Lansdale Hospital, Aria Health System, Aria Health, Philadelphia University, Kennedy Health System, Kennedy Health Facilities, Inc., Kennedy University Hospital, Inc., Kennedy Medical Group Practice, PC and Magee.

TJU and each other Member of the Obligated Group have agreed to comply with certain financial and operational covenants contained in the MTI, certain continuing covenant agreements (the “CCAs”) associated with several series of bonds as well as a standby letter of credit agreement (the SBLOC”) and a revolving credit agreement (the “Revolver”, and collectively with the CCAs and the SBLOC, the “Credit Agreements”). TJU was in compliance with the covenants in the Credit Agreements at June 30, 2020.

Driven primarily by the impact of COVID-19 on TJU’s operations, TJU was not in compliance with the Debt Service Coverage Ratio (as defined in the MTI, “DSCR”) as set forth in the MTI at June 30, 2020. The DSCR requires TJU to generate net revenue (as defined in the MTI) of at least equal to 110% of debt service requirements (as defined in the MTI) for such period. To support management’s recovery actions already initiated, necessitated by the COVID-19 pandemic, and to satisfy MTI requirements, TJU has engaged an Independent Consultant (as defined in the MTI) to advise TJU on possible steps to enhance future revenues, net of expenses, in order to achieve the required DSCR in the future; and TJU will consider such recommendations, all in accordance with the MTI requirements, which further supplement management’s actions as part of its overall recovery plans. In addition, the Liquid Unrestricted Net Assets (as defined in the MTI) was greater than 25% of outstanding Long-Term Indebtedness (as defined in the MTI) at June 30, 2020. As such, TJU remains in compliance with the requirements of the MTI at June 30, 2020.

The 2019 Series A Revenue Bonds were issued in June 2019. The proceeds provided funds for certain capital projects and to refinance the 2012 Series B Revenue Bonds.

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Maturities for long-term debt for each of the next five years are as follows (in thousands):

2021	17,206
2022	288,362
2023	24,956
2024	26,485
2025	29,274
Thereafter	1,866,767

12. DERIVATIVE FINANCIAL INSTRUMENTS

TJU entered into derivative transactions for the purpose of reducing the impact of fluctuations in interest rates and hedging interest rate risk. The fair value of these derivative instruments at June 30, 2020 and 2019 in the consolidated balance sheets is as follows (in thousands):

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Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2020	Notional Amount at June 30, 2019	Balance Sheet Location	Fair Value at June 30, 2020	Fair Value at June 30, 2019
Expiration 2/1/34	67% of United States Dollar LIBOR (one Month)	2.980%	\$67,260	\$67,260	Noncurrent Liability	\$7,815	\$5,946
Expiration 9/1/45	67% of United States Dollar LIBOR (one Month)	3.925%	\$22,083	\$18,348	Noncurrent Liability	\$33,913	\$22,727
Expiration 5/1/27	68% of United States Dollar LIBOR (one Month)	3.980%	\$33,950	\$66,175	Noncurrent Liability	\$5,176	\$4,685
Expiration 5/1/27	68% of United States Dollar LIBOR (Five Year minus 0.293%)	68% of United States Dollar LIBOR (one Month)	\$59,050	\$66,175	Noncurrent Liability	\$58	\$358
Expiration 5/1/27	68% of United States Dollar LIBOR (Five Year minus 0.325%)	68% of United States Dollar LIBOR (one Month)	\$33,950	\$38,025	Noncurrent Liability	\$78	\$259
⁽¹⁾ Expiration 5/1/50	SIFMA	1.447%	\$441,980	n/a	Current Liability	\$46,515	n/a
⁽²⁾ Expiration 12/1/20	n/a	n/a	\$395,000	n/a	Current Liability	(\$19,272)	n/a
⁽³⁾ Expiration 12/1/20	n/a	n/a	\$100,000	n/a	Current Liability	(\$2,495)	n/a

⁽¹⁾ The agreement is subject to a mandatory cash settlement at the termination date, December 1, 2020. TJU may exercise an optional early termination prior to December 1, 2020. The cash settlement will be based upon prevailing market conditions and the market value of the agreement.

