Thomas Jefferson University

Consolidated Financial Statements
June 30, 2019 and 2018

Thomas Jefferson University
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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, 2019 and 2018, and the related consolidated statements of operations and changes in net assets without donor restrictions, of changes in net assets, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thomas Jefferson University and its subsidiaries as of June 30, 2019 and 2018, and the results of their operations and changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 28, 2019

Thomas Jefferson University
Consolidated Balance Sheets
June 30, 2019 and 2018
(In Thousands)

Assets	**2019**	**2018**
Current assets:		
Cash and cash equivalents	$247,015	$277,494
Short-term investments	2,130,332	1,989,119
Accounts receivable	699,742	640,707
Inventory	73,828	69,216
Pledges receivable, current	34,187	28,098
Insurance recoverable, current	32,412	37,023
Assets whose use is limited, current	1,308	374
Other current assets	49,068	56,675
Total current assets	3,267,892	3,098,706
Long-term investments	1,084,937	1,066,372
Assets whose use is limited, noncurrent	578,299	298,212
Assets held by affiliated foundations	43,098	42,583
Pledges receivable, noncurrent	97,846	103,912
Goodwill	162,932	162,932
Insurance recoverable, noncurrent	222,315	201,709
Loans receivable from students, net	23,959	25,113
Land, buildings and equipment, net	2,583,733	2,399,819
Other noncurrent assets	47,722	50,142
Total assets	$8,112,733	$7,449,500
Liabilities and Net Assets		
Current liabilities:		
Current portion of:		
Long-term obligations	$34,856	$30,643
Accrued professional liability claims	78,957	69,999
Accrued workers' compensation claims	14,359	15,229
Deferred revenues	20,906	20,018
Accounts payable and accrued expenses	495,908	417,402
Accrued payroll and related costs	293,683	287,951
Grant and contract advances	16,984	25,731
Total current liabilities	955,653	866,973
Long-term obligations	2,078,232	1,663,191
Accrued pension liability	479,398	348,946
Federal student loan advances	10,410	10,314
Deferred revenues	15,822	13,440
Accrued professional liability claims	399,562	404,539
Accrued workers' compensation claims	15,250	16,751
Interest rate swap contracts	33,975	24,441
Other noncurrent liabilities	20,218	28,474
Total liabilities	4,008,520	3,377,069
Net assets:		
Net assets without donor restriction - Thomas Jefferson University	3,229,958	3,216,997
Noncontrolling interest in joint ventures	76,079	77,232
Total net assets without donor restriction	3,306,037	3,294,229
Net assets with donor restriction	798,176	778,202
Total net assets	4,104,213	4,072,431
Total liabilities and net assets	$8,112,733	$7,449,500

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

Thomas Jefferson University
Consolidated Statements of Operations and Changes in Net Assets without Donor Restriction
For the Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Operating revenues, gains and other support:		
Net patient service revenue	$4,409,942	$4,046,715
Grants and contracts	126,854	110,402
Tuition and fees, net	212,494	212,207
Investment income	40,536	30,632
Contributions	4,650	5,511
Sale of controlling interest	58,191	-
Other revenue	314,189	280,681
Net assets released from restrictions	49,372	43,950
Total operating revenues, gains and other support	5,216,228	4,730,098
Operating expenses:		
Salaries and wages	2,332,723	2,154,180
Employee benefits	518,751	507,333
Supplies	859,594	773,976
Purchased services	429,752	471,886
Depreciation and amortization	247,934	237,052
Interest	53,648	46,195
Insurance	80,024	55,312
Utilities	65,816	54,736
Rent	78,998	62,459
Other	497,972	354,862
Total operating expenses	5,165,212	4,717,991
Income from operations	51,016	12,107
Nonoperating items and other changes in net assets without donor restriction, net:		
Return on investments, net of amounts classified as operating revenue	108,347	110,835
Interest rate swap contracts	(11,867)	3,312
Reclassification of net assets	40	1,043
Contributions and government grants for capital projects	1,531	1,096
Net assets released from restrictions used for purchase of property and equipment	26,989	6,987
(Increase) Decrease in pension liability	(153,035)	146,483
Distributions to noncontrolling interest	(10,923)	(9,400)
Loss on defeasance of debt	-	(14,803)
Other	(290)	57
Contribution received in business combination	-	654,150
(Decrease) Increase in nonoperating items and other changes in net assets without donor restriction	(39,208)	899,760
Increase in net assets without donor restriction	$11,808	$911,867

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, 2019 and 2018
(In Thousands)

