Thomas Jefferson University

Consolidated Financial Statements
June 30, 2018 and 2017

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Report of Independent Auditors

To the Board of Trustees
Thomas Jefferson University:

We have audited the accompanying consolidated financial statements of Thomas Jefferson University and its subsidiaries (the "University"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in unrestricted net assets, 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 University'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 University'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, 2018 and 2017, and the 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.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 25, 2018

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Thomas Jefferson University
Consolidated Balance Sheets
June 30, 2018 and 2017
(In Thousands)

Assets	**2018**	**2017**
Current assets:		
Cash and cash equivalents	$277,494	$259,798
Short-term investments	1,989,119	1,121,850
Accounts receivable, less allowance for doubtful accounts of $104,840 in 2018 and $88,633 in 2017	640,707	497,519
Inventory	69,216	54,391
Pledges receivable, current	28,098	24,713
Insurance recoverable, current	37,023	31,340
Assets whose use is limited, current	374	18,885
Other current assets	56,675	46,259
Total current assets	3,098,706	2,054,755
Long-term investments	1,066,372	1,161,384
Assets whose use is limited, noncurrent	298,212	190,693
Assets held by affiliated foundations	42,583	61,828
Pledges receivable, noncurrent	103,912	103,663
Goodwill	162,932	161,153
Insurance recoverable, noncurrent	201,709	175,481
Loans receivable from students, net	25,113	26,581
Land, buildings and equipment, net	2,399,819	1,861,622
Other noncurrent assets	50,142	30,962
Total assets	$7,449,500	$5,828,122
Liabilities and Net Assets		
Current liabilities:		
Current portion of:		
Long-term obligations	$30,643	$29,932
Accrued professional liability claims	69,999	49,758
Accrued workers' compensation claims	15,229	10,301
Deferred revenues	20,018	13,881
Accounts payable and accrued expenses	417,402	291,454
Accrued payroll and related costs	287,951	229,022
Grant and contract advances	25,731	19,663
Total current liabilities	866,973	644,011
Long-term obligations	1,663,191	1,172,071
Accrued pension liability	348,946	449,401
Federal student loan advances	10,314	10,114
Deferred revenues	13,440	10,095
Accrued professional liability claims	404,539	437,812
Accrued workers' compensation claims	16,751	21,252
Interest rate swap contracts	24,441	30,576
Other noncurrent liabilities	28,474	21,332
Total liabilities	3,377,069	2,796,664
Net assets:		
Unrestricted	3,216,997	2,306,866
Noncontrolling interest in joint ventures	77,232	75,496
Temporarily restricted	415,784	341,617
Permanently restricted	362,418	307,479
Total net assets	4,072,431	3,031,458
Total liabilities and net assets	$7,449,500	$5,828,122

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

Thomas Jefferson University
Consolidated Statements of Operations and Changes in Unrestricted Net Assets
For the Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
Operating revenues, gains and other support:		
Net patient service revenue	$4,179,543	$3,526,920
Provision for bad debts	(132,828)	(124,804)
Net patient service revenue less provision for bad debts	4,046,715	3,402,116
Grants and contracts	110,402	99,763
Tuition and fees, net	212,207	133,663
Investment income	30,632	49,359
Contributions	5,511	4,469
Other revenue	280,681	221,690
Net assets released from restrictions	43,950	40,934
Total operating revenues, gains and other support	4,730,098	3,951,994
Operating expenses:		
Salaries and wages	2,154,180	1,795,840
Employee benefits	507,333	423,866
Supplies	773,976	650,989
Purchased services	471,886	336,003
Depreciation and amortization	237,052	199,678
Interest	46,195	38,087
Insurance	55,312	79,207
Utilities	54,736	47,542
Rent	62,459	53,202
Other	354,862	278,769
Total operating expenses	4,717,991	3,903,183
Income from operations	12,107	48,811
Nonoperating items and other changes in unrestricted net assets, net:		
Gain on investments, net	111,764	127,529
Investment income net of amounts classified as operating revenue	(929)	7,603
Interest rate swap contracts	3,312	9,875
Reclassification of net assets	1,043	(2,399)
Contributions and government grants for capital projects	1,096	6,518
Net assets released from restrictions used for purchase of property and equipment	6,987	5,136
Decrease in pension liability	146,483	117,178
Distributions to noncontrolling interest	(9,400)	(8,715)
Loss on defeasance of debt	(14,803)	(15,565)
Other	57	-
Contribution received in business combination	654,150	348,425
Increase in unrestricted net assets from nonoperating items and other changes in net assets	899,760	595,585
Increase in unrestricted net assets	$911,867	$644,396

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, 2018 and 2017
(In Thousands)

	2018	2017
Unrestricted net assets:		
Revenues, gains and other support	$4,730,098	$3,951,994
Expenses	(4,717,991)	(3,903,183)
Nonoperating items and other changes in unrestricted net assets, net	899,760	595,585
Increase in unrestricted net assets	911,867	644,396
Temporarily restricted net assets:		
Contributions	39,991	45,061
Gain on investments, net	18,345	27,336
Investment income	4,965	7,111
Net assets released from restrictions	(50,937)	(46,070)
Changes in net assets held by affiliated foundations	49	499
Change in value of split interest agreements	290	753
Reclassification of net assets	(1,018)	2,407
Contribution received in business combination	62,482	2,193
Increase in temporarily restricted net assets	74,167	39,290
Permanently restricted net assets:		
Contributions	9,383	11,043
Net gain on externally held trusts	1,845	5,381
Change in value of split interest agreements	147	14
Reclassification of net assets	(25)	(8)
Contribution received in business combination	43,589	-
Increase in permanently restricted net assets	54,939	16,430
Increase in net assets	1,040,973	700,116
Net assets, beginning of year	3,031,458	2,331,342
Net assets, end of year	$4,072,431	$3,031,458

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, 2018 and 2017
(In Thousands)

