# Thomas Jefferson University

## Consolidated Financial Statements
## June 30, 2021 and 2020

**Thomas Jefferson University**
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## Report of Independent Auditors

To the Board of Trustees of Thomas Jefferson University:

We have audited the accompanying consolidated financial statements of Thomas Jefferson University and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets without donor restriction, 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, 2021 and 2020, and the results of their operations, changes in their 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 accounts for leases in the year ended June 30, 2021. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

October 14, 2021

# Thomas Jefferson University
# Consolidated Balance Sheets
# June 30, 2021 and 2020
# (In Thousands)

| Assets | 2021 | 2020 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $301,454 | $801,018 |
| Short-term investments | 2,531,594 | 2,094,997 |
| Accounts receivable | 583,790 | 493,372 |
| Inventory | 119,370 | 103,332 |
| Pledges receivable, current | 31,165 | 31,967 |
| Insurance recoverable, current | 71,971 | 43,412 |
| Assets whose use is limited, current | 737 | 791 |
| Other current assets | 51,718 | 64,288 |
| Total current assets | 3,691,799 | 3,633,177 |
| | | |
| Long-term investments | 1,699,470 | 1,104,999 |
| Assets whose use is limited, noncurrent | 85,630 | 299,691 |
| Assets held by affiliated foundations | 50,670 | 40,183 |
| Pledges receivable, noncurrent | 103,522 | 97,494 |
| Insurance recoverable, noncurrent | 221,032 | 211,253 |
| Loans receivable from students, net | 21,054 | 22,057 |
| Land, buildings and equipment, net | 3,066,244 | 2,925,367 |
| Right-of-use assets | 311,698 | - |
| Other noncurrent assets | 36,803 | 38,004 |
| Total assets | $9,287,922 | $8,372,225 |
| | | |
| **Liabilities and Net Assets** | | |
| | | |
| Current liabilities: | | |
| Current portion of: | | |
| Long-term obligations | $33,739 | $25,336 |
| Accrued professional liability claims | 120,290 | 81,832 |
| Accrued workers' compensation claims | 12,741 | 14,122 |
| Deferred revenues | 28,600 | 20,111 |
| Interest rate hedges | - | 24,717 |
| Advances | 317,859 | 82,344 |
| Operating lease obligations | 32,783 | - |
| Accounts payable and accrued expenses | 421,041 | 369,489 |
| Accrued payroll and related costs | 387,176 | 313,250 |
| Total current liabilities | 1,354,229 | 931,201 |
| | | |
| Long-term obligations | 2,133,005 | 2,322,825 |
| Accrued pension liability | 391,392 | 787,422 |
| Federal student loan advances | 5,867 | 7,585 |
| Deferred revenues and rent | 5,417 | 40,980 |
| Accrued professional liability claims | 459,761 | 428,183 |
| Accrued workers' compensation claims | 25,289 | 15,546 |
| Interest rate hedges | 34,919 | 47,071 |
| Operating lease obligations | 320,082 | - |
| Advances | 106,062 | 391,993 |
| Other noncurrent liabilities | 68,981 | 56,510 |
| Total liabilities | 4,905,004 | 5,029,316 |
| | | |
| Net assets: | | |
| Net assets without donor restriction - Thomas Jefferson University | 3,414,189 | 2,525,219 |
| Noncontrolling interest in joint ventures | 17,501 | 20,496 |
| Total net assets without donor restriction | 3,431,690 | 2,545,715 |
| Net assets with donor restriction | 951,228 | 797,194 |
| Total net assets | 4,382,918 | 3,342,909 |
| | | |
| Total liabilities and net assets | $9,287,922 | $8,372,225 |

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, 2021 and 2020
## (In Thousands)

| | 2021 | 2020 |
|---|---|---|
| Operating revenues, gains and other support: | | |
| Net patient service revenue | $4,599,893 | $4,155,428 |
| Grants and contracts | 160,603 | 123,118 |
| Tuition and fees, net | 208,909 | 215,184 |
| Investment income | 77,474 | 54,495 |
| Contributions | 3,543 | 3,478 |
| Other revenue | 395,159 | 339,195 |
| Government support for COVID-19 | 159,344 | 325,058 |
| Net assets released from restrictions | 57,948 | 56,552 |
| Total operating revenues, gains and other support | 5,662,873 | 5,272,508 |
| Operating expenses: | | |
| Salaries and wages | 2,585,100 | 2,528,534 |
| Employee benefits | 549,177 | 574,893 |
| Supplies | 980,293 | 884,014 |
| Purchased services | 610,143 | 582,650 |
| Depreciation and amortization | 263,796 | 262,708 |
| Interest | 56,043 | 60,055 |
| Insurance | 108,717 | 115,772 |
| Utilities | 69,066 | 66,156 |
| Other | 434,654 | 495,895 |
| Total operating expenses | 5,656,989 | 5,570,677 |
| Income (Loss) from operations before nonrecurring items | 5,884 | (298,169) |
| Goodwill impairment | - | (161,256) |
| Income (Loss) from operations after nonrecurring items | 5,884 | (459,425) |
| Nonoperating items and other changes in net assets without donor restriction, net: | | |
| Return on investments, net of amounts classified as operating revenue | 478,196 | 60,547 |
| Interest rate hedges | 24,629 | (41,258) |
| Reclassification of net assets | (322) | (1,972) |
| Net assets released from restrictions used for purchase of property and equipment | 7,780 | 6,704 |
| Decrease (Increase) in pension liability | 379,655 | (315,788) |
| Distributions to noncontrolling interest | (10,036) | (9,756) |
| Other | 188 | 626 |
| Increase (Decrease) in nonoperating items and other changes in net assets without donor restriction | 880,090 | (300,897) |
| Increase (Decrease) in net assets without donor restriction | $885,974 | ($760,322) |

