Jefferson

HOME OF SIDNEY KIMMEL MEDICAL COLLEGE

Thomas Jefferson University

Consolidated Financial Statements

For the Fiscal Year Ending June 30, 2021
(UNAUDITED)

Management's Discussion and Analysis

Operating Performance

Fiscal Year 2021

For the fiscal year ending June 30th, TJU operations experienced a $5.9 million income (0.1% margin) from operations compared to a $459.4 million loss (-8.7% margin) in the prior year. Total operating revenue includes government support of $155.0 million and $325.1 million in FY21 and FY20, respectively. The prior year operating loss of $459.4 million was due to the impact of COVID-19 commencing in March 2020.

COVID-19 continued to negatively impact TJU's operating performance into FY21. For the first seven months of FY21 (July - January), TJU's operations experienced a $155.6 million loss excluding government support. However, for the final five months of FY21 (February - June) TJU's operating performance excluding goverment support resulted in a return to profitability and a surplus from operations of $6.5 million. Inpatient admissions from February to June were 101.2% of the same period in FY19 (the most recent pre-COVID time period).

Total operating revenues through June were $390.4 million or 7.4% greater than the prior year. Excluding government support for COVID-19, which decreased $170.0 million or 52.3% in FY21, all other operating revenues increased $560.4 million or 11.3%, primarily due to patient service revenue as the lost volume due to COVID recovered throughout FY21.

Operating expenses are $86.3 million or 1.5% greater than the prior year. Despite reductions in patient volumes and related revenues in the 4th quarter of FY20 due to the onset of COVID-19, TJU's expenses did not experience the same rate of reduction. It was essential that TJU be positioned to provide critical care services to any surge of patients with COVID-19 symptoms, as well as maintain its tertiary and quarternary care capacity for the Greater Philadelphia region in the face of an unprecedented global health crisis.

Overall, TJU's total operating income compared favorably to budget by $130.3 million. Operating margin was budgeted at -2.3% compared to the actual result of 0.1%.

Total TJU operating revenue was $177.0 million (3.2%) above budget. The favorable variance was driven by net patient service revenue and other revenue of $169.2 and $60.7 million, respectively. Inpatient admissions and physician visits were 0.2% and 0.8% lower than budget, respectively, while outpatient visits were 1.4% higher than budget.

Total TJU operating expenses were $46.8 million (0.8%) higher than budget. This variance was driven by unfavorable variances for salaries and wages ($42.5 million or 1.7%), employee benefits ($12.8 million or 2.4%) due to employee health care costs, supplies ($17.5 million or 3.1%), and drugs ($17.5 million or 4.4%). These were partially offset by favorable

THOMAS JEFFERSON UNIVERSITY
(TJU)

Clinical Pillar

- *Abington – Jefferson Health*
  - Abington Hospital
  - Lansdale Hospital
- *Jefferson Health Northeast (JH-NE)*
  Formerly Aria Health
  - Jefferson Bucks Hospital
  - Jefferson Frankford Hospital
  - Jefferson Torresdale Hospital
- *Jefferson Health New Jersey (JH-NJ)*
  Formerly Kennedy Health
  - Jefferson Cherry Hill Hospital
  - Jefferson Stratford Hospital
  - Jefferson Washington Twp. Hospital
- *Thomas Jefferson University Hospitals, Inc. (TJUH)*
  - Thomas Jefferson Univ Hospital
  - Jefferson Hospital for Neuroscience
  - Methodist Hospital
  - Rothman Orthopaedic Hospital (JV)
  - Physicians Care Surgical Hospital (JV)
- *Magee Rehabilitation (Magee)*

Academic Pillar

- *Center City (Thomas Jefferson University)*
- *East Falls (Philadelphia University)*