	2018	2017
Cash flows from operating activities:		
Increase in net assets	$1,040,973	$700,116
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions received in acquisitions	(760,221)	(350,619)
Decrease in pension liability	(146,483)	(117,178)
Depreciation and amortization	237,740	200,054
Bond premium amortization	(3,384)	(3,245)
Provision for bad debts	132,828	124,804
Assets held by affiliated foundation	(49)	(5,479)
Gain on investments, net	(153,087)	(203,556)
Loss on sale of assets	-	19
Recognition of vesting in Premier stock	(3,952)	(4,008)
Net gain on interest rate swap contracts	(6,036)	(13,310)
Distribution to noncontrolling interest	9,400	8,715
Loss on defeasance of debt	14,803	15,565
Contributions and government grants designated for acquisition of long-term assets	(18,644)	(25,454)
Net change due to:		
Accounts receivable	(182,031)	(173,253)
Pledges receivable	11,801	267
Inventory	(3,504)	(9,522)
Other current and noncurrent assets	2,172	(11,677)
Accounts payable and accrued expenses	63,731	(6,793)
Accrued payroll and related costs	29,033	(9,941)
Grant and contract advances	6,068	3,251
Deferred revenues	6,574	919
Accrued pension liability	(9,923)	313
Insurance recoverable	(20,666)	(4,862)
Accrued professional liability claims	(29,717)	26,787
Accrued workers' compensation claims	(3,571)	(7,215)
Dividends received from joint ventures	32,100	15,219
Other current and noncurrent liabilities	(446)	1,005
Net cash provided by operating activities	245,509	150,922
Cash flows from investing activities:		
Assets whose use is limited increase	(642,421)	(59,461)
Assets whose use is limited decrease	413,527	39,211
Cash acquired in acquisitions	109,831	34,784
Purchase of land, buildings and equipment	(283,415)	(284,431)
Purchases of investments	(8,811,534)	(1,638,346)
Sales of investments	8,717,823	1,674,841
Student loans issued	(3,742)	(4,679)
Student loans repaid	6,023	4,908
Net cash used in investing activities	(493,908)	(233,173)
Cash flows from financing activities:		
Distribution to noncontrolling interest	(9,400)	(8,715)
Contributions and government grants designated for acquisition of long-term assets	18,644	25,454
Federal student loan advances	(847)	(5,537)
Deferred financing fees	(5,995)	(3,811)
Proceeds from long-term obligations	872,962	332,226
Repayment of long-term obligations	(609,269)	(299,311)
Net cash provided by financing activities	266,095	40,306
Net increase (decrease) in cash and cash equivalents	17,696	(41,945)
Cash and cash equivalents at beginning of period	259,798	301,743
Cash and cash equivalents at end of period	$277,494	$259,798
Supplemental disclosures:		
Interest paid (net of amount capitalized)	$50,516	$44,548
Accounts payable related to buildings and equipment	$58,041	$15,027

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, TJUH System ("TJUHS"), Abington Health ("Abington"), Aria Health System ("Aria"), Philadelphia University, Kennedy Health System ("Kennedy") and Magee Rehabilitation Hospital ("Magee"), collectively referred to as TJU.

Thomas Jefferson University 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. Thomas Jefferson University has a tripartite mission of education, research and patient care. On September 9, 2016, Thomas Jefferson University entered into a "University Combination Agreement" (the Agreement) with Philadelphia University, which at the time was 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, and which operated a coeducational institution. On July 1, 2017 the parties consummated the transaction contemplated by the Agreement, with Philadelphia University amending and restating its Articles of Incorporation to become a membership corporation with Thomas Jefferson University as its sole member. Although there remain two non-profit corporations, with Thomas Jefferson University as the sole corporate member of Philadelphia University, the July 1, 2017 transaction resulted in the combination of the two postsecondary educational institutions into a single postsecondary education institution operating as Thomas Jefferson University. Thomas Jefferson University 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 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 6,800 students and is located in Philadelphia, Pennsylvania, with additional campus locations in the Greater Philadelphia Region and Atlantic City, New Jersey.

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

TJU includes the accounts of subsidiaries of Thomas Jefferson University including 1100 Walnut Associates; 925 Walnut Corporation; and the accounts of subsidiaries of TJUHS, including Thomas Jefferson University Hospitals, Inc. ("TJUH"); Jefferson University Physicians ("JUP"); Jefferson Physician Services; the Atrium Corporation; Jeffex, Inc.; Methodist Associates in Healthcare, Inc.; JeffCare, Inc.; JeffCare Alliance, LLC; Jefferson

University Radiology Associates (“JURA”, an 80% owned joint venture); Jefferson Comprehensive Concussion Center (“JCCC”, a 66% owned joint venture); the Riverview Surgery Center at the Navy Yard, LP (“Riverview”, a 51% owned joint venture); Rothman Orthopaedic Specialty Hospital, LLC (“ROSH”, a 54% owned joint venture); and the accounts of subsidiaries of Abington including Abington Memorial Hospital; Lansdale Hospital Corporation; and Abington Health Foundation; and the accounts of subsidiaries of Aria including Aria Health; Aria Physician Services; Aria Health Orthopaedics; System Service Corporation; Aria IPE, LLC; Medical Imaging Associates (an 83% owned joint venture); T.F. Development, Inc.; Health Care, Inc.; TMB Enterprises and Jefferson Health – Northeast Foundation; and the accounts of Philadelphia University; and the accounts of subsidiaries of Kennedy including Kennedy University Hospital, Inc.; Kennedy Health Care Foundation; STAT Medical Transport, Inc.; Kennedy Property Corporation; Kennedy Health Facilities, Inc.; Kennedy Medical Group Practice PC, d/b/a Kennedy Health Alliance; Kennedy Management Group, Inc.; Professional Medical Management Group, Inc.; and Garden State Radiology Network, LLC (“Garden State Radiology”, a 51% owned joint venture); and the accounts of Magee.

Subsequent Events
TJU has performed an evaluation of subsequent events through October 25, 2018, which is the date the financial statements were issued.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of TJU. 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:

Unrestricted Net Assets are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by board designation.

Temporarily Restricted Net Assets are subject to legal or donor imposed restrictions that will be met by actions of TJU and/or the passage of time. These net assets include gifts donated for specific purposes and capital appreciation on permanent endowment, which is restricted by Pennsylvania law on the amounts that may be expended in a given year.

Permanently Restricted Net Assets are subject to donor-imposed restrictions that require the original contribution be maintained in perpetuity by TJU, but permits the use of the investment earnings for general or specific purposes.

TJU’s measure of operations in the consolidated statements of operations and changes in net assets includes revenues from patient services, grants and contracts, tuition and fees, unrestricted contributions, net assets released from restriction, distribution of investment returns based on TJU's spending policy and other sources.

Non-operating activities presented in the consolidated statements of operations and changes in net assets includes investment returns net of amounts classified as operating revenue in accordance with TJU's spending policy, gains and losses on derivative financial instruments, contributions and governmental grants for capital projects, net assets released from restriction for capital purposes, gain (loss) on investments, distributions to non-controlling interests, the net actuarial gain (loss) of the defined benefit plan, loss on defeasance of debt and contributions recognized in business combinations.

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 disclosures of contingent assets and liabilities at the date of the financial statements. 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 contractual allowances and provisions for bad debt; 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 maturity of three months or less when purchased and are carried at cost, which approximates fair value, except that any such investments purchased with funds on deposit with bond trustees are classified as assets whose use is limited or by investment managers of TJU's short-term or long-term investment funds are classified as investments.

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. Charges for services rendered to patients who meet

TJU's guidelines for charity care are not separately recorded in the accompanying consolidated financial statements.