⁽²⁾ TJU entered into a treasury rate lock agreement on September 19, 2019 having an effective date of December 1, 2020. The base treasury security is US CUSIP #912828YE4 with a coupon of 1.25% maturing on August 31, 2024. The locked in treasury price of the base treasury security is 99-4.123. On or before December 1, 2020, the agreement is subject to a cash settlement based upon the market value of the base treasury security.

⁽³⁾ TJU entered into a treasury rate lock agreement on September 19, 2019 having an effective date of December 1, 2020. The base treasury security is US CUSIP # 912828YF1 with a coupon of 1.5% maturing on September 15, 2022. The locked in treasury price of the base treasury security is 100-6.512. On or before December 1, 2020, the agreement is subject to a cash settlement based upon the market value of the base treasury security.

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The London InterBank Offered Rate (“LIBOR”) with a one month maturity ranged from 0.16% to 2.39% (average rate of 1.45%) in 2020. The LIBOR rate with the five year maturity ranged from 0.31% to 1.88% (average rate of 1.20%) in 2020. Non-operating losses of \$41.3 million and non-operating losses of \$11.9 million at June 30, 2020 and 2019, respectively, are included in the consolidated statements of operations and changes in net assets for interest rate swap contracts (in thousands).

	<u>2020</u>	<u>2019</u>
Change in valuation of interest rate hedges	(\$37,813)	(\$9,534)
Net settlement payments with counterparties	<u>(3,445)</u>	<u>(2,333)</u>
Nonoperating (loss) gain on interest rate hedges	<u><u>(\$41,258)</u></u>	<u><u>(\$11,867)</u></u>

Accumulated losses on interest rate hedges of \$71.8 million and \$34.0 million at June 30, 2020 and 2019, respectively, are reflected in the consolidated balance sheets.

13. OPERATING LEASES

TJU has lease obligations for buildings, equipment and ambulatory facilities under various operating leases. Lease expenses charged to operations were \$83.3 million and \$79.0 million in 2020 and 2019, respectively. At June 30, 2020 the minimum future non-cancelable rental lease commitments are as follows (in thousands):

2021	\$44,124
2022	42,305
2023	41,960
2024	38,974
2025	35,173
Thereafter	<u>241,653</u>
	<u><u>\$444,189</u></u>

14. EMPLOYEE BENEFIT PLANS

TJU has non-contributory defined benefit pension plans for certain full-time employees. The plans are frozen to new entrants. Certain existing employees that met certain age and years of service thresholds were eligible to remain in the plans and continue to earn benefits. The Magee plan is frozen for all participants. Benefits under the non-contributory defined benefit plans are based on the employee’s years of service and compensation during the years preceding retirement. Contributions to the plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

The accounting guidance for defined benefit pension plans requires employers to recognize the overfunded or underfunded projected benefit obligation (“PBO”) of a defined benefit pension plan as an asset or liability in the balance sheet. The PBO represents the actuarial present value

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of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. The accounting guidance also requires employers to recognize annual changes in gains or losses, prior service costs, or other credits that have not been recognized as a component of net periodic pension cost through net assets without donor restriction. Effective beginning with the fiscal year ending June 30, 2018, TJU changed the method used to calculate service cost and interest cost. The calculation of service cost and PBO will utilize a split discount rate approach, where separate discount rates are calculated for determining each based on their respective expected cash flows. Additionally, the calculation of the interest cost will begin to utilize an approach that applies the individual spot rates from the full yield curve against the expected benefit payments for each year rather than using the single equivalent discount rate applied to all future years. This change will be accounted for as a change in accounting estimate that is reflected prospectively. These changes do not impact the calculation of the PBO or the discount rate.

The components of the net pension plan financial position on the consolidated balance sheets are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligation:		
Benefit obligation, beginning of year	\$2,100,659	\$1,888,366
Service cost	39,006	38,657
Interest cost	68,309	76,614
Net experience gain	271,416	159,776
Benefits paid	<u>(68,302)</u>	<u>(62,767)</u>
Projected benefit obligation, end of year	2,411,088	2,100,646
Change in plan assets:		
Fair value of plan assets, beginning of year	1,621,248	1,539,420
Actual return of plan assets	23,937	108,070
Employer contributions	46,783	36,512
Benefit payments	<u>(68,302)</u>	<u>(62,754)</u>
Fair value of plan assets, end of year	<u>1,623,666</u>	<u>1,621,248</u>
Plan funded status	<u><u>(\$787,422)</u></u>	<u><u>(\$479,398)</u></u>