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, 2021 and 2020
## (In Thousands)

| | 2021 | 2020 |
|---|---|---|
| Net assets without donor restriction: | | |
| Revenues, gains and other support | $5,662,873 | $5,272,508 |
| Expenses, other than goodwill impairment | (5,656,989) | (5,570,677) |
| Goodwill impairment | - | (161,256) |
| Nonoperating items and other changes in net assets without donor restriction, net | 880,090 | (300,897) |
| Increase (Decrease) in net assets without donor restriction | 885,974 | (760,322) |
| Net assets with donor restriction: | | |
| Contributions | 77,951 | 57,404 |
| Gain on investments, net | 97,702 | 6,778 |
| Net gain (loss) on externally held trusts | 25,544 | (4,630) |
| Investment income | 4,719 | 5,127 |
| Net assets released from restrictions | (65,728) | (63,256) |
| Changes in net assets held by affiliated foundations | 10,486 | (2,915) |
| Change in value of split interest agreements | 3,039 | (1,462) |
| Reclassification of net assets | 322 | 1,972 |
| Increase (Decrease) in net assets with donor restriction | 154,035 | (982) |
| Increase (Decrease) in net assets | 1,040,009 | (761,304) |
| Net assets, beginning of year | 3,342,909 | 4,104,213 |
| Net assets, end of year | $4,382,918 | $3,342,909 |

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, 2021 and 2020
## (In Thousands)

| | 2021 | 2020 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase (Decrease) in net assets | $1,040,009 | ($761,304) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| (Decrease) Increase in pension liability | (379,655) | 334,655 |
| Depreciation and amortization | 264,695 | 263,621 |
| Bond premium amortization | (8,905) | (8,999) |
| Assets held by affiliated foundation | (10,487) | 2,915 |
| Gain on investments, net | (682,669) | (107,114) |
| Gain on sale of assets | (664) | - |
| Recognition of vesting in Premier stock | (1,251) | (3,647) |
| Net (gain) loss on interest rate hedges | (24,629) | 41,258 |
| Goodwill impairment | - | 161,256 |
| Distribution to noncontrolling interest | 10,036 | 7,701 |
| Funds (withheld) received under the Medicare Accelerated and Advance Payment Program | (52,602) | 447,993 |
| Sale of controlling interest | - | 3,719 |
| Contributions designated for acquisition of long-term assets | (19,814) | (12,612) |
| Net change due to: | | |
| Accounts receivable | (90,418) | 205,499 |
| Pledges receivable | (5,226) | 2,572 |
| Inventory | (16,038) | (29,504) |
| Other current and noncurrent assets | 13,065 | (6,263) |
| Accounts payable and accrued expenses | 51,552 | (126,228) |
| Accrued payroll and related costs | 73,926 | 19,578 |
| Grant and contract advances | 2,186 | 9,360 |
| Deferred revenues | 14,079 | 24,349 |
| Accrued pension liability | (16,375) | (26,631) |
| Insurance recoverable | (38,338) | 62 |
| Accrued professional liability claims | 70,036 | 31,496 |
| Accrued workers' compensation claims | 8,362 | 59 |
| Dividends received from joint ventures | 26,269 | 18,067 |
| Other current and noncurrent liabilities | 11,146 | 36,910 |
| Net cash provided by operating activities | 238,290 | 528,768 |
| | | |
| Cash flows from investing activities: | | |
| Assets whose use is limited increase | - | (13,041) |
| Assets whose use is limited decrease | 214,115 | 292,166 |
| Sale of controlling interest | - | (145) |
| Purchase of land, buildings and equipment | (391,965) | (599,383) |
| Purchases of investments | (9,252,146) | (5,291,089) |
| Sales of investments | 8,867,814 | 5,394,993 |
| Student loans issued | (3,647) | (3,519) |
| Student loans repaid | 4,650 | 5,421 |
| Net cash used in investing activities | (561,179) | (214,597) |
| | | |
| Cash flows from financing activities: | | |
| Distribution to noncontrolling interest | (10,036) | (7,701) |
| Contributions designated for acquisition of long-term assets | 19,814 | 12,612 |
| Federal student loan advances | (1,718) | (2,825) |
| Proceeds from long-term obligations | - | 261,000 |
| Repayment of long-term obligations | (184,735) | (23,254) |
| Net cash (used in) provided by financing activities | (176,675) | 239,832 |
| | | |
| Net (decrease) increase in cash and cash equivalents | (499,564) | 554,003 |
| | | |
| Cash and cash equivalents at beginning of period | 801,018 | 247,015 |
| | | |
| Cash and cash equivalents at end of period | $301,454 | $801,018 |
| | | |
| Supplemental disclosures: | | |
| Interest paid (net of amount capitalized) | $75,809 | $74,582 |
| Accounts payable related to buildings and equipment | $46,658 | $34,520 |
| Operating cash flows for operating leases | $49,309 | - |
| Right-of-use assets obtained in exchange for lease obligations | $332,785 | - |

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

## 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 7,200 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); 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; liquidated in January 2021); 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 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 ("GSRN", a 51% owned joint venture); and the accounts of Magee.

**Subsequent Events**
TJU has performed an evaluation of subsequent events through October 14, 2021, 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 includes revenues and expenses from providing education, research and patient services, 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.

**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 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 $37.1 million and $58.4 million for the years ended June 30, 2021 and 2020, 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.

**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 40.9% and 12.9%, respectively, and 39.8% and 12.0%, respectively of net patient service revenue in 2021 and 2020, 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 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 2011, 2018, 2019, 2020 and 2021 have been audited and final settled as of June 30, 2021. 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 $175.7 million and $167.3 million in 2021 and 2020, respectively, and are recorded in net patient service revenue. TJU paid taxes in respect to these programs amounting to $114.7 million and $118.3 million in 2021 and 2020, 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 26.1% and 10.5%, respectively, and 26.2% and 11.2%, respectively, of TJU's net patient service revenue in 2021 and 2020, 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 2021 and 2020, revenue earned from federal sources totaled $125.7 million and $86.7 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 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 $74.8 million and $69.4 million in 2021 and 2020, respectively.