	2019	2018
Net assets without donor restriction:		
Revenues, gains and other support	$5,216,228	$4,730,098
Expenses	(5,165,212)	(4,717,991)
Nonoperating items and other changes in net assets without donor restriction, net	(39,208)	899,760
Increase in net assets without donor restriction	11,808	911,867
Net assets with donor restriction:		
Contributions	74,367	49,374
Gain on investments, net	15,810	18,345
Net (loss) gain on externally held trusts	(184)	1,845
Investment income	5,625	4,965
Net assets released from restrictions	(76,361)	(50,937)
Changes in net assets held by affiliated foundations	515	49
Change in value of split interest agreements	242	437
Reclassification of net assets	(40)	(1,043)
Contribution received in business combination	-	106,071
Increase in net assets with donor restriction	19,974	129,106
Increase in net assets	31,782	1,040,973
Net assets, beginning of year	4,072,431	3,031,458
Net assets, end of year	$4,104,213	$4,072,431

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, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operating activities:		
Increase in net assets	$31,782	$1,040,973
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributions received in acquisitions	-	(760,221)
Increase (Decrease) in pension liability	153,035	(146,483)
Depreciation and amortization	248,736	237,740
Bond premium amortization	(5,375)	(3,384)
Assets held by affiliated foundation	(515)	(49)
Gain on investments, net	(160,955)	(153,087)
Recognition of vesting in Premier stock	(5,621)	(3,952)
Net loss (gain) on interest rate swap contracts	9,534	(6,036)
Distribution to noncontrolling interest	10,923	9,400
Loss on defeasance of debt	-	14,803
Sale of controlling interest	(58,191)	-
Contributions and government grants designated for acquisition of long-term assets	(16,243)	(18,644)
Net change due to:		
Accounts receivable	(56,198)	(49,203)
Pledges receivable	(23)	11,801
Inventory	(4,612)	(3,504)
Other current and noncurrent assets	9,533	2,172
Accounts payable and accrued expenses	78,506	63,731
Accrued payroll and related costs	5,732	29,033
Grant and contract advances	(8,747)	6,068
Deferred revenues	3,262	6,574
Accrued pension liability	(22,583)	(9,923)
Insurance recoverable	(15,995)	(20,666)
Accrued professional liability claims	3,981	(29,717)
Accrued workers' compensation claims	(2,371)	(3,571)
Dividends received from joint ventures	15,197	32,100
Other current and noncurrent liabilities	(8,327)	(446)
Net cash provided by operating activities	204,465	245,509
Cash flows from investing activities:		
Assets whose use is limited increase	(442,671)	(642,421)
Assets whose use is limited decrease	161,650	413,527
Cash acquired in acquisitions	-	109,831
Sale of controlling interest	40,363	-
Purchase of land, buildings and equipment	(428,628)	(283,415)
Purchases of investments	(3,743,315)	(8,811,534)
Sales of investments	3,750,287	8,717,823
Student loans issued	(3,654)	(3,742)
Student loans repaid	4,808	6,023
Net cash used in investing activities	(661,160)	(493,908)
Cash flows from financing activities:		
Distribution to noncontrolling interest	(10,923)	(9,400)
Contributions and government grants designated for acquisition of long-term assets	16,243	18,644
Federal student loan advances	96	(847)
Deferred financing fees	(4,275)	(5,995)
Proceeds from long-term obligations	497,019	872,962
Repayment of long-term obligations	(71,944)	(609,269)
Net cash provided by financing activities	426,216	266,095
Net (decrease) increase in cash and cash equivalents	(30,479)	17,696
Cash and cash equivalents at beginning of period	277,494	259,798
Cash and cash equivalents at end of period	$247,015	$277,494
Supplemental disclosures:		
Interest paid (net of amount capitalized)	$59,110	$50,516
Accounts payable related to buildings and equipment	$48,749	$58,041

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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. 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 Jefferson College of Rehabilitation Sciences, the Kanbar College of Design, Engineering and Commerce, the School of Continuing and Professional Studies, the College of Architecture and the Built Environment, and the College of Science, Health and the Liberal Arts. The combined institution has approximately 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 28, 2019, which is the date the financial statements were issued.

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

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

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities: Presentation of Financial Statements of Not-for Profit Entities, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs are required to classify net assets as net assets with donor restrictions or without donor restrictions. Among other things, the guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Institution for annual periods beginning after December 15, 2017 and interim periods thereafter. As such, the Institution adopted ASU 2016-14 for the year ended December 31, 2018. The effects of the adoption of ASU 2016-14 were applied retrospectively. As a result of the adoption of ASU 2016-14, the net asset categories have been updated as described above. Additionally, the addition of quantitative and qualitative disclosures related to the analysis of expenses by both natural and functional classifications and liquidity and availability of resources can be found in Notes 4 and 14. The adoption of ASU 2016-14 had no impact on the total net assets previously reported by the Institution as of December 31, 2017.

TJU classifies net assets as follows:

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

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

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

TJU's 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.

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

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

Cash and Cash Equivalents
Cash and cash equivalents consist of cash and investments in highly liquid debt instruments with 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 $59.3 million and $36.9 million for the years ended June 30, 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the TJU total expenses divided by gross charges.