Enterprise Services

- Finance
- IS&T
- Security and Maintenance
- Supply Chain
- Human Resources
- Legal and Compliance
- Institutional Advancement
- Executive Admin, including Diversity and Innovation
- Marketing
- Business Services
- Bio-medical Services
- Enterprise Clinical Services
- DVACO
- Health Management Information
- Strategy & Business Development
- Patient Access
- Managed Care Contracting
- Enterprise Pharmacy & Pop Health

variances for other expenses ($13.3 million or 1.2%) and interest ($9.5 million or 14.5%) due to favorable interest rates on variable rate debt. The Clinical Pillar experienced a $13.9 million loss from operations for a favorable budget variance of $116.7 million. From a divisional perspective, TJUH was favorable by $47.9 million, JH-NJ $46.9 million, JH-NE $28.2 million, and Magee $4.0 million. Abington was unfavorable by $10.4 million.

The Academic Pillar experienced an operating gain of $19.8 million, which was $13.5 million greater than budget. Enterprise Services net costs are $3.9 million or 0.5% less than budget through June.

The Coronavirus Aid, Relief and Economic Security (CARES) Act became law on March 27, 2020. The CARES Act contains certain provisions to provide funding to healthcare providers and educational institutions, as well as deferral of employer payroll taxes. During FY21 and FY20, TJU recognized a $155.0 million and $325.0 million, respectively, of Government Support for COVID-19 as other operating revenue. Additionally, in FY20, TJU received $448.0 million of advance payments from the Federal government pursuant to the CMS Accelerated and Advance Payment Program. Commencement of the repayment period of these advance payments began in April 2021 and is anticipated to continue through July 2022.

Budget

FY21 marked the beginning of a multi-year effort to return TJU to pre-COVID levels of profitability, with FY22 being targeted for the restoration of break-even operations. A key assumption in the FY21 operating budget was a projected return to 94.4% of pre-COVID levels for inpatient addmisstions. Actual experience in FY21 resulted in a return of 99.6% of pre-COVID levels. Additionally, TJU increased its endowment spending policy in FY21 to the upper limit of 10% allowed under the temporary provisions of Pennsylvania law that were enacted to assist not-for-profit organizations in recovering from the COVID-19 pandemic. Cost reduction initiatives included in the FY21 operating budget included suspension of retirement plan contributions and annual merit increases, reduction of incentive compensation and reduction in workforce through attrition.

Key Financial Indicators

Operating Ratios:
For the Fiscal Year Ending June 30, 2021

	Budget	Actual	Prior Yr
Operating Margin	-2.3%	0.1%	-8.7%
EBIDA	$218,507	$329,124	$24,597
EBIDA Margin	4.0%	5.8%	0.5%

	June 2021	Jun 2020	Moody's A2 Median
Days Cash on Hand	265.6	239.8	213.0
Days Revenue in Receivable	42.4	58.3	45.9
Debt to Capitalization	38.7%	48.0%	32.3%
Current Ratio	2.7	3.9	1.8

Clinical Pillar – Patient Volume

Hospital Inpatient Activity

Inpatient admissions for FY21 are greater than the prior year by 1,586 cases or 1.3% while below budget by 224 cases or -0.2%.

Outpatient observation cases for FY21 are less than the prior year by 7,243 cases or -19.2% and are below budget by 2,760 cases or -8.3%. The ratio of observation cases to total inpatient admissions plus observation cases was 19.4% and 23.2% for the fiscal years ending June 30, 2021 and 2020, respectively.

Hospital Outpatient Activity

Outpatient visits of 1,558,313 for FY21 were 156,056 visits or 11.1% higher than the same period in the prior year. Compared to budget, outpatient visits are 22,198 visits or 1.4% higher than budget.

Physician Network Office Visits

Visits were 86,030 for FY21 or 3.5% higher than prior year but unfavorable to budget by 20,164 visits or -0.8%.

Non-operating Items and Net Assets with Donor Restriction

Non-operating items and other changes in net assets without donor restriction resulted in a $883.4 million increase in net assets for FY21. Investment returns, net of amounts recorded in operations, of $476.1 million and a reduction in accrued pension costs of $379.7 million drove this net change.