**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, 2021 and 2020.

**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, 2021 and 2020. 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 future budgetary requirements of TJU and which is consistent with the goal of protecting the purchasing power of the investments. As a result of the negative financial impact to nonprofit organizations from COVID-19, the Pennsylvania Act was amended to permit nonprofit organizations to increase the calculation of spendable income from endowment funds up to 10% of the calculated three year average of the endowment market value for fiscal years ending within 2020, 2021 and 2022. For 2021, TJU's calculation of spendable income for endowment funds was based on 10% of a calculated three year average. For 2020, the calculation of the spendable income for endowment funds was 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 was 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):

| | 2021 | 2020 |
|---|---|---|
| Methodist Hospital Foundation | $12,249 | $9,970 |
| Magee Rehabilitation Hospital Foundation | 38,421 | 30,213 |
| Total | $50,670 | $40,183 |

**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, 2021 and 2020 (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Direct student loans | $20,989 | $21,694 |
| Allowance for doubtful accounts | (4,577) | (4,640) |
| Net | 16,412 | 17,054 |
| Federally-sponsored student loans | 4,642 | 5,003 |
| Total | $21,054 | $22,057 |

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, 2021 and 2020 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

**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.

**Leases**
TJU leases property and equipment under finance and operating leases. TJU determines whether an arrangement is a lease at inception. For leases with terms greater than 12 months, TJU records the related right-of-use (ROU) assets and lease liabilities at the present value of lease payment over the term. The determination of lease payments factors in rental escalation clauses and options to extend or terminate the lease, if the clauses are reasonably certain to be exercised. TJU separates the lease and non-lease components of contracts. TJU's incremental borrowing rate, which is based on information available at the adoption date for existing leases and the commencement date for leases commencing after the adoption date, is used to determine the present value of lease of payments.

Operating leases are included in ROU assets, current portion of operating lease obligations and operating lease obligations on the consolidated balance sheets. Operating lease expense is recognized on the straight-line basis over the lease term and is included in the other operating expense line on the consolidated statements of operations and changes in net assets without donor restrictions.

Finance leases are included in land, buildings and equipment, net, current portion of long term obligations and long term obligations on the consolidated balance sheets. Amortization of finance leases is included in depreciation expense on the consolidated statements of operations and changes in net assets without donor restrictions.

**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, 2021 and 2020 is as follows (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Beginning balance: | | |
| Goodwill | $0 | $163,704 |
| Accumulated impairment losses | - | (772) |
| | - | 162,932 |
| Goodwill acquired | 137 | 47 |
| Sale of Garden State Radiology Network | - | (1,723) |
| Impairment losses | - | (161,256) |
| Ending balance: | | |
| Goodwill | 137 | 162,028 |
| Accumulated impairment losses | - | (162,028) |
| | $137 | $0 |

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

**New Accounting Standards**

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02. Leases (topic 842) which requires the recognition of lease assets and lease liabilities by lessees for the leases classified as operating leases under previous accounting guidance. Effective July 1, 2020, TJU adopted the provision using a modified retrospective approach in conjunction with subsequent ASU's aimed at providing clarification and transition relief. TJU elected to utilize practical expedients made available, including the package of practical expedients, not to reassess whether a contract is or contains a lease, the lease classification, and indirect cost for any existing leases and to use hindsight with respect in determining the lease term. While the adoption of ASU 2016-02 did not have a material impact on the consolidated statements of operations and changes in net assets without donor restriction or the consolidated statements of cash flows, it did have a material impact on the consolidated balance sheet through the recording of the lease obligations of $349.5 million and the related ROU assets of $313.0 million for leases in effect at July 1, 2020.

In March 2020, the FASB issued ASU 2020-04 which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform due to the discontinuation of the London Interbank Offered Rate ("LIBOR"). The amendments apply to contracts, hedges and other transactions affected by reference rate reform due to reference to LIBOR or another reference rate expected to be discontinued. The pronouncement is effective immediately and can be applied through June 30, 2023. Management is currently assessing the implications of the potential adoption of this accounting standard.

## 2. BUSINESS COMBINATIONS

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 anticipates to close this transaction before the end of 2021.

On October 4, 2021, pursuant to the terms of an integration agreement, TJU became the sole corporate member of Albert Einstein Healthcare Network ("EHN"). EHN is a not for profit healthcare organization located in Pennsylvania. TJU acquired all of the assets and liabilities of EHN and transferred no consideration. The TJU board was reconstituted to include members designated by EHN. This business combination will be accounted for as an acquisition. The acquisition of EHN is intended to enhance access to high quality, cost effective care to the communities served by both organizations and to enhance the educational and research mission of TJU.

## 3. NET ASSETS

Net assets consisted of the following at June 30, 2021 and 2020 (in thousands):

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| Detail of net assets | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Operating | $2,501,889 | $198,637 | $2,700,526 | $2,110,435 | $181,912 | $2,292,347 |
| Capital gifts | - | 28,648 | 28,648 | - | 13,348 | 13,348 |
| Student loan funds | 24,472 | 29,575 | 54,047 | 21,650 | 25,213 | 46,863 |
| Endowment funds | 905,329 | 627,834 | 1,533,163 | 413,630 | 527,395 | 941,025 |
| Assets held by affiliated foundations | - | 50,670 | 50,670 | - | 40,183 | 40,183 |
| Deferred giving | - | 15,864 | 15,864 | - | 9,143 | 9,143 |
| Total | $3,431,690 | $951,228 | $4,382,918 | $2,545,715 | $797,194 | $3,342,909 |