Amounts recognized as net assets without donor restriction consist of (in thousands):

	<u>2020</u>	<u>2019</u>
Net actuarial loss	<u>\$760,499</u>	<u>\$425,844</u>

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The accumulated benefit obligation at June 30, 2020 and 2019 was as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Accumulated benefit obligation	<u>\$2,263,039</u>	<u>\$1,940,935</u>

The components of net periodic benefit cost for the plans for the years ended June 30, 2020 and 2019 were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Service cost	\$39,006	\$38,657
Interest cost	68,309	76,614
Expected return on plan assets	(111,409)	(110,031)
Amortization of actuarial loss	<u>24,233</u>	<u>8,702</u>
Net periodic benefit cost	20,139	13,942

Other changes in plan assets and benefit

obligations recognized in net assets without donor restriction:

Net actuarial loss	358,888	161,737
Amortization of net actuarial loss	<u>(24,233)</u>	<u>(8,702)</u>
Total recognized in net assets without donor restriction	334,655	153,035
Total recognized in net periodic benefit cost and net assets without donor restriction	<u>\$354,794</u>	<u>\$166,977</u>

The estimated actuarial loss that will be amortized from net assets without donor restriction during the upcoming fiscal year is \$62.2 million.

The weighted average assumptions used to estimate the June 30 pension obligation were as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	3.04%	3.75%
Rate of compensation increase	3.25% to 4.00%	3.25% to 4.00%
Expected return on plan assets	6.14%	6.98%

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The weighted average assumptions used to determine net periodic benefit costs were as follows:

	<u>2020</u>	<u>2019</u>
Discount rate - service cost	3.90%	4.22%
Discount rate - interest cost	3.32%	4.21%
Rate of compensation increase	3.25% to 4.00%	3.25% to 4.00%
Expected return on plan assets	6.98%	7.22%

A summary of the plans' targeted and actual asset allocations are as follows:

	<u>Targeted Range</u>	<u>Percentage of Plan Assets June 30, 2020</u>	<u>Percentage of Plan Assets June 30, 2019</u>
Cash	0-5%	3%	2%
Bonds	25-45%	25%	27%
Global equity	45-65%	62%	62%
Real estate and other	5-10%	9%	9%
		<u>100%</u>	<u>100%</u>

The portfolios utilize a long-term asset allocation strategy that allows management to rebalance the asset allocation back to target levels on a monthly basis. Short-term compliance with the target ranges can be impacted by the severity of market conditions. The expected long-term rate of return for the plan's assets are based on the historical return of each of the above categories, weighted based on the target allocations for each class. The assets of the defined benefit pension plan are invested in a manner that is intended to preserve the purchasing power of the plan's assets and provide payments to beneficiaries. Thus, a rate of return objective of inflation plus 5% is targeted.

TJU expects to contribute \$24.5 million during fiscal year 2021.

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Projected benefit payments for the next five years are as follows (in thousands):

2021	\$87,704
2022	88,614
2023	95,005
2024	101,110
2025	107,103
2025-2029	<u>608,860</u>
	<u>\$1,088,396</u>

The following table presents the fair value of plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2020 and 2019 (in thousands):

	Level 1	Level 2	Level 3	NAV	2020
Cash and cash equivalents	\$46,037	\$0	\$0	\$0	\$46,037
Equity securities	41,023	-	-	-	41,023
Fixed income securities	-	2	-	-	2
Funds:					
Global equity	-	-	-	969,540	969,540
Fixed income	17,204	-	-	395,808	413,012
Real assets	-	-	-	84,688	84,688
Private equity	-	-	-	39,817	39,817
Real estate	-	-	-	398	398
Hedge funds	-	-	-	29,149	29,149
Total	<u>\$104,264</u>	<u>\$2</u>	<u>\$0</u>	<u>\$1,519,400</u>	<u>\$1,623,666</u>