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 $36.9 million and $28.6 million for the years ended June 30, 2018 and 2017, respectively. These amounts are not included in the provision for bad debts of $132.8 million and $124.8 million in 2018 and 2017, respectively, which are reflected as deductions in net patient service revenue. 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 patient service revenue.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including 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 33.3% and 8.8%, respectively, and 34.4% and 6.5%, respectively of net patient service revenue in 2018 and 2017, respectively. Most payments to TJU from the Medicare and Pennsylvania 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, 2015, 2016, 2017 and 2018 have been audited and final settled as of June 30, 2018. 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 $125.7 million and $125.3 million in 2018 and 2017, respectively, and are recorded in net patient service revenue. TJU paid taxes in respect to these programs amounting to $96.1 million and $95.3 million in 2018 and 2017, 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 21.0% and 11.7%, respectively, and 22.1% and 10.5%, respectively, of TJU's net patient service revenue in 2018 and 2017, respectively.

Accounts Receivable, Allowance for Doubtful Accounts, Provision for Bad Debt

TJU records an allowance for doubtful accounts and bad debt expense for estimated losses resulting from non-payment for accounts receivable for services to patients. TJU accounts for uncollectible accounts receivable balances from third-party commercial insurers as reductions to net patient service revenue rather than bad debt expense. Management routinely evaluates account collection history, economic conditions, and trends in health care coverage in determining the sufficiency of the allowance for doubtful accounts and provision for bad debts. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease. The allowance for doubtful accounts increased by the bad debt expense and other adjustments of $93.2 million and $161.8 million in 2018 and 2017, respectively, and decreased due to write-offs of $104.2 million and $137.0 million in 2018 and 2017, respectively.

Grants and Contracts

Grants and contracts revenue primarily represents research activity sponsored by governmental and private sources. TJU recognized operating revenues based on direct expenditures and related facilities and administrative cost rate (F&A) as follows for the years ended June 30, 2018 and 2017 (in thousands):

	Direct Expenditures	F&A Cost	2018 Total	2017 Total
Federal agencies	$53,925	$20,437	$74,362	$67,413
Non-federal agencies	30,718	5,322	36,040	32,350
Total	$84,643	$25,759	$110,402	$99,763

TJU's primary source of federal sponsored support is the Department of Health and Human Services. 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

TJU provides financial aid to eligible students in the form of direct grants, loans and employment during the academic year. Tuition and fees have been reduced by certain grants and scholarships in the amount of $56.5 million and $9.7 million in 2018 and 2017, 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 donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges received which are to be paid in future periods, and contributions restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

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, 2018 and 2017.

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, 2018 and 2017. 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. The calculation of the spendable income for endowment funds of TJU is based on 75% of the prior year spendable income and 25% of the calculated two year average of the endowment market value multiplied by 4.75%; the sum of which is adjusted by an inflation factor. The calculation of the spendable income for endowment funds of Abington is based on 5% of the calculated three year average of the endowment market value.

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 corporations 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.

Prior to April 24, 2018, the Aria Health Foundation (AHF) was a separate corporation not under the control of TJU that engaged in fundraising activities for the benefit of Aria and contributed funds to Aria at its sole discretion. On April 24, 2018 the articles of incorporation of AHF were amended and restated such that AHF was renamed the Jefferson Health – Northeast Foundation ("JHNF") and Aria Health became the sole corporate member. JHNF is organized and operated exclusively to support and for the benefit of Aria Health System. Accordingly, the investments and net assets of JHNF are included in the consolidated balance sheet at June 30, 2018.

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

	2018	2017
Methodist Hospital Foundation	$9,571	$9,123
Aria Health Foundation	-	52,705
Magee Hospital Rehabilitation Foundation	33,012	-
Total	$42,583	$61,828

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, 2018 and 2017 (in thousands):

	2018	2017
Direct student loans	$22,116	$21,141
Allowance for doubtful accounts	(4,327)	(3,954)
Net	17,789	17,187
Federally-sponsored student loans	7,324	9,394
Total	$25,113	$26,581

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, 2018 and 2017 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 during the construction period.

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. When necessary, TJU consults with external advisors to assist in the determination of fair value. The change in the carrying amount of goodwill for the year ended June 30, 2018 and 2017 is as follows:

	2018	2017
Beginning balance:		
Goodwill	$161,737	$160,756
Accumulated impairment losses	(584)	(445)
	161,153	160,311
Goodwill acquired	1,968	981
Impairment losses	(188)	(139)
Ending balance:		
Goodwill	163,705	161,737
Accumulated impairment losses	(772)	(584)
	$162,932	$161,153

Conditional Asset Retirement Obligation

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. TJU has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings and equipment are disposed of or renovated. A conditional asset retirement obligation of \$5.6 million and \$5.1 million as of June 30, 2018 and 2017, respectively, is included within other noncurrent liabilities in the consolidated balance sheets.

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

New Accounting Standards
The Financial Accounting Standards Board ("FASB") issued an accounting standard update in May 2014 regarding the accounting for and disclosure of revenue recognition. Specifically, the update outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The guidance was effective for annual periods beginning after December 15, 2016, which allowed for full retrospective adoption of prior period data or a modified retrospective adoption. Early adoption was not permitted. In July 2015, the FASB issued an update to delay the effective date of the new revenue standard by one year, or, in other words, to be effective for annual and interim periods beginning after December 15, 2017. Entities will be permitted to adopt the new revenue standard early, but not before the original public organization effective date. TJU is currently evaluating the effects of this guidance.

The FASB issued an accounting standard update in February 2016 regarding the accounting for leases. The update requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting guidance. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. TJU is currently evaluating the effects of this guidance.

The FASB issued an accounting standard update in August 2016 regarding the presentation of net asset classifications and information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. The main provisions of this update include reducing the presentation of net asset classes from three to two, without donor restrictions and with donor restrictions, enhanced disclosures on net assets, qualitative information on the management of liquid resources and quantitative information on financial assets to meet cash needs. The amendments in this update are effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. TJU is currently evaluating the effects of this guidance.

2. BUSINESS COMBINATIONS

On September 14, 2018, TJU and Albert Einstein Healthcare Network (“EHN”) entered into a system integration agreement pursuant to which TJU and EHN will combine assets and operations, TJU will become the sole member of EHN, and EHN will designate a number of members to the TJU Board of Trustees, subject to required regulatory consents and approvals and certain conditions precedent (collectively, the “Integration”). TJU can give no assurances as to if or when the Integration will close. TJU hopes to obtain the required regulatory approvals, but cannot predict the timing to receive all such approvals.

On January 5, 2018, pursuant to the terms of an integration agreement, TJU became the sole corporate member of Magee. Magee is a not for profit healthcare organization located in Philadelphia, Pennsylvania. TJU acquired all of the assets and liabilities of Magee and transferred no consideration. The TJU board was reconstituted to include 2 members designated by Magee. This business combination was accounted for as an acquisition. The acquisition of Magee is intended to expand the continuum of care provided by TJU by enhancing the rehabilitation services provided to patients following discharge from the acute care hospital setting and to enhance the educational and research mission of TJU.