## 4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited presented in the consolidated balance sheets at June 30, 2021 and 2020 consist of the following (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Held by trustee under indenture agreement | $71,464 | $283,411 |
| Women's Board and Medical Staff funds | 908 | 881 |
| Restricted for capital purposes | 11,752 | 12,942 |
| Deferred compensation fund | 672 | 1,562 |
| Other | 1,571 | 1,686 |
| Total | $86,367 | $300,482 |
| Less current portion | (737) | (791) |
| Noncurrent portion | $85,630 | $299,691 |

## 5. INVESTMENTS

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

| | 2021 | 2020 |
|---|---|---|
| Short-term investments | $2,531,594 | $2,094,997 |
| Assets whose use is limited, current | 737 | 791 |
| Long-term investments | 1,699,470 | 1,104,999 |
| Assets whose use is limited, noncurrent | 85,630 | 299,691 |
| | $4,317,431 | $3,500,478 |

A summary of investments at June 30, 2021 and 2020 is as follows (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $157,044 | $231,816 |
| Equity securities | 21,159 | 31,153 |
| Fixed income securities | 597,004 | 317,512 |
| Funds: | | |
| Global equity | 1,570,316 | 1,271,799 |
| Fixed income | 1,070,370 | 884,518 |
| Real estate | 137,356 | 122,032 |
| Other mutual funds | 34,481 | 29,244 |
| Private equity | 324,941 | 233,457 |
| Real estate | 3,309 | 3,100 |
| Hedge funds | 102,255 | 100,554 |
| External trusts | 145,052 | 119,660 |
| Investments subject to equity method and other | 154,144 | 155,633 |
| | $4,317,431 | $3,500,478 |

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.

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 $454.1 million and $293.3 million at June 30, 2021 and 2020, respectively. TJU expects these funds to be called over the next 3 to 5 years (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Private equity | $441,390 | $279,992 |
| Real estate | 12,670 | 13,336 |
| | $454,060 | $293,328 |

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 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, 2021 and 2020 (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Equity method: | | |
| Five Pointe | $42,902 | $44,810 |
| MLRRG | 4,207 | 4,327 |
| HPP | 38,081 | 39,152 |
| DVACO | 5,309 | 6,543 |
| MLJH, LLC | 31,118 | 30,686 |
| FMCV, LLC | 14,158 | 15,782 |
| Other equity method investments | 5,749 | 3,739 |
| Other | 12,620 | 10,594 |
| | $154,144 | $155,633 |

A summary of investments held under split-interest agreements is as follows at June 30, 2021 and 2020 (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Charitable gift annuities | $15,791 | $12,979 |
| Pooled income funds | 998 | 918 |
| Charitable lead trusts | 777 | 929 |
| Charitable remainder trusts | 10,702 | 5,598 |
| | $28,268 | $20,424 |

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 2021 and 2020 (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Investment income included in operating income: | | |
| Interest and dividends | $7,341 | $19,670 |
| Endowment payout | 62,774 | 21,402 |
| Net realized gains on sales of investments | - | 1,247 |
| DVACO | (3,365) | (2,824) |
| HPP | 6,076 | 12,149 |
| MLJH, LLC | 2,179 | 2,151 |
| Other joint ventures | 2,469 | 700 |
| | 77,474 | 54,495 |
| Investment income included in nonoperating income: | | |
| Net realized and unrealized gains (losses) | 540,797 | 81,754 |
| Interest and dividends | 173 | 195 |
| Endowment payout | (62,774) | (21,402) |
| | 478,196 | 60,547 |
| Total | $555,670 | $115,042 |

## 6. ENDOWMENT FUNDS

TJU's endowments consist of approximately 1,060 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.

At June 30, 2021, 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 | $627,834 | $627,834 |
| Quasi-endowment funds | 905,329 | - | 905,329 |
| Total funds | $905,329 | $627,834 | $1,533,163 |

Changes in endowment net assets for the fiscal year ended June 30, 2021, consisted of the following (in thousands):

| | Without Donor Restriction | With Donor Restriction | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $413,630 | $527,395 | $941,025 |
| Investment returns | 151,488 | 113,959 | 265,447 |
| Contributions | 510 | 13,622 | 14,132 |
| Appropriation of assets for expenditure | (62,774) | (27,835) | (90,609) |
| Transfers of University resources and other | 402,475 | 693 | 403,168 |
| Endowment net assets, end of year | $905,329 | $627,834 | $1,533,163 |

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 | $413,630 | $527,395 | $941,025 |

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 | $413,630 | $527,395 | $941,025 |

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 $0.6 million and $2.1 million as of June 30, 2021 and 2020, respectively. 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):

| | 2021 | 2020 |
|---|---|---|
| Financial assets: | | |
| Cash and cash equivalents | $301,454 | $801,018 |
| Accounts receivable | 583,790 | 493,372 |
| Pledge payments available for operations | 15,030 | 15,212 |
| Short-term investments | 2,326,501 | 1,887,885 |
| Subsequent year's endowment payout | 106,207 | 71,646 |
| Total financial assets available within one year | 3,332,982 | 3,269,133 |
| Liquidity resources: | | |
| Bank lines of credit | 547,000 | 377,300 |
| Total financial assets and liquidity resources available within one year | $3,879,982 | $3,646,433 |

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 $638.0 million and $638.3 million at June 30, 2021 and 2020, respectively, under which there was borrowing of $91.0 million and $261.0 million at June 30, 2021 and 2020, 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:

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 2021 and 2020.

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.