Net Patient Service Revenue

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

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

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

As substantially all of TJU's patient service performance obligations relate to contracts with a duration of less than one year, TJU has elected to apply the optional practical expedient provided in Accounting Standards Update (ASU) 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks after the end of the reporting period.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 30.0% and 9.0%, respectively, and 33.3% and 8.8%, respectively of net patient service revenue in 2019 and 2018, 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 2017, 2018 and 2019 have been audited and final settled as of June 30, 2019. 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 $135.5 million and $125.7 million in 2019 and 2018, respectively, and are recorded in net patient service revenue. TJU paid taxes in respect to these programs amounting to $89.4 million and $96.1 million in 2019 and 2018, 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 23.0% and 14.2%, respectively, and 21.0% and 11.7%, respectively, of TJU's net patient service revenue in 2019 and 2018, respectively.

Effective July 1, 2018, TJU adopted ASU 2014-09 using a full retrospective method of application. The adoption of ASU 2014-09 resulted in changes to our presentation and disclosure of revenue primarily related to uninsured or underinsured patients. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered implicit price concessions that are a direct reduction to net patient service revenues. For the years ended June 30, 2019 and 2018, TJU recorded $142.9 million and $132.8 million, respectively of implicit price concessions as a direct reduction of net patient service revenues that would have been recorded as provision for bad debts prior to the adoption of ASU 2014-09.

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, 2019 and 2018 (in thousands):

	Direct Expenditures	F&A Cost	2019 Total	2018 Total
Federal agencies	$56,088	$22,480	$78,568	$74,362
Non-federal agencies	41,246	7,040	48,286	36,040
Total	$97,334	$29,520	$126,854	$110,402

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

Tuition and fees revenue is recognized in the fiscal year in which the academic programs are delivered. Tuition and fees received in advance of services to be rendered are reported as deferred revenue on the consolidated balance sheets. TJU provides financial aid to eligible students in the form of institutional scholarships, loans and employment during the academic year. Tuition and fees have been reduced by certain institutional grants and scholarships in the amount of $61.3 million and $56.5 million in 2019 and 2018, 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. Pledges received which are to be paid in future periods, and contributions restricted by the donor for specific purposes are reported as net assets with donor restriction support. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction.

Collections
TJU capitalizes works of art, historical treasures, or similar assets (collectively, Collections). Collections are recorded at fair value at the date of the contribution. Collections of approximately $5.7 million are included in other noncurrent assets on the consolidated balance sheets at June 30, 2019 and 2018.

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, 2019 and 2018. 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.

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

	2019	2018
Methodist Hospital Foundation	$10,002	$9,571
Magee Hospital Rehabilitation Foundation	33,096	33,012
Total	$43,098	$42,583

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, 2019 and 2018 (in thousands):

	2019	2018
Direct student loans	$22,238	$22,116
Allowance for doubtful accounts	(4,327)	(4,327)
Net	17,911	17,789
Federally-sponsored student loans	6,048	7,324
Total	$23,959	$25,113

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, 2019 and 2018 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

Land, Buildings, and Equipment, net

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

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, 2019 and 2018 is as follows (in thousands):

	2019	2018
Beginning balance:		
Goodwill	$163,704	$161,736
Accumulated impairment losses	(772)	(772)
	162,932	160,964
Goodwill acquired	-	1,968
Ending balance:		
Goodwill	163,704	163,704
Accumulated impairment losses	(772)	(772)
	$162,932	$162,932

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

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

New Accounting Standards

The FASB issued an accounting standard update 2016-02, Leases (Topic 842) in February 2016. The update requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting guidance. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. TJU is adopting this guidance effective July 1, 2019 and has elected to implement the modified retrospective method.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that an employer report the service cost component of pension costs in the same line item as employee compensation costs within operating income. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, and will not be eligible for capitalization. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. TJU is currently evaluating the effect of adoption to the financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which adds and clarifies guidance in the presentation of the changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. This ASU does not provide a definition of restricted cash. The ASU is effective for TJU beginning July 1, 2020. TJU is currently evaluating the effect of adoption to the financial statements.

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 two 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 September 9, 2016, TJU 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 TJU as its sole member. Although there remain two non-profit corporations, with TJU 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. 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.

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

	2018
Cash and cash equivalents	$109,831
Accounts receivable	93,985
Investments	361,932
Land, buildings and equipment	487,612
Assets held by affiliated foundation	33,411
Other assets	72,841
Total assets acquired	$1,159,612
Accounts payable and accrued expenses	$62,217
Accrued payroll and related costs	29,896
Accrued professional liability and workers' compensation claims	20,683
Long-term obligations	218,292
Accrued pension obligation	48,421
Other liabilities	19,882
Total liabilities assumed	399,391
Net assets without donor restriction - Thomas Jefferson University	652,315
Noncontrolling interest in joint ventures	1,835
Total net assets without donor restriction	654,150
Net assets with donor restriction	106,071
Total net assets contributed	760,221
Total net assets and liabilities	$1,159,612

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

3. NET ASSETS

Net assets consisted of the following at June 30, 2019 and 2018 (in thousands):