On September 1, 2017, pursuant to the terms of an integration agreement, TJU became the sole corporate member of Kennedy. Kennedy is a not for profit healthcare organization located in New Jersey. TJU acquired all of the assets and liabilities of Kennedy and transferred no consideration. The TJU board was reconstituted to include 10 members designated by Kennedy. This business combination was accounted for as an acquisition. The acquisition of Kennedy 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.

On July 1, 2017, pursuant to the terms of a combination agreement, TJU became the sole corporate member of Philadelphia University. Philadelphia University is a not for profit university located in Philadelphia, Pennsylvania. TJU transferred no consideration and acquired all of the assets and liabilities of Philadelphia University. The TJU board was reconstituted to include 2 members designated by Philadelphia University. This business combination was accounted for as an acquisition. The acquisition of Philadelphia University is intended to enhance the educational and research mission of both organizations.

On July 1, 2016, pursuant to the terms of an integration agreement, TJU became the sole corporate member of Aria. TJU acquired all of the assets and liabilities of Aria and the TJU board was reconstituted to include 10 members designated by Aria. No consideration was transferred for the net assets of Aria. This business combination was accounted for as an acquisition. The acquisition of Aria 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.

The following table summarizes the fair value of assets, liabilities and net assets contributed by Magee, Kennedy, Philadelphia University and Aria at the acquisition date (in thousands):

	2018	2017
Cash and cash equivalents	$109,831	$34,784
Accounts receivable	93,985	68,109
Investments	361,932	176,212
Land, buildings and equipment	487,612	305,162
Assets held by affiliated foundation	33,411	47,725
Other assets	72,841	63,421
Total assets acquired	$1,159,612	$695,413
Accounts payable and accrued expenses	$62,217	$58,189
Accrued payroll and related costs	29,896	37,538
Accrued professional liability and workers' compensation claims	20,683	88,328
Long-term obligations	218,292	70,780
Accrued pension obligation	48,421	88,466
Other liabilities	19,882	1,494
Total liabilities assumed	399,391	344,795
Unrestricted assets	652,315	348,425
Noncontrolling interest in joint ventures	1,835	-
Temporarily restricted assets	62,482	2,193
Permanently restricted assets	43,589	-
Total net assets contributed	760,221	350,618
Total net assets and liabilities	$1,159,612	$695,413

	2018	2017
Acquisition related costs included in consolidated statements of operations	$2,294	$492

TJU's pro forma unaudited operating revenues, gains and other support, changes in unrestricted net assets, temporarily restricted net assets and permanently restricted net assets for the year ended June 30, 2018, as if the acquisition of Magee and Kennedy had occurred at July 1, 2017 are (in thousands):

Operating Revenues, Gains and Other Support	Change in Unrestricted Net Assets	Change in Temporarily Restricted Net Assets	Change in Permanently Restricted Net Assets
$4,864,875	$3,301,177	$416,696	$362,918

3. NET ASSETS

Restricted net assets as of June 30, 2018 and 2017 are categorized as follows (in thousands):

	2018	2017
Temporarily restricted		
Pledges	$97,476	$91,683
Gifts restricted for operating or capital purposes and loan funds	213,170	140,830
Undistributed net gains on permanently restricted assets	105,138	109,104
Total - Temporarily restricted	415,784	341,617
Permanently restricted	362,418	307,479
Total restricted net assets	$778,202	$649,096

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017 (in thousands):

	2018	2017
University operations	$22,181	$23,967
Clinical operations	147,292	109,963
Education and research	246,312	207,687
Total temporarily restricted net assets	$415,784	$341,617

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30, 2018 and 2017 (in thousands):

	2018	2017
University operations	$9,099	$9,060
Clinical operations	122,620	92,067
Education and research	230,699	206,352
Total permanently restricted net assets	$362,418	$307,479

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are presented in the consolidated balance sheets at June 30, 2018 and 2017 consist of the following (in thousands):

	2018	2017
Board designated funds for plant replacement and expansion	$0	$129,728
Board designated funds for self-insurance arrangements	-	32,197
Held by trustee under indenture agreement	265,784	22,423
Women's Board and Medical Staff funds	445	662
Restricted for capital purposes	27,991	17,665
Deferred compensation fund	4,253	6,491
Escrow for acquisitions and other	114	414
Total	$298,586	$209,578
Less current portion	(374)	(18,885)
Noncurrent portion	$298,212	$190,693

5. INVESTMENTS

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

	2018	2017
Short-term investments	$1,989,119	$1,121,850
Assets whose use is limited, current	374	18,885
Long-term investments	1,066,372	1,161,384
Assets whose use is limited, noncurrent	298,212	190,693
	$3,354,077	$2,492,812

A summary of investments at June 30, 2018 and 2017 is as follows (in thousands):

	2018	2017
Cash and cash equivalents	$374,306	$53,139
Equity securities	54,361	103,895
Fixed income securities	257,950	205,610
Funds:		
Global equity	1,127,517	434,035
Fixed income	815,317	496,781
Real estate	93,507	11,914
Other mutual funds	40,839	662,794
Private equity	152,254	128,545
Real estate	13,021	20,007
Hedge funds	161,644	135,951
External trusts	135,118	105,319
Investments subject to equity method and other	128,244	134,823
	$3,354,077	$2,492,812

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 $86.0 million and $113.5 million at June 30, 2018 and 2017, respectively. TJU expects these funds to be called over the next 3 to 5 years (in thousands):

	2018	2017
Private equity	$85,437	$112,983
Real estate	561	557
	$85,998	$113,540

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") and Mountain Laurel Risk Retention Group, Inc. ("MLRRG") (51% owned joint venture insurance entities); Cassatt Insurance Company, Ltd. ("Cassatt") (50% voting joint venture insurance entity); Accountable Care Organization (49% owned joint venture); MLJH, LLC (50% owned joint venture) and Health Partners Plans (12% owned joint venture). A summary of investments subject to the equity method and other investments is as follows at June 30, 2018 and 2017 (in thousands):

	2018	2017
Equity method:		
Five Pointe	$47,962	$51,094
MLRRG	3,556	3,530
Health Partners Plans	20,974	33,180
ACO	1,959	3,015
MLJH, LLC	32,146	30,346
Other equity method investments	6,686	2,138
Other	14,961	11,520
	$128,244	$134,823

A summary of investments held under split-interest agreements is as follows at June 30, 2018 and 2017 (in thousands):

	2018	2017
Charitable gift annuities	$14,173	$14,375
Pooled income funds	976	974
Charitable lead trusts	3,857	4,123
Charitable remainder trusts	8,778	9,851
	$27,784	$29,323

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 2018 and 2017 (in thousands):

	2018	2017
Investment income included in operating income:		
Interest and dividends	$6,414	$7,979
Endowment payout	20,311	20,322
Net realized gains on sales of investments	4,584	8,771
Delaware Valley Accountable Care Organization	(3,447)	(996)
Health Partners Plans	-	12,937
MLJH, LLC	1,799	346
Other joint ventures	971	-
	30,632	49,359
Investment income included in nonoperating income:		
Net realized and unrealized gains (losses)	111,764	127,529
Interest and dividends	19,382	27,925
Endowment payout	(20,311)	(20,322)
	110,835	135,132
Total	$141,467	$184,491

6. ENDOWMENT FUNDS

TJU's endowments consist of 1,056 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.