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, 2021 and 2020 (in thousands):

| | Level 1 | Level 2 | Level 3 | NAV | 2021 |
|---|---|---|---|---|---|
| Cash and cash equivalents | $157,044 | $0 | $0 | $0 | $157,044 |
| Equity securities | 5,368 | 15,791 | - | - | 21,159 |
| Fixed income securities | 63,018 | 515,006 | - | 18,980 | 597,004 |
| Funds: | | | | | |
| Global equity | 43,063 | - | - | 1,527,253 | 1,570,316 |
| Fixed income | - | - | - | 1,070,370 | 1,070,370 |
| Real asset | - | 5,939 | - | 131,417 | 137,356 |
| Other mutual funds | 34,481 | - | - | - | 34,481 |
| Private equity | - | - | - | 324,941 | 324,941 |
| Real estate | - | - | - | 3,309 | 3,309 |
| Hedge funds | - | - | - | 102,255 | 102,255 |
| External trusts | - | - | 145,052 | - | 145,052 |
| Total | $302,974 | $536,736 | $145,052 | $3,178,526 | $4,163,287 |

| | 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 |

Investments not subject to fair value leveling or fair value at NAV at June 30, 2021 and 2020 totaled $154.1 million and $155.6 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.

The following table presents the other liabilities carried on the consolidated balance sheets by level within the valuation hierarchy as of June 30, 2021 and 2020 (in thousands):

| | Level 1 | Level 2 | Level 3 | NAV | 2021 |
|---|---|---|---|---|---|
| Interest rate hedges | $0 | $34,919 | $0 | $0 | $34,919 |

| | Level 1 | Level 2 | Level 3 | NAV | 2020 |
|---|---|---|---|---|---|
| Interest rate hedges | $0 | $71,788 | $0 | $0 | $71,788 |

The following tables include a roll-forward of the amounts for the year ended June 30, 2021 and 2020 (in thousands) for external trust investments classified within Level 3.

| | 2021 | 2020 |
|---|---|---|
| Beginning balance | $119,660 | $132,931 |
| Unrealized gain/(loss), net | 25,544 | (4,606) |
| Transfers | (152) | (8,665) |
| Ending balance | $145,052 | $119,660 |

## 9. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2021 and 2020, respectively (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $31,165 | $31,967 |
| One year to five years | 53,625 | 46,617 |
| Over five years | 86,213 | 86,820 |
| | 171,003 | 165,404 |
| Less: unamortized discount and allowance for doubtful accounts | (36,316) | (35,942) |
| | $134,687 | $129,461 |

The discount rate ranges from 0.4% to 5.5%. TJU's largest pledge comprises 43% and 47% of the pledge receivable at June 30, 2021 and 2020, respectively.

At June 30, 2021, 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.

## 10. LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment is as follows at June 30, 2021 and 2020, respectively (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Land and land improvements | $202,487 | $204,634 |
| Buildings and building improvements | 3,017,372 | 2,781,505 |
| Equipment | 2,384,850 | 2,164,907 |
| Leasehold improvements | 177,251 | 174,412 |
| Construction in progress | 421,622 | 528,812 |
| Less: accumulated depreciation | (3,137,338) | (2,928,902) |
| Total land, buildings and equipment, net | $3,066,244 | $2,925,367 |

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 |

Depreciation expense is $263.0 million and $261.9 million at June 30, 2021 and 2020, respectively.

## 11. LONG-TERM OBLIGATIONS

A summary of long-term obligations is as follows at June 30, 2021 and 2020, respectively (in thousands):

| | Final Maturity | Interest Rate at June 30, 2021 | 2021 | 2020 |
|---|---|---|---|---|
| Revenue bonds: | | | | |
| Fixed rate obligations: | | | | |
| 1993 Series A Revenue Bonds | 2022 | 6.00% | $5,730 | $5,930 |
| Unamortized issue costs | | | (18) | (37) |
| 2012 Series Revenue Bonds | 2042 | 4.00% - 5.00% | 35,895 | 37,155 |
| Unamortized premium and issue costs | | | 1,539 | 1,679 |
| 2012 Series A Revenue Bonds | 2032 | 3.25% - 5.00% | 29,210 | 35,930 |
| Unamortized premium and issue costs | | | 1,318 | 1,635 |
| 2015 Series A Revenue Bonds | 2051 | 3.00% - 5.25% | 301,805 | 301,805 |
| Unamortized premium and issue costs | | | 18,511 | 19,413 |
| 2017 Series A Revenue Bonds | 2048 | 3.81% - 5.50% | 262,270 | 262,270 |
| Unamortized premium and issue costs | | | 11,318 | 11,987 |
| 2018 Series A Revenue Bonds | 2050 | 4.00% - 5.00% | 353,370 | 353,370 |
| Unamortized premium and issue costs | | | 21,855 | 24,419 |
| 2018 Series B Revenue Bonds | 2030 | 3.28% - 3.88% | 34,140 | 34,140 |
| Unamortized issue costs | | | (181) | (217) |
| 2019 Series A Revenue Bonds | 2052 | 4.00% - 5.00% | 449,745 | 449,745 |
| Unamortized premium and issue costs | | | 35,828 | 39,415 |
| Total fixed rate obligations | | | 1,562,335 | 1,578,639 |
| Variable rate obligations: | | | | |
| 2015 Series B Revenue Bonds | 2046 | 0.27% | 60,000 | 60,000 |
| Unamortized issue costs | | | (461) | (481) |
| 2015 Series C Revenue Bonds | 2042 | 0.82% | 33,670 | 34,495 |
| Unamortized issue costs | | | (100) | (108) |
| 2015 Series D Revenue Bonds | 2042 | 0.89% | 33,435 | 34,250 |
| Unamortized issue costs | | | (99) | (108) |
| 2015 Series E Revenue Bonds | 2042 | 0.83% | 33,670 | 34,490 |
| Unamortized issue costs | | | (100) | (108) |
| 2015 Series F Revenue Bonds | 2042 | 0.89% | 33,435 | 34,250 |
| Unamortized issue costs | | | (99) | (108) |
| 2015 Series G Revenue Bonds | 2042 | 0.84% | 20,085 | 20,575 |
| Unamortized issue costs | | | (60) | (65) |
| 2015 Series H Revenue Bonds | 2042 | 1.34% | 27,845 | 28,525 |
| Unamortized issue costs | | | (86) | (93) |
| 2017 Series B Revenue Bonds | 2051 | 0.27% | 50,565 | 50,565 |
| Unamortized issue costs | | | (485) | (502) |
| 2017 Series C Revenue Bonds | 2051 | 0.74% | 50,000 | 50,000 |
| Unamortized issue costs | | | (271) | (281) |
| 2018 Series C Revenue Bonds | 2052 | 0.80% | 100,000 | 100,000 |
| Unamortized issue costs | | | (799) | (826) |
| 2018 Series D Revenue Bonds | 2051 | 0.27% | 49,950 | 49,950 |
| Unamortized issue costs | | | (397) | (413) |
| Total variable rate obligations | | | 489,698 | 494,007 |
| Total Revenue bonds | | | 2,052,033 | 2,072,646 |
| Line of credit | 2022 | 0.44% | 91,000 | 261,000 |
| Finance lease obligations | 2037 | | 23,572 | 14,356 |
| Other | 2037 | | 139 | 159 |
| Total long-term debt obligations | | | $2,166,744 | $2,348,161 |