	2019			2018		
Detail of net assets	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating	$2,865,652	$174,362	$3,040,014	$2,868,029	$146,656	$3,014,685
Capital gifts	-	15,721	15,721	-	33,779	33,779
Student loan funds	21,034	22,026	43,060	20,244	20,917	41,161
Endowment funds	419,351	534,826	954,177	405,956	526,941	932,897
Assets held by affiliated foundations	-	43,098	43,098	-	42,583	42,583
Deferred giving	-	8,143	8,143	-	7,326	7,326
Total	$3,306,037	$798,176	$4,104,213	$3,294,229	$778,202	$4,072,431

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited presented in the consolidated balance sheets at June 30, 2019 and 2018 consist of the following (in thousands):

	2019	2018
Held by trustee under indenture agreement	$561,065	$265,784
Women's Board and Medical Staff funds	1,355	445
Restricted for capital purposes	12,691	27,991
Deferred compensation fund	2,812	4,253
Other	1,684	114
Total	$579,607	$298,586
Less current portion	(1,308)	(374)
Noncurrent portion	$578,299	$298,212

5. INVESTMENTS

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

	2019	2018
Short-term investments	$2,130,332	$1,989,119
Assets whose use is limited, current	1,308	374
Long-term investments	1,084,937	1,066,372
Assets whose use is limited, noncurrent	578,299	298,212
	$3,794,876	$3,354,077

A summary of investments at June 30, 2019 and 2018 is as follows (in thousands):

	2019	2018
Cash and cash equivalents	$689,197	$374,306
Equity securities	16,583	54,361
Fixed income securities	262,962	257,950
Funds:		
Global equity	1,230,692	1,127,517
Fixed income	883,312	815,317
Real estate	101,928	93,507
Other mutual funds	3,311	40,839
Private equity	166,456	152,254
Real estate	5,174	13,021
Hedge funds	153,619	161,644
External trusts	132,931	135,118
Investments subject to equity method and other	148,711	128,244
	$3,794,876	$3,354,077

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 $245.6 million and $86.0 million at June 30, 2019 and 2018, respectively. TJU expects these funds to be called over the next 3 to 5 years (in thousands):

	2019	2018
Private equity	$232,321	$85,437
Real estate	13,317	561
	$245,638	$85,998

Hedge funds provide quarterly liquidity with 60 to 90 days’ notice prior to the quarter’s end limiting TJU’s ability to respond quickly to changes in market conditions. Liquidity of individual hedge funds vary based on various factors and may include "gates", "holdbacks" and "side pockets" imposed by the manager of the hedge fund, as well as redemption fees which may also apply. Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption and/or subscription activity. In the cases of a holdback, TJU considers the significance of the holdback, its impact on the overall valuation and the associated risk that the holdback amount will not be fully realized based on a prior history of adjustments to the initially reported NAV.

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

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

TJU accounts for investments in the following entities under the equity method: Five Pointe Professional Liability Insurance Company ("Five Pointe") (50% owned joint venture insurance entity); Mountain Laurel Risk Retention Group, Inc. ("MLRRG") (50% owned joint venture insurance entity); Delaware Valley Accountable Care Organization ("DVACO") (50% owned joint venture); MLJH, LLC (50% owned joint venture); Health Partners Plans ("HPP") (25% membership interest joint venture) and Fresenius Medical Care Voorhees, LLC ("FMCV") (30% owned joint venture). A summary of investments subject to the equity method and other investments is as follows at June 30, 2019 and 2018 (in thousands):

	2019	2018
Equity method:		
Five Pointe	$45,225	$47,962
MLRRG	5,425	3,556
HPP	27,003	20,974
DVACO	2,327	1,959
MLJH, LLC	31,489	32,146
FMCV, LLC	15,300	-
Other equity method investments	4,101	6,686
Other	17,841	14,961
	$148,711	$128,244

A summary of investments held under split-interest agreements is as follows at June 30, 2019 and 2018 (in thousands):

	2019	2018
Charitable gift annuities	$14,062	$14,173
Pooled income funds	1,006	976
Charitable lead trusts	3,715	3,857
Charitable remainder trusts	7,026	8,778
	$25,809	$27,784

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 2019 and 2018 (in thousands):

	2019	2018
Investment income included in operating income:		
Interest and dividends	$15,086	$6,414
Endowment payout	20,871	20,311
Net realized gains on sales of investments	-	4,584
DVACO	(3,514)	(3,447)
HPP	6,029	-
MLJH, LLC	3,142	1,799
Other joint ventures	(1,078)	971
	40,536	30,632
Investment income included in nonoperating income:		
Net realized and unrealized gains (losses)	126,657	111,764
Interest and dividends	2,561	19,382
Endowment payout	(20,871)	(20,311)
	108,347	110,835
Total	$148,883	$141,467

6. ENDOWMENT FUNDS

TJU's endowments consist of 1,006 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, 2019, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	$0	$534,826	$534,826
Quasi-endowment funds	419,351	-	419,351
Total funds	$419,351	$534,826	$954,177

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

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

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

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted funds	($1,474)	$526,941	$525,467
Quasi-endowment funds	407,430	-	407,430
Total funds	$405,956	$526,941	$932,897

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$381,242	$460,499	$841,741
Investment returns	24,606	22,225	46,831
Contributions	2,964	11,393	14,357
Appropriation of assets for expenditure	(20,311)	(14,463)	(34,774)
Transfers of University resources and other	17,455	47,287	64,742
Endowment net assets, end of year	$405,956	$526,941	$932,897

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires TJU to retain as a fund of perpetual duration. Shortfalls of this nature are classified as a reduction of donor-restricted net assets, and were $1.3 million and $1.4 million as of June 30, 2019 and 2018, respectively.