	Level 1	Level 2	Level 3	NAV	2019
Cash and cash equivalents	\$33,184	\$0	\$0	\$0	\$33,184
Equity securities	38,736	-	-	-	38,736
Fixed income securities	-	2	-	-	2
Funds:					
Global equity	-	-	-	971,710	971,710
Fixed income	15,267	-	-	423,298	438,565
Real assets	-	-	-	84,055	84,055
Private equity	-	-	-	2,790	2,790
Real estate	-	-	-	468	468
Hedge funds	-	-	-	51,737	51,737
Total	<u>\$87,188</u>	<u>\$2</u>	<u>\$0</u>	<u>\$1,534,058</u>	<u>\$1,621,247</u>

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Retirement benefits are also provided to certain employees through direct payments to various funds. Employees not subject to TJU's defined benefit plans may be eligible to participate in one of the following defined contribution arrangements. TJU's share of the cost of these benefits for the year ended June 30, 2020 and 2019 was as follows (in thousands):

Plan	Description	2020	2019
TJU: Faculty and senior administrators	9% to 13% of eligible compensation based upon age	\$24,241	\$23,628
TJU: Non-faculty and non-union	4.5% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions	26,553	22,716
JUP	10% of eligible compensation for physicians and 3.5% to 5.5% of eligible compensation for non-physicians based upon years of service	18,172	19,036
Abington	2% to 5% of eligible compensation based upon years of service, plus matching contribution of 50% of the first \$2,000 of employee contributions	6,649	6,945
Aria	Matching contribution of 50% of the first 4% of employee contributions plus 1% to 7% based on age and years of service	9,695	10,333
Philadelphia University	9% of eligible compensation	2,419	2,378
Kennedy	Matching contribution of 50% to 100% of the first 4% of employee contributions starting in year 3. For those that started after 7/1/15, another 2.75% to 4.75% of their annual salary in lieu of a defined benefit plan	6,656	6,103
Magee	2% to 4% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions	1,838	1,696
		<u>\$96,223</u>	<u>\$92,835</u>

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Participation in Multiemployer Defined Benefit Pension Plan

TJU is a participating employer in The Pension Fund for Hospital and Health Care Employees – Philadelphia and Vicinity (the Pension Fund), a jointly-trusted multiemployer defined benefit pension plan. The Pension Fund is operated for the benefit of Chapter 1199C of the American Federation of State, County and Municipal Employees (the Union). Information about the Pension Fund and the TJU’s participation is summarized as follows.

The employer identification number for the Pension Fund is 23-2627428. At the date the financial statements were issued Form 5500 was not available for the plan year ending in 2020. TJU’s contribution to the Pension Fund was \$7.9 million and \$7.9 million for the years ended June 30, 2020 and 2019. The contributions represent approximately 27.9% and 25.9% of the contributions to the Pension Fund, respectively. A three year collective bargaining agreement was approved by the Union effective July 1, 2018. TJU contributions as a percentage of covered payroll to the Pension Fund for the year ending June 30, 2021 will be 21.55%.

The Pension Fund was determined to be in critical status (also referred to as red zone status) under the Pension Protection Act of 2006 for the plan years beginning January 1, 2017 and 2016. Accordingly, the Pension Fund is subject to a funding improvement plan. The zone status is based on information that TJU received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone status are generally less than 65% funded.

At January 1, 2019, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by \$299.7 million.

15. PROFESSIONAL LIABILITY CLAIMS

TJU maintains professional liability insurance under both self-insured and alternative risk financing insurance programs to fund for their potential professional and general liability claims. For all self-insured programs TJU accrues for estimated retained risk liability arising from both asserted and unasserted claims. The estimate of liability is based upon an analysis of historical claims data as prepared by independent actuaries.

For the Pennsylvania based healthcare providers including Magee, TJUHS (including JUP), Abington and Aria the primary layer of professional liability coverage is claims made coverage with limits of \$500,000 per medical incident and \$2.5 million annual aggregate per hospital and \$500,000 per medical incident and \$1.5 million annual aggregate per scheduled physician/resident. This primary layer of coverage is statutorily prescribed in Pennsylvania.

For the New Jersey based healthcare providers including Kennedy Health System the primary layer of professional liability coverage is claims made coverage with limits of \$1.0 million per medical incident and \$3.0 million annual aggregate for the hospitals and per scheduled physician/resident/midwife.