At June 30, 2018, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	($1,474)	$167,740	$359,201	$525,467
Quasi-endowment funds	407,430	-	-	407,430
Total funds	$405,956	$167,740	$359,201	$932,897

Changes in endowment net assets for the fiscal year ended June 30, 2018, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$381,242	$156,420	$304,079	$841,741
Investment return:				
Investment income	1,659	3,923	305	5,887
Gains (losses), realized and unrealized	22,947	16,325	1,672	40,944
Total investment gain (loss)	24,606	20,248	1,977	46,831
Contributions	2,964	1,813	9,580	14,357
Appropriation of assets for expenditure	(20,311)	(14,463)	-	(34,774)
Transfers of University resources and other	17,455	3,722	43,565	64,742
Endowment net assets, end of year	$405,956	$167,740	$359,201	$932,897

At June 30, 2017, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	($1,499)	$156,420	$304,079	$459,000
Quasi-endowment funds	382,741	-	-	382,741
Total funds	$381,242	$156,420	$304,079	$841,741

Changes in endowment net assets for the fiscal year ended June 30, 2017, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$355,595	$145,550	$287,281	$788,426
Investment return:				
Investment income	662	2,264	-	2,926
Gains (losses), realized and unrealized	36,416	24,492	5,416	66,324
Total investment gain (loss)	37,078	26,756	5,416	69,250
Contributions	62	3,058	11,041	14,161
Appropriation of assets for expenditure	(20,322)	(13,595)	-	(33,917)
Transfers of University resources and other	8,829	(5,349)	341	3,821
Endowment net assets, end of year	$381,242	$156,420	$304,079	$841,741

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, which are reported in unrestricted net assets, were $1.4 million and $1.5 million as of June 30, 2018 and 2017, 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. 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 2018 and 2017.

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, 2018 and 2017 (in thousands):

	Level 1	Level 2	Level 3	NAV	2018
Cash and cash equivalents	$374,306	$0	$0	$0	$374,306
Equity securities	48,867	2,994	-	2,500	54,361
Fixed income securities	56,509	195,935	-	5,506	257,950
Funds:					
Global equity	18,567	13,090	-	1,095,860	1,127,517
Fixed income	25,387	7,019	-	782,911	815,317
Real asset	-	-	-	93,507	93,507
Other mutual funds	23,494	5,179	-	12,166	40,839
Private equity	-	-	-	152,254	152,254
Real estate	-	-	-	13,021	13,021
Hedge funds	-	-	-	161,644	161,644
External trusts	-	-	135,118	-	135,118
Total	$547,130	$224,217	$135,118	$2,319,368	$3,225,834

	Level 1	Level 2	Level 3	NAV	2017
Cash and cash equivalents	$53,139	$0	$0	$0	$53,139
Equity securities	101,395	-	-	2,500	103,895
Fixed income securities	42,140	163,470	-	-	205,610
Funds:					
Global equity	3,584	1,225	-	429,226	434,035
Fixed income	10,626	8,892	-	477,263	496,781
Real asset	-	11,914	-	-	11,914
Other mutual funds	397,046	134,197	-	131,551	662,794
Private equity	-	-	-	128,545	128,545
Real estate	-	-	-	20,007	20,007
Hedge funds	-	-	-	135,951	135,951
External trusts	-	-	105,319	-	105,319
Total	$607,930	$319,698	$105,319	$1,325,043	$2,357,989

Investments not subject to fair value leveling or fair value at NAV at June 30, 2018 and 2017 totaled $128.4 million and $134.8 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, 2018 and 2017 (in thousands):

	Level 1	Level 2	Level 3	NAV	2018
Interest rate swaps	$0	$24,441	$0	$0	$24,441

	Level 1	Level 2	Level 3	NAV	2017
Interest rate swaps	$0	$30,576	$0	$0	$30,576

The following tables include a roll-forward of the amounts for the year ended June 30, 2018 and 2017 (in thousands) for investments classified within Level 3.

	External Trusts
Balance at July 1, 2017	$105,319
Acquisitions	-
Dispositions	-
Realized gain/(loss), net	-
Unrealized gain/(loss), net	1,824
Contribution received in business combination	27,975
Transfers in	-
Balance at June 30, 2018	$135,118

	External Trusts
Balance at July 1, 2016	$97,530
Acquisitions	-
Dispositions	-
Realized gain/(loss), net	-
Unrealized gain/(loss), net	5,482
Transfers in	2,307
Balance at June 30, 2017	$105,319

8. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2018 and 2017, respectively (in thousands):

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	$28,240	$28,713
One year to five years	85,517	71,725
Over five years	56,606	65,930
	170,363	166,368
Less: unamortized discount and allowance for doubtful accounts	(38,353)	(37,992)
	$132,010	$128,376

The discount rate ranges from 0.4% to 5.5%. TJU's largest pledge comprises 51% and 54% of the pledge receivable at June 30, 2018 and 2017, respectively.

9. LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment is as follows at June 30, 2018 and 2017, respectively (in thousands):

	2018	2017
Land and land improvements	$196,989	$148,353
Buildings and building improvements	2,437,872	2,025,550
Equipment	1,867,250	1,689,092
Leasehold improvements	126,832	116,661
Construction in progress	182,759	68,809
Less: accumulated depreciation	(2,411,884)	(2,186,843)
Total land, buildings and equipment, net	$2,399,819	$1,861,622