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

7. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

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

	2019	2018
Financial assets:		
Cash and cash equivalents	$247,015	$277,494
Accounts receivable	699,742	640,707
Pledge payments available for operations	23,491	17,664
Short-term investments	1,930,639	1,796,831
Subsequent year's endowment payout	39,047	37,895
	2,939,934	2,770,591
Liquidity resources:		
Bank lines of credit	48,000	54,100
Total financial assets and liquidity resources available within one year	$2,987,934	$2,824,691

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

As part of TJU's liquidity management, it has a practice to structure its financial assets in a manner to be available to satisfy general expenditures and other obligations as they come due. To manage unanticipated liquidity needs, TJU had available unsecured lines of credit from various banks of $48.0 million and $54.1 million at June 30, 2019 and 2018, respectively, under which there were no borrowing at June 30, 2019 and 2018, respectively.

8. FAIR VALUE MEASUREMENT

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

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

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

Level 3 Inputs that are not currently observable.

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

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

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

Level 2 - Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. They include investments in common trust equity and fixed income funds, corporate grade bonds, high yield bonds and certain mortgage products. These assets are valued based on quoted market prices in active markets or dealer quotations and are categorized as Level 2. There were no transfers between Levels 1 and 2 during 2019 and 2018.

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, 2019 and 2018 (in thousands):

	Level 1	Level 2	Level 3	NAV	2019
Cash and cash equivalents	$689,197	$0	$0	$0	$689,197
Equity securities	42	14,041	-	2,500	16,583
Fixed income securities	84,618	161,652	-	16,692	262,962
Funds:					
Global equity	33,816	-	-	1,196,876	1,230,692
Fixed income	-	-	-	883,312	883,312
Real asset	-	4,579	-	97,349	101,928
Other mutual funds	3,311	-	-	-	3,311
Private equity	-	-	-	166,456	166,456
Real estate	-	-	-	5,174	5,174
Hedge funds	-	-	-	153,619	153,619
External trusts	-	-	132,931	-	132,931
Total	$810,984	$180,272	$132,931	$2,521,978	$3,646,165

	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	40,838
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	$3,225,833

Investments not subject to fair value leveling or fair value at NAV at June 30, 2019 and 2018 totaled $148.7 million and $128.4 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, 2019 and 2018 (in thousands):

	Level 1	Level 2	Level 3	NAV	2019
Interest rate swaps	$0	$33,975	$0	$0	$33,975

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

The following tables include a roll-forward of the amounts for the year ended June 30, 2019 and 2018 (in thousands) for investments classified within Level 3.

	External Trusts
Balance at July 1, 2018	$135,118
Acquisitions	-
Dispositions	-
Realized gain/(loss), net	-
Unrealized gain/(loss), net	(2,187)
Contribution received in business combination	-
Transfers in	-
Balance at June 30, 2019	$132,931

	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

9. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2019 and 2018, respectively (in thousands):

	2019	2018
Unconditional promises expected to be collected in:		
Less than one year	$34,187	$28,240
One year to five years	80,039	85,517
Over five years	54,501	56,606
	168,727	170,363
Less: unamortized discount and allowance for doubtful accounts	(36,694)	(38,353)
	$132,033	132,010

The discount rate ranges from 0.4% to 5.5%. TJU's largest pledge comprises 48% and 51% of the pledge receivable at June 30, 2019 and 2018, respectively.

10. LAND, BUILDINGS AND EQUIPMENT

A summary of land, buildings and equipment is as follows at June 30, 2019 and 2018, respectively (in thousands):

	2019	2018
Land and land improvements	$197,315	$196,989
Buildings and building improvements	2,673,369	2,437,872
Equipment	1,963,593	1,867,250
Leasehold improvements	120,422	126,832
Construction in progress	299,990	182,759
Less: accumulated depreciation	(2,670,956)	(2,411,884)
Total land, buildings and equipment, net	$2,583,733	$2,399,819