Net assets with donor restriction experienced an increase of $153.9 million. The increase is driven by contribution revenue of $78.0 million and investment gains of $127.8 milllion that are offset in part by net assets released from restriction of $65.8 million.

Balance Sheet

Total net assets at June 30th increased $1.0 billion compared to the prior year. Net assets without donor restriction increased by $889.3 million and net assets with donor restriction increased $153.9 million.

Total assets increased $885.1 million or 10.6%. Cash, short-term and long-term investments combined increased $536.6 million, mainly due to net gains on TJU's pooled investments of $628.3 million and favorable operating performance that were offset in part by repayment of line of credit borrowings of $170.0 million. Additionally, TJU recognized $269.5 million of right-of-use assets pursuant to the adoption of a new lease accounting standard requiring the recognition of right-of-use assets and liabilities associated with operation leases. TJU's right-of-use assets and liabilities mostly relate to real estate leases. Also, accounts receivable increased $96.2 million mainly due to a $92.7 million increase in patient receivables related to increasing patient volume subsequent to the end of the COVID-19 restrictions on elective and non-essential activities.

All other changes in assets netted to a decrease of $159.7 million and include a decrease in assets whose use is limited of $214.1 million due to the spending of prior year bond proceeds on capital projects, offset in part by an increase in land, buildings & equipment of $142.5 million.

Total liabilities decreased $158.0 million or -3.1%. The decrease in liabilities is mainly driven by decreases in accrued pension costs of $396.0 million mainly due to favorable investment returns on Plan assets, long-term obligations of $181.4 million due to the aforementioned line of credit repayment, and advances of $49.6 mainly due to the the commencement of the repayment period for the CMS Accelerated and Advance Payment Program. These decreases were offset in part by the recognition of $313.6 million of right-of-use liabilities pursuant to the aforementioned adoption of a new lease accounting standard and increases in accrued payroll of $71.3 million and accounts payable and other accrued expenses of $63.0 million.

Capital expenditures were $403.3 million for FY21 and expenditures on major projects include construction of JHNJ towers at Washington Township ($96.3 million) and Cherry Hill ($62.0 million), and EPIC at Abington and JH-Northeast ($49.0 million).

Thomas Jefferson University
Financial and Statistical Dashboard
June 2021
(UNAUDITED)

		Year to Date		
Utilization		**Actual**	**Prior Yr**	**Fav/ (Unfav)%**
1	Admissions	125,897	124,311	1.3%
2	Patient Days	692,989	645,135	(7.4%)
3	Average Daily Census	1,898.56	1,764.45	7.6%
4	Average Length-of-Stay	5.50	5.18	(6.1%)
5	Occupancy %	71.2%	66.3%	7.4%
6	Inpatient Surgeries	34,342	34,800	(1.3%)
7	Outpatient Surgeries	41,605	39,381	5.6%
8	Outpatient Visits	1,558,313	1,402,257	11.1%
9	Observation Unit Cases	30,383	37,626	(19.2%)
10	Adjusted Discharges	202,523	201,435	0.5%
Operating Indicators				
11	Total FTE's including agency			
a	TJUH System	9,113.5	9,009.4	(1.2%)
b	Academic	2,984.3	2,919.7	(2.2%)
c	Corporate	4,135.6	3,990.3	(3.6%)
d	Abington	4,480.5	4,697.5	4.6%
e	JHNE	2,859.4	2,851.4	(0.3%)
f	JHNJ	3,471.0	3,873.1	10.4%
g	Magee	521.7	461.1	(13.1%)
h	Total	27,566.0	27,802.6	0.9%
12	Medical Supply Cost per Adjusted Discharge			
	a) TJUH Inc	$5,720	$5,077	(12.7%)
	b) Abington	$2,286	$2,191	(4.3%)
	c) JHNE	$1,788	$1,482	(20.6%)
	d) JHNJ	$2,952	$2,694	(9.6%)
	e) Magee	$1,766	$1,594	(10.8%)
13	Hospital Operating Expense per Adjusted Discharge			
	a) TJUH Inc	$24,895	$24,700	(0.8%)
	b) Abington	$12,537	$12,387	(1.2%)
	c) JHNE	$10,844	$10,226	(6.0%)
	d) JHNJ	$17,085	$17,695	3.4%
	e) Magee	$48,815	$64,031	23.8%
14	Case Mix Index (All payers)			
	a) TJUH Inc	2.19	2.11	3.9%
	b) Abington	1.66	1.61	2.7%
	c) JHNE	1.77	1.74	1.7%
	d) JHNJ	1.60	1.56	2.3%
15	Managed Care Payer Mix			
	a) TJUH Inc	25.69%	26.64%	(3.6%)
	b) Abington	27.46%	27.12%	1.3%
	c) JHNE	14.00%	15.24%	(8.1%)
	d) JHNJ	20.70%	18.93%	9.3%
	e) Magee	22.32%	25.06%	(10.9%)
16	Income (Loss) from Operations (in thousands)	$5,884.3	($459,424.6)	
Key Ratios & Balance Sheet Items				
17	Operating Margin %	0.10%	(8.71%)	
18	EBIDA Margin %	5.81%	0.47%	
19	Increase (Decrease) in Net Assets without Donor Restriction	$889,278	($760,322)	
		June 2021	**June 2020**	
20	Cash & Short-Term Investments (in thousands)	$2,837,550	$2,896,016	
21	Days Cash on Hand	265.59	239.81	
22	Days in Accounts Receivable	42.4	58.3	
23	Maximum Annual Debt Service Coverage Ratio[(1)]	2.73	(1.05)	
24	Debt Service % of Revenues	2.13%	2.47%	
25	Debt to Capitalization	38.26%	47.71%	