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

10. LONG-TERM OBLIGATIONS

	Final Maturity	Interest Rate at June 30, 2018	2018	2017
Revenue bonds:				
Fixed rate obligations:				
1993 Series A Revenue Bonds	2022	6.00%	$5,930	$5,930
Unamortized issue costs			(76)	(95)
2006 Series B Revenue Bonds	2020	5.25%	11,270	16,455
Unamortized premium and issue costs			65	143
2009 Series A Revenue Bonds	2019	5.00%	5,335	13,980
Unamortized issue costs			(19)	(73)
2012 Series Revenue Bonds	2042	3.00%-5.00%	39,520	40,620
Unamortized premium and issue costs			1,972	2,125
2012 Series A Revenue Bonds	2032	3.25%-5.00%	43,445	138,415
Unamortized premium and issue costs			2,418	8,631
2015 Series A Revenue Bonds	2051	3.00%-5.25%	301,805	301,805
Unamortized premium and issue costs			21,219	22,122
2017 Series A Revenue Bonds	2048	2.875%-5.50%	262,270	262,270
Unamortized premium and issue costs			13,325	13,994
2018 Series A Revenue Bonds	2050	4.00%-5.00%	356,285	-
Unamortized premium and issue costs			29,649	-
2018 Series B Revenue Bonds	2030	2.98%-3.88%	35,075	-
Unamortized issue costs			(291)	-
Total fixed rate obligations			1,129,197	826,322
Variable rate obligations:				
2012 Series B Revenue Bonds	2035	1.95%	50,000	50,000
2015 Series B Revenue Bonds	2046	1.79%	60,000	60,000
Unamortized issue costs			(522)	(542)
2015 Series C Revenue Bonds	2042	2.06%	34,740	34,865
Unamortized issue costs			(126)	(135)
2015 Series D Revenue Bonds	2042	2.13%	34,500	34,625
Unamortized issue costs			(125)	(134)
2015 Series E Revenue Bonds	2042	2.07%	34,740	34,870
Unamortized issue costs			(126)	(135)
2015 Series F Revenue Bonds	2042	2.13%	34,500	34,625
Unamortized issue costs			(125)	(134)
2015 Series G Revenue Bonds	2042	2.03%	20,725	20,800
Unamortized issue costs			(75)	(80)
2015 Series H Revenue Bonds	2042	3.13%	28,735	28,840
Unamortized issue costs			(108)	(115)
2017 Series B Revenue Bonds	2050	1.79%	50,565	50,565
Unamortized issue costs			(537)	(554)
2017 Series C Revenue Bonds	2050	1.98%	50,000	365
Unamortized issue costs			(301)	(310)
2018 Series C Revenue Bonds	2052	2.23%	100,000	-
Unamortized issue costs			(881)	-
2018 Series D Revenue Bonds	2051	1.70%	49,950	-
Unamortized issue costs			(440)	-
Total variable rate obligations			545,089	347,416
Total Revenue bonds			1,674,286	1,173,738
Capital lease obligations	2025		18,107	13,502
Mortgage notes			-	13,420
Other	2037		1,441	1,343
Total long-term debt obligations			$1,693,834	$1,202,003

All TJU Revenue bonds were issued by certain financing authorities as limited obligations of the authorities payable from amounts received under loan agreements with TJU. The bonds are subject to optional redemption prior to maturity on specified dates. The bond agreements contain certain covenants, including financial covenants that require TJU to generate net revenue (as defined) at least equal to 110% of annual debt service requirements. TJU was in compliance with this financial covenant requirement at June 30, 2018.

The 2018 Series A through D Revenue Bonds were issued in May 2018. The proceeds provided funds for certain capital projects and to refinance the 2017 Series E and certain long term obligations of Aria and Kennedy. The 2017 Series E Revenue Bonds were issued in December 2017. The proceeds provided funds to refinance certain long term obligations of Philadelphia University, Kennedy and Abington.

The 2017 Series A through C Revenue Bonds were issued in February 2017. The proceeds provided funds to refinance the 2006 Series A, a portion of the 2006 Series B, and the 2010 Series Revenue Bonds of TJU, to refinance the 2014 Series Revenue Bonds of Aria, to refinance a portion of the Series 2009A Revenue Bonds of Abington and to provide funds for certain capital projects. The 2017 Series C Revenue Bonds were structured as drawdown bonds and purchased by a certain financial institution. At June 30, 2018 the maximum principal amount of the 2017 Series C Revenue Bonds has been drawn.

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

2019	21,317
2020	20,241
2021	15,103
2022	23,091
2023	19,522
Thereafter	1,524,682

TJU had available unsecured lines of credit from various banks of $54.1 million and $51.6 million at June 30, 2018 and 2017, respectively, under which there were no borrowings at June 30, 2018 and 2017, respectively. No compensating balances are required or maintained.

11. DERIVATIVE FINANCIAL INSTRUMENTS

TJU entered into derivative transactions for the purpose of reducing the impact of fluctuations in interest rates under the terms of various interest rate swap contracts. The fair value of these derivative instruments at June 30, 2018 and 2017 in the consolidated balance sheets is as follows (in thousands):

Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2018	Notional Amount at June 30, 2017	Balance Sheet Location	Fair Value at June 30, 2018	Fair Value at June 30, 2017
Expiration 2/1/34	67% of United States Dollar LIBOR (one Month)	2.980%	$67,260	$67,260	Noncurrent Liability	$3,671	$6,509
Expiration 5/1/18	67% of United States Dollar LIBOR (one Month)	4.542%	$15,290	$9,875	Noncurrent Liability	$0	$329
Expiration 9/1/45	67% of United States Dollar LIBOR (one Month)	3.925%	$14,760	$5,103	Noncurrent Liability	$15,841	$17,667
Expiration 5/1/27	68% of United States Dollar LIBOR (one Month)	3.980%	$41,950	$42,075	Noncurrent Liability	$4,116	$6,227
Expiration 5/1/27	68% of United States Dollar LIBOR (Five Year minus 0.293%)	68% of United States Dollar LIBOR (one Month)	$73,000	$73,250	Noncurrent Liability	$476	($211)
Expiration 5/1/27	68% of United States Dollar LIBOR (Five Year minus 0.325%)	68% of United States Dollar LIBOR (one Month)	$41,950	$42,075	Noncurrent Liability	$337	($43)
Expiration 4/23/18	68% of United States Dollar LIBOR (one Month plus 1.60%)	6.390%	$0	$3,878	Noncurrent Liability	$0	$98

The London InterBank Offered Rate ("LIBOR") with a one month maturity ranged from 1.22% to 2.10% (average rate of 1.55%) in 2018. The LIBOR rate with the five year maturity ranged from 1.71% to 3.04% (average rate of 2.38%) in 2018. Non-operating gains of $3.3 million and $9.9 million at June 30, 2018 and 2017, respectively, are included in the consolidated statements of operations and changes in net assets for interest rate swap contracts.

	2018	2017
Change in valuation of interest rate swap contracts	$6,036	$13,310
Net settlement payments with counterparties	(2,724)	(3,435)
Nonoperating gain on interest rate swap contracts	$3,312	$9,875

Accumulated losses on interest rate swap contracts of $24.4 million and $30.6 million at June 30, 2018 and 2017, respectively, are reflected in the consolidated balance sheets.