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, 2021.

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 required 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 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 is considering 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, "LUNA") was greater than 25% of outstanding Long-Term Indebtedness (as defined in the MTI) at June 30, 2020. As such, TJU remained in compliance with the requirements of the MTI at June 30, 2020.

TJU was in compliance with the DSCR and LUNA requirements at June 30, 2021.

Maturities for long-term debt are as follows (in thousands):

| | Revenue Bonds and Other | Finance Lease Obligations | Total |
|---|---|---|---|
| 2022 | 21,030 | 4,703 | 25,733 |
| 2023 | 113,390 | 4,168 | 117,558 |
| 2024 | 24,275 | 4,291 | 28,566 |
| 2025 | 27,805 | 3,919 | 31,724 |
| 2026 | 30,620 | 3,042 | 33,662 |
| Thereafter | 1,838,700 | 3,449 | 1,842,149 |

## 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, 2021 and 2020 in the consolidated balance sheets is as follows (in thousands):

| Expiration Date | TJU Receives | TJU Pays | Notional Amount at June 30, 2021 | Notional Amount at June 30, 2020 | Balance Sheet Location | Fair Value at June 30, 2021 | Fair Value at June 30, 2020 |
|---|---|---|---|---|---|---|---|
| Expiration 2/1/34 | 67% of United States Dollar LIBOR (one Month) | 2.980% | $64,010 | $67,260 | Noncurrent Liability | $5,576 | $7,815 |
| Expiration 9/1/45 | 67% of United States Dollar LIBOR (one Month) | 3.925% | $27,385 | $22,083 | Noncurrent Liability | $26,465 | $33,913 |
| Expiration 5/1/27 | 68% of United States Dollar LIBOR (one Month) | 3.980% | $29,675 | $33,950 | Noncurrent Liability | $3,604 | $5,176 |
| Expiration 5/1/27 | 68% of United States Dollar LIBOR (Five Year minus 0.293%) | 68% of United States Dollar LIBOR (one Month) | $51,625 | $59,050 | Noncurrent Liability | ($481) | $58 |
| Expiration 5/1/27 | 68% of United States Dollar LIBOR (Five Year minus 0.325%) | 68% of United States Dollar LIBOR (one Month) | $29,675 | $33,950 | Noncurrent Liability | ($245) | $78 |
| (1) Expiration 5/1/50 | SIFMA | 1.447% | $0 | $441,980 | Current Liability | $0 | $46,515 |
| (1) Expiration 12/1/20 | n/a | n/a | $0 | $395,000 | Current Liability | $0 | ($19,272) |
| (1) Expiration 12/1/20 | n/a | n/a | $0 | $100,000 | Current Liability | $0 | ($2,495) |

(1) TJU entered into a floating-to-fixed interest rate swap and two treasury rate lock agreements. Each agreement was subject to a cash settlement on or before December 1, 2020, based upon the market value of each respective agreement. On November 12, 2020, TJU terminated each agreement and a net cash settlement payment of $8.2 million was made by TJU.

The LIBOR with a one-month maturity ranged from 0.07% to 0.19% (average rate of 0.13%) in 2021. The LIBOR rate with the five-year maturity ranged from 0.24% to 1.09% (average rate of 0.59%) in 2021. Non-operating gains of $24.6 million and non-operating losses of $41.3 million at June 30, 2021 and 2020, respectively, are included in the consolidated statements of operations and changes in net assets for interest rate swap contracts (in thousands).

| | 2021 | 2020 |
|---|---|---|
| Change in valuation of interest rate hedges | $28,735 | ($37,813) |
| Net settlement payments with counterparties | (4,106) | (3,445) |
| Nonoperating gain (loss) on interest rate hedges | $24,629 | ($41,258) |

Accumulated losses on interest rate hedges of $34.9 million and $71.8 million at June 30, 2021 and 2020, respectively, are reflected in the consolidated balance sheets.

## 13. LEASE COMMITMENTS

TJU has lease has operating lease obligations primarily for ambulatory facilities, office space and land expiring through 2099. At June 30, 2021, right-of-use assets recorded on the consolidated balance sheet are $311.7 million and operating lease obligations are $352.9 million. At June 30, 2021, the weighted average remaining lease term is 13.6 years and the weighted average discount rate is 2.41%. For the year ended June 30, 2021, rent expense (included in other operating expenses) was $87.5 million, of which $54.1 million was related to amortization of the right-of-use assets and operating lease obligations. Rent expense for the year ended June 30, 2020 was $83.3 million. A summary of future minimum commitments under operating leases, at June 30, 2021, is as follows (in thousands):

| | |
|---|---|
| 2022 | $46,603 |
| 2023 | 43,805 |
| 2024 | 42,342 |
| 2025 | 40,473 |
| 2026 | 35,179 |
| Thereafter | 211,896 |
| Total minimum lease payments | 420,298 |
| Less imputed interest | (67,432) |
| Net present value of minimum lease payments | $352,866 |