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

11. LONG-TERM OBLIGATIONS

	Final Maturity	Interest Rate at June 30, 2019	2019	2018
Revenue bonds:				
Fixed rate obligations:				
1993 Series A Revenue Bonds	2022	6.00%	$5,930	$5,930
Unamortized issue costs			(56)	(76)
2006 Series B Revenue Bonds	2020	4.00%-5.25%	5,785	11,270
Unamortized premium and issue costs			9	65
2009 Series A Revenue Bonds	2019	5.00%	-	5,335
Unamortized issue costs			-	(19)
2012 Series Revenue Bonds	2042	3.00%-5.00%	38,355	39,520
Unamortized premium and issue costs			1,823	1,972
2012 Series A Revenue Bonds	2032	3.25%-5.00%	40,340	43,445
Unamortized premium and issue costs			2,001	2,418
2015 Series A Revenue Bonds	2051	3.00%-5.25%	301,805	301,805
Unamortized premium and issue costs			20,317	21,219
2017 Series A Revenue Bonds	2048	2.875%-5.50%	262,270	262,270
Unamortized premium and issue costs			12,656	13,325
2018 Series A Revenue Bonds	2050	4.00%-5.00%	356,285	356,285
Unamortized premium and issue costs			26,998	29,649
2018 Series B Revenue Bonds	2030	2.98%-3.88%	35,075	35,075
Unamortized issue costs			(254)	(291)
2019 Series A Revenue Bonds	2051	4.00%-5.00%	449,745	-
Unamortized premium and issue costs			42,999	-
Total fixed rate obligations			1,602,083	1,129,197
Variable rate obligations:				
2012 Series B Revenue Bonds	2035	1.95%	-	50,000
2015 Series B Revenue Bonds	2046	1.92%	60,000	60,000
Unamortized issue costs			(502)	(522)
2015 Series C Revenue Bonds	2042	2.36%	34,620	34,740
Unamortized issue costs			(117)	(126)
2015 Series D Revenue Bonds	2042	2.43%	34,375	34,500
Unamortized issue costs			(116)	(125)
2015 Series E Revenue Bonds	2042	2.37%	34,615	34,740
Unamortized issue costs			(117)	(126)
2015 Series F Revenue Bonds	2042	2.43%	34,375	34,500
Unamortized issue costs			(116)	(125)
2015 Series G Revenue Bonds	2042	2.33%	20,650	20,725
Unamortized issue costs			(70)	(75)
2015 Series H Revenue Bonds	2042	3.59%	28,630	28,735
Unamortized issue costs			(101)	(108)
2017 Series B Revenue Bonds	2050	1.92%	50,565	50,565
Unamortized issue costs			(519)	(537)
2017 Series C Revenue Bonds	2050	2.28%	50,000	50,000
Unamortized issue costs			(291)	(301)
2018 Series C Revenue Bonds	2052	2.23%	100,000	100,000
Unamortized issue costs			(854)	(881)
2018 Series D Revenue Bonds	2051	1.92%	49,950	49,950
Unamortized issue costs			(426)	(440)
Total variable rate obligations			494,551	545,089
Total Revenue bonds			2,096,634	1,674,286
Capital lease obligations	2025		15,459	18,107
Other			995	1,441
Total long-term debt obligations			$2,113,088	$1,693,834

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, 2019.

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

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.

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

2020	27,500
2021	21,404
2022	29,709
2023	27,261
2024	27,930
Thereafter	1,875,846

12. 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, 2019 and 2018 in the consolidated balance sheets is as follows (in thousands):

Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2019	Notional Amount at June 30, 2018	Balance Sheet Location	Fair Value at June 30, 2019	Fair Value at June 30, 2018
Expiration 2/1/34	67% of United States Dollar LIBOR (one Month)	2.980%	$67,260	$67,260	Noncurrent Liability	$5,946	$3,671
Expiration 5/1/18	67% of United States Dollar LIBOR (one Month)	4.542%	$15,290	$15,290	Noncurrent Liability	$0	$0
Expiration 9/1/45	67% of United States Dollar LIBOR (one Month)	3.925%	$18,348	$14,760	Noncurrent Liability	$22,727	$15,841
Expiration 5/1/27	68% of United States Dollar LIBOR (one Month)	3.980%	$38,025	$41,950	Noncurrent Liability	$4,685	$4,116
Expiration 5/1/27	68% of United States Dollar LIBOR (Five Year minus 0.293%)	68% of United States Dollar LIBOR (one Month)	$66,175	$73,000	Noncurrent Liability	$358	$476
Expiration 5/1/27	68% of United States Dollar LIBOR (Five Year minus 0.325%)	68% of United States Dollar LIBOR (one Month)	$38,025	$41,950	Noncurrent Liability	$259	$337
Expiration 4/23/18	68% of United States Dollar LIBOR (one Month plus 1.60%)	6.390%	$0	$3,878	Noncurrent Liability	$0	$0

The London InterBank Offered Rate ("LIBOR") with a one month maturity ranged from 2.06% to 2.52% (average rate of 2.35%) in 2019. The LIBOR rate with the five year maturity ranged from 1.70% to 3.21% (average rate of 2.66%) in 2019. Non-operating losses of $11.9 million and non-operating gains of $3.3 million at June 30, 2019 and 2018, respectively, are included in the consolidated statements of operations and changes in net assets for interest rate swap contracts.