12. OPERATING LEASES

TJU has lease obligations for buildings, equipment and ambulatory facilities under various operating leases. Lease expenses charged to operations were $77.1 million and $63.1 million in 2018 and 2017, respectively. At June 30, 2018 the minimum future non-cancelable rental lease commitments are as follows (in thousands):

2019	$44,220
2020	40,196
2021	34,181
2022	29,013
2023	27,267
Thereafter	207,256
	$382,132

13. 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 unrestricted net assets. Effective beginning with the fiscal year ending June 30, 2018, TJU changed the method used to calculate service cost and interest cost. The calculation of service cost and PBO will utilize a split discount rate approach, where separate discount rates are calculated for determining each based on their respective expected cash flows. Additionally, the calculation of the interest cost will begin to utilize an approach that applies the individual spot rates from the full yield curve against the expected benefit payments for each year rather than using the single equivalent discount rate applied to all future years. This change will be accounted for as a change in accounting estimate that is reflected prospectively. These changes do not impact the calculation of the PBO or the discount rate.

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

	2018	2017
Change in projected benefit obligation:		
Benefit obligation, beginning of year	$1,726,280	$1,470,466
Transfer in - Acquisitions	237,255	244,335
Service cost	42,477	38,578
Interest cost	67,276	55,745
Net experience loss	(128,257)	(40,369)
Benefits paid	(56,665)	(42,475)
Projected benefit obligation, end of year	1,888,366	1,726,280
Change in plan assets:		
Fair value of plan assets, beginning of year	1,276,879	989,365
Transfer in - Acquisitions	182,180	159,234
Actual return of plan assets	98,273	130,955
Employer contributions	38,753	39,800
Benefit payments	(56,665)	(42,475)
Fair value of plan assets, end of year	1,539,420	1,276,879
Plan funded status	($348,946)	($449,401)

Amounts recognized in unrestricted net assets consist of (in thousands):

	2018	2017
Net actuarial loss	$272,809	$404,187

The accumulated benefit obligation at June 30, 2018 and 2017 was as follows (in thousands):

	2018	2017
Accumulated benefit obligation	$1,732,345	$1,579,677

The components of net periodic benefit cost for the plans for the years ended June 30, 2018 and 2017 were as follows (in thousands):

	2018	2017
Service cost	$42,477	$38,578
Interest cost	67,276	55,745
Expected return on plan assets	(105,981)	(84,474)
Amortization of actuarial loss	25,935	30,330
Net periodic benefit cost	29,707	40,179
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	(120,548)	(86,848)
Actuarial loss	(25,935)	(30,330)
Total recognized in unrestricted net assets	(146,483)	(117,178)
Total recognized in net periodic benefit cost and unrestricted net assets	(116,776)	($76,999)

The estimated actuarial loss that will be amortized from unrestricted net assets during the upcoming fiscal year is $8.7 million.

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

	2018	2017
Discount rate	4.38%	3.99%
Rate of compensation increase	3.50%	3.77%
Expected return on plan assets	6.98%	7.43%

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

	2018	2017
Discount rate - service cost	4.06%	3.98%
Discount rate - interest cost	3.29%	3.27%
Rate of compensation increase	3.50%	3.77%
Expected return on plan assets	7.40%	7.43%

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

	Targeted Range	Percentage of Plan Assets June 30, 2018	Percentage of Plan Assets June 30, 2017
Cash	0-5%	1%	1%
Bonds	25-45%	28%	28%
Global equity	45-65%	68%	58%
Real estate and other	5-10%	3%	12%
		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 $36.4 million during fiscal year 2019.

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

2019	$65,897
2020	71,010
2021	77,191
2022	83,410
2023	89,721
2024 - 2028	535,804
	$923,033

The following table presents the fair value of plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2018 and 2017 (in thousands):

	Level 1	Level 2	Level 3	NAV	2018
Cash and cash equivalents	$8,915	$0	$0	$0	$8,915
Equity securities	37,814	49	-	266,883	304,746
Fixed income securities	5,111	76,375	-	-	81,486
Funds:					
Global equity	-	-	-	739,101	739,101
Fixed income	15,554	-	-	334,682	350,236
Private equity	-	-	-	1,316	1,316
Real estate	-	-	-	469	469
Hedge funds	-	-	-	53,151	53,151
Total	$67,394	$76,424	$0	$1,395,602	$1,539,420

	Level 1	Level 2	Level 3	NAV	2017
Cash and cash equivalents	$3,620	$15,383	$0	$0	$19,003
Equity securities	392,450	-	-	90,663	483,113
Fixed income securities	2,512	72,934	-	157,827	233,273
Funds:					
Global equity	-	-	-	255,142	255,142
Fixed income	11,121	32,475	-	86,465	130,061
Other mutual funds	107,355	-	-	-	107,355
Private equity	1,191	-	-	1,627	2,818
Real estate	-	-	-	589	589
Hedge funds	-	-	-	45,525	45,525
Total	$518,249	$120,792	$0	$637,838	$1,276,879

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, 2018 and 2017 was as follows (in thousands):

Plan	Description	2018	2017
TJU: Faculty and senior administrators	9% to 13% of eligible compensation based upon age	$22,310	$21,084
TJU: Non-faculty and non-union	4.5% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions	21,600	21,460
JUP	10% of eligible compensation for physicians and 3.5% to 5.5% of eligible compensation for non-physicians based upon years of service	19,704	15,667
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	5,756	4,114
Aria	Matching contribution of 50% of the first 4% of employee contributions plus 1% to 7% based on age and years of service	5,040	2,988
Philadelphia University	9% of eligible compensation	2,129	-
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	4,529	-
Magee	2% to 4% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions	830	-
		$81,898	$65,313

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 2017. TJU's contribution to the Pension Fund was $8.2 million and $7.6 million for the years ended June 30, 2018 and 2017, respectively. The contributions represent approximately 27% and 28% of the contributions to the Pension Fund, respectively. A three year collective-bargaining agreement was approved by the Union effective July 1, 2018. TJU contributions as a percentage of covered payroll to the Pension Fund for the year ending June 30, 2019 will be 21.55%.

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

At January 1, 2017, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $252.4 million.

14. PROFESSIONAL LIABILITY CLAIMS

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

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

In addition, for 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 Magee, TJU and TJUHS. MLRRG is a licensed captive insurance company qualified as a risk retention group domiciled in Vermont. TJU is a 49% owner and Magee is a 2% owner of MLRRG. The remaining ownership interest is held by other regional non-profit hospitals and/or health systems.

MLRRG is reinsured by a non-profit 501(c)(3) protected cell insurance company, Five Pointe, domiciled in Delaware. Five Pointe reinsures 100% of the professional liability risks of 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 TJU and/or TJUHS to the assets in the TJUH protected cell and claims against Magee to the assets in the Magee 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. Cassatt is owned by the same various regional non-profit hospitals and is incorporated as an insurance company under the laws of Bermuda.