Future minimum lease payments at June 30, 2020 (prior to the newly adopted standard) were as follows (in thousands):

| | |
|---|---|
| 2021 | $44,124 |
| 2022 | 42,305 |
| 2023 | 41,960 |
| 2024 | 38,974 |
| 2025 | 35,173 |
| Thereafter | 241,653 |
| | $444,189 |

## 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 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. The calculation of service cost and PBO utilizes 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):

| | 2021 | 2020 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Benefit obligation, beginning of year | $2,411,088 | $2,100,659 |
| Service cost | 6,640 | 39,006 |
| Interest cost | 57,263 | 68,309 |
| Net experience gain | 11,831 | 271,416 |
| Benefits paid | (73,043) | (68,302) |
| Plan amendment | (10,454) | - |
| Projected benefit obligation, end of year | 2,403,325 | 2,411,088 |
| | | |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | 1,623,666 | 1,621,248 |
| Actual return of plan assets | 438,293 | 23,937 |
| Employer contributions | 23,017 | 46,783 |
| Benefit payments | (73,043) | (68,302) |
| Fair value of plan assets, end of year | 2,011,933 | 1,623,666 |
| | | |
| Plan funded status | ($391,392) | ($787,422) |

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

| | 2021 | 2020 |
|---|---|---|
| Net actuarial loss | $370,032 | $760,499 |
| Net unrecognized prior service credit | (9,806) | - |
| | $360,226 | $760,499 |

The accumulated benefit obligation at June 30, 2021 and 2020 was as follows (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Accumulated benefit obligation | $2,276,852 | $2,263,039 |

The components of net periodic benefit cost for the plans for the years ended June 30, 2021 and 2020 were as follows (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Service cost | $6,640 | $39,006 |
| Interest cost | 57,263 | 68,309 |
| Expected return on plan assets | (98,229) | (111,409) |
| Amortization of actuarial loss | 62,233 | 24,233 |
| Amortization of prior service cost (credit) | (648) | - |
| Net periodic benefit cost | 27,259 | 20,139 |
| Other changes in plan assets and benefit obligations recognized in net assets without donor restriction: | | |
| Net actuarial (gain)/loss | (328,234) | 358,888 |
| Amortization of net actuarial loss | (62,233) | (24,233) |
| Prior service cost/(credit) | (10,454) | - |
| Amortization of prior service (cost)/credit | 648 | - |
| Total recognized in net assets without donor restriction | (400,273) | 334,655 |
| Total recognized in net periodic benefit cost and net assets without donor restriction | ($373,014) | $354,794 |

The estimated actuarial loss that will be amortized from net assets without donor restriction during the upcoming fiscal year is $16.3 million.

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

| | 2021 | 2020 |
|---|---|---|
| Discount rate | 3.07% | 3.04% |
| Rate of compensation increase | 3.25% to 4.00% | 3.25% to 4.00% |
| Expected return on plan assets | 6.14% | 6.14% |

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

| | 2021 | 2020 |
|---|---|---|
| Discount rate - service cost | 3.21% | 3.90% |
| Discount rate - interest cost | 2.42% | 3.32% |
| Rate of compensation increase | 3.25% to 4.00% | 3.25% to 4.00% |
| Expected return on plan assets | 6.14% | 6.98% |

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

| | Targeted Range | Percentage of Plan Assets June 30, 2021 | Percentage of Plan Assets June 30, 2020 |
|---|---|---|---|
| Cash | 0-5% | 2% | 3% |
| Bonds | 25-45% | 26% | 25% |
| Global equity | 45-65% | 63% | 62% |
| Real estate and other | 5-10% | 9% | 9% |
| | | 100% | 100% |

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 $23.0 million during fiscal year 2022.

Projected benefit payments are as follows (in thousands):

| | |
|---|---|
| 2022 | $94,154 |
| 2023 | 93,813 |
| 2024 | 98,835 |
| 2025 | 103,493 |
| 2026 | 108,591 |
| Thereafter | 589,492 |
| | $1,088,378 |

The following table presents the fair value of plan assets by level within the valuation hierarchy, as discussed in Note 8, as of June 30, 2021 and 2020 (in thousands):

| | Level 1 | Level 2 | Level 3 | NAV | 2021 |
|---|---|---|---|---|---|
| Cash and cash equivalents | $2,871 | $36,792 | $0 | $0 | $39,663 |
| Equity securities | 16 | - | - | - | 16 |
| Fixed income securities | - | 1 | - | - | 1 |
| Funds: | | | | | |
| Global equity | 58,735 | - | - | 1,208,765 | 1,267,500 |
| Fixed income | 19,386 | - | - | 494,496 | 513,882 |
| Real assets | - | - | - | 108,055 | 108,055 |
| Private equity | - | - | - | 56,336 | 56,336 |
| Hedge funds | - | - | - | 26,480 | 26,480 |
| Total | $81,008 | $36,793 | $0 | $1,894,132 | $2,011,933 |

| | 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 | $104,264 | $2 | $0 | $1,519,400 | $1,623,666 |

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, 2021 and 2020 was as follows (in thousands):

| Plan | Description | 2021 | 2020 |
|---|---|---|---|
| TJU: Faculty and senior administrators | 9% to 13% of eligible compensation based upon age | $11,766 | $24,241 |
| TJU: Non-faculty and non-union | 4.5% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions | 13,832 | 26,553 |
| JUP | 10% of eligible compensation for physicians and 3.5% to 5.5% of eligible compensation for non-physicians based upon years of service | 11,851 | 18,172 |
| 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 | 3,224 | 6,649 |
| Aria | Matching contribution of 50% of the first 4% of employee contributions plus 1% to 7% based on age and years of service | 6,250 | 9,695 |
| Philadelphia University | 9% of eligible compensation | 1,129 | 2,419 |
| 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 | 3,755 | 6,656 |
| Magee | 2% to 4% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions | 841 | 1,838 |
| | | $52,648 | $96,223 |

**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 2021. TJU's contribution to the Pension Fund was $7.5 million and $7.9 million for the years ended June 30, 2021 and 2020. The contributions represent approximately 24.4% and 27.9% of the contributions to the Pension Fund, respectively. A three year collective bargaining agreement was approved by the Union effective July 1, 2018 and extended an additional year through June 30, 2022. TJU contributions as a percentage of covered payroll to the Pension Fund for the year ending June 30, 2022 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, 2020 and 2019. 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, 2020, the most recent date for which such information is available the projected benefit obligation exceeded plan assets of the Pension Fund by $304.2 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, $1.0 million per medical incident and $2.0 million annual aggregate for JUP, the entity, 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 hospitals and the physicians/residents.