In addition, for Kennedy, Magee, TJUHS, Abington and Aria non-healthcare provider entities are provided with shared limits of \$1.0 million per medical incident and \$3.0 million annual

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aggregate. Also provided on the TJUHS policy are individual limits of \$1.0 million per medical incident and \$3.0 million annual aggregate for dentists, as well as physicians/residents practicing in other states including Delaware, New Jersey and Maryland. For TJU a primary professional liability layer of coverage of \$1.0 million per claim and \$3.0 million in the aggregate is provided.

This primary layer of professional liability coverage is provided by MLRRG for Kennedy, Magee, TJU and TJUHS. MLRRG is a licensed captive insurance company qualified as a risk retention group domiciled in Vermont. TJU is a 50% owner of MLRRG. The remaining ownership interest is held by other regional non-profit hospitals and/or health systems.

MLRRG is reinsured by a non-profit 501(c) (3) protected cell insurance company, Five Pointe, domiciled in Delaware. Five Pointe reinsures 100% of the professional liability risks of Kennedy, Magee, TJU and TJUHS insured by MLRRG pursuant to a reinsurance agreement between Five Pointe and MLRRG that limits MLRRG's recourse for payment of any reinsured claims against Kennedy, Magee, TJU and/or TJUHS to the assets in the TJUH protected cell.

For Abington and Aria this primary layer of professional liability coverage is provided by Cassatt RRG ("CRRG"). CRRG is a licensed captive insurance company qualified as a risk retention group domiciled in Vermont. CRRG is owned and governed by various regional non-profit hospitals including a 25% voting interest by Abington and a 25% voting interest by Aria. CRRG is reinsured by Cassatt Insurance Company Ltd. ("CICL"). CICL is owned by the same various regional non-profit hospitals and is incorporated as an insurance company under the laws of Bermuda.

Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund") provides limits of \$500,000 per claim and \$1.5 million annual aggregate for Magee, TJUHS, Abington and Aria hospitals and per scheduled Magee, TJUHS, Abington and Aria physicians/residents excess of the primary layer of coverage described above. The annual assessments for MCARE Fund coverage are based on the schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association multiplied by an annual assessment percentage. This assessment is recognized as an expense in the period incurred. No provision has been made for future MCARE Fund assessments as the unfunded portion of the MCARE Fund liability cannot be reasonably estimated.

For losses in excess of the primary and MCARE layers of coverage TJUHS retains and accrues for potential liabilities up to a \$15.0 million limit for each and every claim, Kennedy retains and accrues for potential liabilities up to a \$3.0 million limit for each and every claim and Magee retains and accrues for potential liabilities up to a \$1.0 million limit for each and every claim (inclusive of defense costs, and primary and MCARE payments). Accruals for the retained amounts are based on actuarially-determined estimates, which reflect a 65% confidence level and a 3% discount rate for 2020 and 2019. These estimates are based on historical information along with certain assumptions about future events. Changes in

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assumptions for such considerations as medical costs and actual experience could cause these estimates to change.

TJUHS maintains claims-made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of \$95.0 million per medical incident and \$95.0 million annual aggregate which attaches excess of the primary, MCARE and retained limits of coverage described above. For TJU's miscellaneous professional liability exposure the excess professional liability insurance coverage attaches excess of \$1.0 million per claim and \$3.0 million annual aggregate. Five Pointe reinsures 100% of this risk to reinsurers currently rated at least A- by A.M. Best. A separate limit of \$95.0 million per occurrence and \$95.0 million aggregate is also maintained to provide liability insurance coverage excess of the general, auto, employers and aviation liability coverages.

For Abington and Aria, liabilities for potential professional liability losses in excess of the primary hospital and MCARE layers, CICL provides coverage up to a \$4.0 million limit for each and every claim, followed by a layered excess professional liability structure of \$15.0 million per claim with a \$48.0 million annual aggregate – the layered excess structure is reinsured by eight reinsurers rated at least "A" by A.M. Best. In addition, CICL provides an umbrella liability policy with limits of \$49.0 million per occurrence and \$49.0 million annual aggregate for the general, auto, employers and aviation liability exposures. The excess professional and umbrella policies coverage limits are shared with the various regional non-profit hospital owners of CRRG and CICL.

MLRRG provides a \$2.0 million per occurrence and \$4.0 million annual aggregate general liability coverage limit for Magee, Kennedy, TJU and TJUHS. The MLRRG retains 100% of the general liability coverage exposure.