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

For losses in excess of the primary and MCARE layers of coverage TJUHS retains and accrues for potential liabilities up to primary and $5.0 million each medical incident and $5.0 million aggregate excess of a $7.0 million each and every medical incident retention (inclusive of defense costs, and primary and MCARE payments). Accruals for the retained amounts are based on actuarially-determined estimates, which reflect a 65% confidence level and a 3% discount rate for 2018 and 2017. 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 maintains claims-made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of $95.0 million per medical incident and $95.0 million annual aggregate which attaches excess of the primary, MCARE and retained limits of coverage described above. For TJU's miscellaneous professional liability exposure the excess professional liability insurance coverage attaches excess of $1.0 million per claim and $3.0 million annual aggregate. Five Pointe reinsures 100% of this risk to seven reinsurers (ACE, XL, Lloyd's Syndicates, Berkley, Zurich, Endurance and Swiss Re) currently rated at least A- by A.M. Best. A separate limit of $95.0 million per occurrence and $95.0 million aggregate is also maintained to provide liability insurance coverage excess of the general, auto, employers and aviation liability coverages.

For losses in excess of the primary and MCARE layers (if applicable) Magee retains and accrues for potential liabilities up to $1.0 million each and every medical incident (inclusive of defense costs, and primary and MCARE payments). Accruals for the retained amounts are based on actuarially-determined estimates, which reflect a 65% confidence level and a 3% discount rate for 2018 and 2017. 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.

Magee maintained claims made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of $10.0 million per medical incident and $10.0 million annual aggregate which attaches excess of the primary, MCARE and retained limits of coverage described above. Five Pointe reinsures 100% of this risk to ACE and Zurich (both currently rated at least A- by AM Best). For Abington and Aria, liabilities for potential professional liability losses in excess of the primary hospital and MCARE layers, Cassatt provides coverage up to a $4.0 million per claim limit and layered excess professional liability coverage of $15.0 million per claim with a $48.0 million annual aggregate reinsured by commercial reinsurance carriers rated at least "A" by A.M. Best. In addition, CRRG 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 Cassatt.

Kennedy maintains professional liability insurance coverage on a claims made basis through a commercial insurance carrier. Coverage is on a guaranteed cost basis. The primary professional liability insurance coverage limits provided are $1.0 million per claim and $3.0 million annual aggregate. In addition to this primary professional layer of coverage, Kennedy also purchased excess coverage limits of $20.0 million per claim and $20.0 million annual aggregate from two commercial insurance carriers.

MLRRG provides a $2.0 million per occurrence and $4.0 million annual aggregate general liability coverage limit for TJU and TJUHS and a $1.0 million per occurrence and $3.0 million annual aggregate general liability coverage limit for Magee. 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.

Kennedy purchased a commercial insurance policy that provides a $1.0 million per occurrence and $1.0 million annual aggregate general liability coverage limit.

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 2018 and 2017 and include a charge for premium tax and operating expenses.

For CRRG 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 55% confidence level and a 3.5% discount rate for 2018 and 2017.

TJU has accrued professional liability claims of $474.5 million and $487.6 million at June 30, 2018 and 2017, respectively, of which $70.0 million and $49.8 million were current.

Anticipated insurance recoveries associated with these liabilities for June 30, 2018 and 2017 is $224.4 and $201.7 million, respectively.

15. 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 $32.0 million and $31.6 million at June 30, 2018 and 2017, respectively. These amounts are presented in the accompanying consolidated balance sheets.

16. COMMITMENTS AND CONTINGENCIES

Letters of Credit

TJU had open letters of credit aggregating $33.2 million and $34.1 million at June 30, 2018 and 2017, respectively, primarily related to self-insurance arrangements for workers' compensation. The letters of credit expire between July 12, 2018 and February 20, 2020.

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.

17. FUNCTIONAL CLASSIFICATION

Expenses for the years ended June 30, 2018 and 2017 are categorized on a functional basis as follows (in thousands):

	Clinical Operations	Instruction	Sponsored Programs	Auxiliary Activities	Academic Support	Student Services	Institutional Support	Total
Salaries and wages	$1,807,938	$99,872	$79,508	$8,306	$6,457	$9,072	$143,027	$2,154,180
Employee benefits	415,905	25,309	18,809	744	3,148	2,614	40,804	507,333
Supplies	741,755	3,732	19,488	48	265	510	8,176	773,975
Purchased services	409,674	5,685	2,613	1,554	37	266	52,056	471,885
Depreciation and amortization	203,098	12,421	12,719	5,266	208	826	2,515	237,054
Interest	33,534	4,841	5,380	1,607	165	532	134	46,193
Insurance	55,195	299	8	49	10	109	(359)	55,311
Utilities	41,384	8,500	182	2,174	162	795	1,539	54,736
Rent	49,207	1,948	1,807	2,793	110	275	10,743	66,882
Other expenses	209,754	24,573	21,903	24,786	4,209	4,244	60,975	350,442
Total June 30, 2018	$3,967,444	$187,180	$162,417	$47,327	$14,770	$19,243	$319,611	$4,717,991
Total June 30, 2017	$3,321,103	$137,272	$149,996	$43,152	$6,709	$6,598	$238,353	$3,903,183

18. NONCONTROLLING INTEREST

TJU has a controlling interest in certain joint ventures in healthcare related organizations; the Riverview Surgery Center at the Navy Yard, LP ("Riverview", a 51% owned joint venture); Jefferson University Radiology Associates ("JURA", an 80% owned joint venture); Jefferson Comprehensive Concussion Center ("JCCC", a 66% owned joint venture); Rothman Orthopaedic Specialty Hospital, LLC ("ROSH", a 54% owned joint venture); Garden State Radiology Network ("GSRN", a 51% owned joint venture). The amount not owned by TJU is shown as a non-controlling interest. The following table presents the changes in consolidated unrestricted net assets attributable to the controlling financial interest of TJU and the non-controlling interest (in thousands):

		Non-controlling Interests						
	Controlling Interest	Riverview	JURA	JCCC	ROSH	GSRN	Total	Consolidated Total
Balance, June 30, 2016	$1,663,397	$2,872	$362	$479	$70,856	$0	$74,569	$1,737,966
Income from Operations	39,169	2,159	465	20	6,998	-	9,642	48,811
Distributions to NCI	-	(2,940)	(393)	-	(5,382)	-	(8,715)	(8,715)
Other changes, net	604,300	-	-	-	-	-	-	604,300
Balance, June 30, 2017	2,306,866	2,091	434	499	72,472	-	75,496	2,382,362
Acquisition of GSRN	1,910	-	-	-	-	1,835	1,835	3,745
Income from Operations	2,801	2,062	491	5	6,621	127	9,306	12,107
Distributions to NCI	-	(2,058)	(350)	-	(6,992)	-	(9,400)	(9,400)
Other changes, net	905,420	-	-	-	-	(5)	(5)	905,415
Balance, June 30, 2018	$3,216,997	$2,095	$575	$504	$72,101	$1,957	$77,232	$3,294,229