	2019	2018
Change in valuation of interest rate swap contracts	($9,534)	$6,036
Net settlement payments with counterparties	(2,333)	(2,724)
Nonoperating (loss) gain on interest rate swap contracts	($11,867)	$3,312

Accumulated losses on interest rate swap contracts of $34.0 million and $24.4 million at June 30, 2019 and 2018, respectively, are reflected in the consolidated balance sheets.

13. OPERATING LEASES

TJU has lease obligations for buildings, equipment and ambulatory facilities under various operating leases. Lease expenses charged to operations were $79.0 million and $77.1 million in 2019 and 2018, respectively. At June 30, 2019 the minimum future non-cancelable rental lease commitments are as follows (in thousands):

2020	$43,442
2021	36,575
2022	31,045
2023	28,754
2024	26,549
Thereafter	185,991
	$352,356

14. EMPLOYEE BENEFIT PLANS

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

The accounting guidance for defined benefit pension plans requires employers to recognize the overfunded or underfunded projected benefit obligation ("PBO") of a defined benefit pension plan as an asset or liability in the balance sheet. The PBO represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. The accounting guidance also requires employers to recognize annual changes in gains or losses, prior service costs, or other credits that have not been recognized as a component of net periodic pension cost through net assets without donor restriction. 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):

	2019	2018
Change in projected benefit obligation:		
Benefit obligation, beginning of year	$1,888,366	$1,726,280
Transfer in - Acquisitions	-	237,255
Service cost	38,657	42,477
Interest cost	76,614	67,276
Net experience gain(loss)	159,776	(128,257)
Benefits paid	(62,767)	(56,665)
Projected benefit obligation, end of year	2,100,646	1,888,366
Change in plan assets:		
Fair value of plan assets, beginning of year	1,539,420	1,276,879
Transfer in - Acquisitions	-	182,180
Actual return of plan assets	108,070	98,273
Employer contributions	36,512	38,753
Benefit payments	(62,754)	(56,665)
Fair value of plan assets, end of year	1,621,248	1,539,420
Plan funded status	($479,398)	($348,946)

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

	2019	2018
Net actuarial loss	$425,844	$272,809

The accumulated benefit obligation at June 30, 2019 and 2018 was as follows (in thousands):

	2019	2018
Accumulated benefit obligation	$1,940,935	$1,732,345

The components of net periodic benefit cost for the plans for the years ended June 30, 2019 and 2018 were as follows (in thousands):

	2019	2018
Service cost	$38,657	$42,477
Interest cost	76,614	67,276
Expected return on plan assets	(110,031)	(105,981)
Amortization of actuarial loss	8,702	25,935
Net periodic benefit cost	13,942	29,707
Other changes in plan assets and benefit obligations recognized in net assets without donor restriction:		
Net actuarial gain(loss)	161,737	(120,548)
Actuarial loss	(8,702)	(25,935)
Total recognized in net assets without donor restriction	153,035	(146,483)
Total recognized in net periodic benefit cost and net assets without donor restriction	$166,977	($116,776)

The estimated actuarial loss that will be amortized from net assets without donor restriction during the upcoming fiscal year is $24.2 million.

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

	2019	2018
Discount rate	3.75%	4.38%
Rate of compensation increase	3.50%	3.50%
Expected return on plan assets	6.98%	6.98%

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

	2019	2018
Discount rate - service cost	4.22%	4.06%
Discount rate - interest cost	4.21%	3.29%
Rate of compensation increase	3.50%	3.50%
Expected return on plan assets	6.98%	7.40%

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

	Targeted Range	Percentage of Plan Assets June 30, 2019	Percentage of Plan Assets June 30, 2018
Cash	0-5%	2%	1%
Bonds	25-45%	27%	28%
Global equity	45-65%	62%	68%
Real estate and other	5-10%	9%	3%
		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 $32.2 million during fiscal year 2020.

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

2020	$79,961
2021	80,536
2022	86,475
2023	93,003
2024	98,673
2025-2029	573,170
	$1,011,818

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, 2019 and 2018 (in thousands):

	Level 1	Level 2	Level 3	NAV	2019
Cash and cash equivalents	$33,184	$0	$0	$0	$33,184
Equity securities	38,736	-	-	-	38,736
Fixed income securities	-	2	-	-	2
Funds:					
Global equity	-	-	-	971,710	971,710
Fixed income	15,267	-	-	423,298	438,565
Real assets	-	-	-	84,055	84,055
Other mutual funds	-	-	-	-	-
Private equity	-	-	-	2,790	2,790
Real estate	-	-	-	468	468
Hedge funds	-	-	-	51,737	51,737
Total	$87,188	$2	$0	$1,534,058	$1,621,248

	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

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, 2019 and 2018 was as follows (in thousands):