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 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 and JUP. 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 another regional healthcare system.

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, JUP 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, JUP, 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, including JUP, retains and accrues for potential liabilities up to a $15.0 million limit for each and every claim with a $5.0 million/$5.0 million buffer, 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 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 2021 and 2020. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such considerations as medical costs and actual experience could cause these estimates to change.

TJUHS, including JUP, maintains claims-made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of $90.0 million per medical incident and $90.0 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 $90.0 million per occurrence and $90.0 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, including JUP. 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 2021 and 2020 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 2021 and 2020.

TJU has accrued professional liability claims of $580.1 million and $510.0 million at June 30, 2021 and 2020, respectively, at an expected confidence interval and a 3.0% to 3.5% discount rate, of which $120.3 million and $81.8 million were current.

Anticipated medical malpractice insurance recoveries associated with these liabilities for June 30, 2021 and 2020 is $282.1 million and $251.2 million, respectively, at an expected confidence interval and a 3.0% to 3.5% discount rate.

## 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 $38.0 million and $29.7 million at June 30, 2021 and 2020, 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 $43.9 million and $43.7 million at June 30, 2021 and 2020, respectively, primarily related to self-insurance arrangements for workers' compensation. The letters of credit expire between October 17, 2021 and August 30, 2022.

### 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, 2021 and 2020 are categorized on a functional basis as follows (in thousands):

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Education and Research | Clinical Operations | Total | Education and Research | Clinical Operations | Total |
| Salaries and wages | $266,764 | $2,318,336 | $2,585,100 | $257,495 | $2,271,039 | $2,528,534 |
| Employee benefits | 57,446 | $491,731 | 549,177 | 59,105 | 515,788 | 574,893 |
| Supplies | 37,032 | $943,261 | 980,293 | 33,029 | 850,985 | 884,014 |
| Purchased services | 61,337 | $548,806 | 610,143 | 40,553 | 542,097 | 582,650 |
| Depreciation and amortization | 37,615 | $226,181 | 263,796 | 36,800 | 225,908 | 262,708 |
| Interest | 14,338 | $41,705 | 56,043 | 14,108 | 45,947 | 60,055 |
| Insurance | 2,463 | $106,254 | 108,717 | 1,457 | 114,315 | 115,772 |
| Utilities | 10,724 | $58,342 | 69,066 | 11,871 | 54,285 | 66,156 |
| Other expenses | 73,726 | $360,928 | 434,654 | 92,830 | 403,065 | 495,895 |
| Total | $561,445 | $5,095,544 | $5,656,989 | $547,247 | $5,023,430 | $5,570,677 |

## 19. NONCONTROLLING INTEREST

TJU has a controlling interest in certain joint ventures in healthcare related organizations; Riverview, a 51% owned joint venture; JURA, an 80% owned joint venture; ROSH, a 54% owned joint venture; 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, 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 |
| Income from Operations | (4,243) | 10,127 | 5,884 |
| Distributions to NCI | - | (10,036) | (10,036) |
| Other changes, net | 893,213 | (3,086) | 890,127 |
| Balance, June 30, 2021 | $3,414,189 | $17,501 | $3,431,690 |

## 20. RISKS AND UNCERTAINITIES

In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. Beginning in March 2020, TJU's operations were significantly impacted by the COVID-19 pandemic. As a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27, 2020, TJU has received significant government support primarily to reimburse for COVID-19 related expenses and lost operating income. While management expects COVID-19 to continue to impact operations in fiscal year 2022, it believes TJU will have sufficient liquidity to meet its operating and financing requirements

## 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, $2.1 million of the funding received by TJU in 2021 and 2020 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.
>
> Disaster Relief Fund - provided additional funding to the Federal Emergency Management Agency (FEMA) to support medical providers for the costs of treating COVID-19 patients.

The following table summarizes the amounts recognized as revenue from government support for COVID-19 in the accompanying consolidated statements of operations and changes in net assets without donor restriction for June 30, 2021 and 2020 (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Provider Relief Fund | $150,818 | $288,063 |
| Higher Education Emergency Relief | 6,354 | 4,240 |
| Employee Retention Credit | - | 32,755 |
| Disaster Relief (FEMA) | 2,172 | - |
| Total | $159,344 | $325,058 |

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 revenue 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, 2021. HHS has made multiple changes to its guidance during the COVID-19 pandemic. The potential financial impacts of future changes in guidance may impact TJU's ability to retain some or all of the distributions received.

Accrued receivables of $22.0 million and $32.8 million are included in the accompanying consolidated balance sheets for the years ended June 30, 2021 and 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 as part of the following accounts in the accompanying consolidated balance sheets for the deferral of payroll taxes:

| Line Item | 2021 | 2020 |
|---|---|---|
| Accrued payroll and related costs | $42,967 | $0 |
| Other noncurrent liabilities | 42,967 | 29,720 |
| Total | $85,934 | $29,720 |

## 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. Repayment of the advances began in April 2021 and totaled $52.6 million through June 30, 2021. The outstanding liability as of June 30, 2021 was $395.4 million, of which the current portion was $289.3 million. The advances received from CMSAAP will be repaid through 2023.