CRRG provides a \$1.0 million per occurrence and \$2.0 million annual aggregate general liability coverage limit for Abington and Aria.

For MLRRG the premiums charged for the primary professional and general liability layers of coverage are determined by an independent actuary, based on loss and loss adjustment expense experience and other factors, at a 65% confidence level and a 3% discount rate for 2020 and 2019 and include a charge for premium tax and operating expenses.

For CRRG and CICL the premiums charged for the primary professional and general liability layers of coverage are determined by an independent actuary, based on loss and loss adjustment expense experience and other factors, at an expected confidence interval and a 3.5% discount rate for 2020 and 2019.

TJU has accrued professional liability claims of \$510.0 million and \$478.5 million at June 30, 2020 and 2019, respectively, of which \$81.8 million and \$79.0 million were current.

Anticipated medical malpractice insurance recoveries associated with these liabilities for June 30, 2020 and 2019 is \$251.2 and \$243.6 million, respectively.

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16. WORKERS' COMPENSATION CLAIMS

TJU is self-insured for its workers' compensation exposures. TJU accrues for its workers' compensation liability based upon actuarial estimates using a discount rate of 3%. Accrued workers' compensation liabilities were \$29.7 million and \$29.6 million at June 30, 2020 and 2019, respectively. These amounts are presented in the accompanying consolidated balance sheets.

17. COMMITMENTS AND CONTINGENCIES

Letters of Credit

TJU had open letters of credit aggregating \$43.7 million and \$20.5 million at June 30, 2020 and 2019, respectively, primarily related to self-insurance arrangements for workers' compensation. The letters of credit expire between August 24, 2020 and August 30, 2021.

Litigation

TJU is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by commercial insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position or results of operations of TJU.

18. FUNCTIONAL CLASSIFICATION

Expenses for the years ended June 30, 2020 and 2019 are categorized on a functional basis as follows (in thousands):

	2020			2019		
	Education and Research	Clinical Operations	Total	Education and Research	Clinical Operations	Total
Salaries and wages	\$257,495	\$2,271,039	\$2,528,534	\$245,168	\$2,087,555	\$2,332,723
Employee benefits	59,105	515,788	574,893	62,480	480,986	543,466
Supplies	33,029	850,985	884,014	32,675	826,919	859,594
Purchased services	40,553	542,097	582,650	35,398	513,920	549,318
Depreciation and amortization	36,800	225,908	262,708	33,184	214,750	247,934
Interest	14,108	45,947	60,055	11,737	41,911	53,648
Insurance	1,457	114,315	115,772	559	79,465	80,024
Utilities	11,871	54,285	66,156	12,647	53,169	65,816
Rent	8,667	74,586	83,253	7,218	71,780	78,998
Other expenses	84,163	328,479	412,642	82,807	295,599	378,406
Total	\$547,247	\$5,023,430	\$5,570,677	\$523,873	\$4,666,054	\$5,189,927

Natural expenses attributable to more than one functional expense category are apportioned using enterprise services allocation methodology.

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19. NONCONTROLLING INTEREST

TJU has a controlling interest in certain joint ventures in healthcare related organizations; the Riverview Surgery Center at the Navy Yard, LP (“Riverview”, a 51% owned joint venture); Jefferson University Radiology Associates (“JURA”, an 80% owned joint venture); Jefferson Comprehensive Concussion Center (“JCCC”, a 66% owned joint venture that was liquidated in 2019); Rothman Orthopaedic Specialty Hospital, LLC (“ROSH”, a 54% owned joint venture); Garden State Radiology Network (“GSRN”, a 51% owned joint venture that was liquidated in 2020). The amount not owned by TJU is shown as a non-controlling interest. The following table presents the changes in consolidated net assets without donor restriction attributable to the controlling financial interest of TJU and the non-controlling interest (in thousands):

	Controlling Interest	Non-controlling Interest	Consolidated Total
Balance, June 30, 2018	\$3,216,997	\$77,232	\$3,294,229
Income from Operations	16,388	9,913	26,301
Distributions to NCI	-	(10,923)	(10,923)
Other changes, net	(3,427)	(143)	(3,570)
Balance, June 30, 2019	\$3,229,958	\$76,079	\$3,306,037
Income from Operations	(306,210)	8,041	(298,169)
Nonrecurring items	(104,135)	(57,121)	(161,256)
Distributions to NCI	-	(9,756)	(9,756)
Other changes, net	(294,394)	3,253	(291,141)
Balance, June 30, 2020	\$2,525,219	\$20,496	\$2,545,715

20. RISKS AND UNCERTAINTIES

In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. The outbreak of COVID-19 has caused domestic and global disruption in operations for healthcare and higher education institutions. The Commonwealth of Pennsylvania, the State of New Jersey, and certain municipalities have adopted various measures to address the spread of this pandemic.