Plan	Description	2019	2018
TJU: Faculty and senior administrators	9% to 13% of eligible compensation based upon age	$23,628	$22,310
TJU: Non-faculty and non-union	4.5% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions	22,716	21,600
JUP	10% of eligible compensation for physicians and 3.5% to 5.5% of eligible compensation for non-physicians based upon years of service	19,036	19,704
Abington	2% to 5% of eligible compensation based upon years of service, plus matching contribution of 50% of the first $2,000 of employee contributions	6,945	5,756
Aria	Matching contribution of 50% of the first 4% of employee contributions plus 1% to 7% based on age and years of service	10,333	5,040
Philadelphia University	9% of eligible compensation	2,378	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	6,103	4,529
Magee	2% to 4% of eligible compensation, plus matching contribution of 25% of the first 6% of employee contributions	1,696	830
		$92,835	$81,898

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 2019. TJU's contribution to the Pension Fund was $7.9 million and $8.2 million for the years ended June 30, 2019 and 2018, respectively. The contributions represent approximately 25.9% and 27% 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, 2018, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $233.2 million.

15. PROFESSIONAL LIABILITY CLAIMS

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

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

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

In addition, for Kennedy, Magee, TJUHS, Abington and Aria non-healthcare provider entities are provided with shared limits of $1.0 million per medical incident and $3.0 million annual aggregate. Also provided on the TJUHS policy are individual limits of $1.0 million per medical incident and $3.0 million annual aggregate for dentists, as well as physicians/residents practicing in other states including Delaware, New Jersey and Maryland. For TJU a primary professional liability layer of coverage of $1.0 million per claim and $3.0 million in the aggregate is provided.

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

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

For Abington and Aria this primary layer of professional liability coverage is provided by Cassatt RRG ("CRRG"). CRRG is a licensed captive insurance company qualified as a risk retention group domiciled in Vermont. CRRG is owned and governed by various regional non-profit hospitals including a 25% voting interest by Abington and a 25% voting interest by Aria. CRRG is reinsured by Cassatt. 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 a $12.0 million each and every medical incident retention, Kennedy retains and accrues for potential liabilities up to a $3.0 million each and every medical incident retention and Magee retains and accrues for potential liabilities up to a $1.0 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 2019 and 2018. 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 six reinsurers (ACE, XL, Lloyd's Syndicates, 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 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.

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

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

For MLRRG the premiums charged for the primary professional and general liability layers of coverage are determined by an independent actuary, based on loss and loss adjustment expense experience and other factors, at a 65% confidence level and a 3% discount rate for 2019 and 2018 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 2019 and 2018.

TJU has accrued professional liability claims of $478.5 million and $474.5 million at June 30, 2019 and 2018, respectively, of which $79.0 million and $70.0 million were current.

Anticipated medical malpractice insurance recoveries associated with these liabilities for June 30, 2019 and 2018 is $243.6 and $224.4 million, respectively.

16. WORKERS' COMPENSATION CLAIMS

TJU is self-insured for its workers' compensation exposures. TJU accrues for its workers' compensation liability based upon actuarial estimates using a discount rate of 3%. Accrued workers' compensation liabilities were $29.6 million and $32.0 million at June 30, 2019 and 2018, respectively. These amounts are presented in the accompanying consolidated balance sheets.

17. COMMITMENTS AND CONTINGENCIES

Letters of Credit

TJU had open letters of credit aggregating $20.5 million and $33.2 million at June 30, 2019 and 2018, respectively, primarily related to self-insurance arrangements for workers' compensation. The letters of credit expire between August 30, 2019 and August 24, 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.

18. FUNCTIONAL CLASSIFICATION

Expenses for the years ended June 30, 2019 and 2018 are categorized on a functional basis as follows (in thousands):

	Education and Research	Clinical Operations	Total
Salaries and wages	$245,168	$2,087,555	$2,332,723
Employee benefits	59,639	459,112	518,751
Supplies	32,675	826,919	859,594
Purchased services	24,745	405,007	429,752
Depreciation and amortization	33,184	214,750	247,934
Interest	11,737	41,911	53,648
Insurance	559	79,465	80,024
Utilities	12,647	53,169	65,816
Rent	7,218	71,780	78,998
Other expenses	93,460	404,512	497,972
Total June 30, 2019	$521,032	$4,644,180	$5,165,212
Total June 30, 2018	$480,306	$4,237,685	$4,717,991

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

19. NONCONTROLLING INTEREST

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

		Non-controlling Interests						
	Controlling Interest	Riverview	JURA	JCCC	ROSH	GSRN	Total	Consolidated Total
Balance, June 30, 2017	$2,306,866	$2,091	$434	$499	$72,472	$0	$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
Income from Operations	41,103	2,126	690	(201)	7,186	112	9,913	51,016
Distributions to NCI	-	(2,352)	(448)	(303)	(7,820)	-	(10,923)	(10,923)
Other changes, net	(28,142)	-	(136)	-	-	(7)	(143)	(28,285)
Balance, June 30, 2019	$3,229,958	$1,869	$681	$0	$71,467	$2,062	$76,079	$3,306,037