Beginning in March 2020, TJU's operations were significantly impacted by the COVID-19 pandemic. All elective healthcare procedures and office visits were canceled as a result of governmental stay-at-home orders that were in effect in the region into June 2020. As a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27, 2020, TJU received over \$300 million in government support primarily to reimburse for COVID-19 related expenses and lost operating income. Due to COVID-19, TJU has generated losses from operations since March 2020 in excess of CARES Act support received.

While management expects COVID-19 to continue to impact operations in fiscal year 2021, it believes TJU will have sufficient liquidity to meet its operating and financing requirements.

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21. GOVERNMENT SUPPORT

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 to provide economic relief to individuals and organizations from the effects of COVID-19. The CARES Act included the following key provisions impacting TJU:

Provider Relief Fund - provided general funding to providers that participated in the Medicare and Medicaid programs and targeted funding to providers in areas particularly impacted by the COVID-19 outbreak and hospitals that treated a high volume of COVID-19 admissions.

Higher Education Emergency Relief Fund – provided funding to higher education institutions for certain costs incurred or amounts refunded to students related to cessation of housing and dining services due to COVID-19. Additionally, one-half of the funding distributed to institutions was required to be paid directly to currently enrolled students in the form of emergency grants.

Employee Retention Credit - provided funding to eligible employers in the form of a refundable tax credit on qualifying wages paid to employees during a period of government shut-down due to the COVID-19 pandemic.

The following table summarizes the amounts recognized as revenue from government support for COVID-19 in the accompanying consolidated statement of operations and changes in net assets without donor restriction for 2020 (in thousands):

Provider Relief Fund	\$288,063
Higher Education Emergency Relief	4,240
Employee Retention Credit	32,755
Total	<u>\$325,058</u>

Revenue recognition of government support for COVID-19 was based upon substantially satisfying all terms and conditions related to the applicable awards. Significant terms and conditions included that payments will only be reimbursement for health care or educational related expenses or lost operating income attributable to COVID-19 and limitations on billing patients for deductibles and coinsurance.

TJU recognized revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services (HHS), governing the funding that was publicly available at June 30, 2020. In September 2020, HHS issued new reporting requirements for the CARES Act provider relief funding. The new requirements first require TJU to identify healthcare related expenses attributable to coronavirus that another source has not reimbursed. If those expenses do not exceed the funding received, TJU will need to demonstrate that the remaining provider relief funds were used for a negative change in calendar year 2020 patient care operating income compared to calendar year 2019. HHS is

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entitled to recoup amounts in excess of the negative change in patient care operating income reported net of healthcare related expenses. Due to these new reporting requirements there is at least a possibility that amounts recorded under CARES Act provider relief funds by TJU may change in future periods.

Accrued receivables of \$32.8 million are included in the accompanying consolidated balance sheets as of June 30, 2020 related to the Employee Retention Credit.

Additionally, the CARES act included a provision for deferring payment of the employer portion of social security taxes that would be otherwise due between March 27, 2020 and December 31, 2020. The law permits payment of these taxes to be extended to December 31, 2021 for 50% of the amount due and December 31, 2022 for the remaining 50%. TJU recorded a liability of \$29.7 million in the line item other noncurrent liabilities in the accompanying consolidated balance sheets at June 30, 2020 related to the deferral of payroll taxes.

22. ADVANCES

The Centers for Medicare & Medicaid Services (CMS) established the CMS Accelerated and Advance Payment (CMSAAP) program to increase the cash flow to Medicare providers impacted by COVID-19. TJU received \$448.0 million from CMSAAP in 2020 and included the amount in the advances line item in the accompanying consolidated balance sheets at June 30, 2020, of which the current portion was \$56.0 million. The advances received from the CMSAAP will be repaid over the term April 2021 to August 2023.