(1) Debt Service Coverage Ratio calculated over the twelve-month period of July 2020 through June 2021.

THOMAS JEFFERSON UNIVERSITY
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2021
(IN THOUSANDS)
(UNAUDITED)

	6/30/21	6/30/20
Assets		
Current Assets:		
Cash and cash equivalents	$360,949	$801,017
Short-term investments	2,476,601	2,095,000
Accounts receivable, less allowance for doubtful accts	589,540	493,320
Insurance recoverable	71,971	43,412
Pledges receivable	31,843	31,966
Inventory	119,370	103,331
Assets whose use is limited	737	791
Other current assets	51,807	64,287
Total Current Assets	3,702,818	3,633,124
Noncurrent Assets:		
Assets whose use is limited	85,630	299,691
Insurance recoverable	221,031	211,253
Assets held by affiliated foundation	49,691	40,183
Pledges receivable	102,845	97,495
Loans receivable from students, net	21,053	22,058
Land, buildings & equipment, net	3,067,833	2,925,366
Long-term investments	1,700,055	1,105,000
Right-of-use assets	269,535	0
Other noncurrent assets	36,802	38,003
Total Assets	**$9,257,293**	**$8,372,173**
Liabilities and Net Assets		
Current Liabilities:		
Current portion of:		
Deferred revenues	$28,601	$20,111
Long-term obligations	37,888	25,336
Accrued professional liablity claims	120,290	81,832
Accrued workers' compensation claims	12,740	14,121
Right-of-use liabilities	31,637	0
Interest rate swap contracts	0	24,717
Advances	331,444	82,344
Accrued payroll and related costs	384,550	313,250
Accounts payable and accrued expenses	432,452	369,436
Total Current Liabilities	1,379,602	931,148
Noncurrent Liabilities:		
Long-term obligations	2,128,855	2,322,825
Accrued pension liability	391,392	787,423
Accrued professional liability claims	459,761	428,182
Federal student loan advances	5,867	7,586
Deferred revenues	1,286	40,979
Accrued workers' compensation claims	25,289	15,547
Right-of-use liabilities	281,971	0
Interest rate swap contracts	34,919	47,070
Advances	93,331	391,993
Other noncurrent liabilities	68,980	56,511
Total Liabilities	4,871,253	5,029,264
Net Assets:		
Net assets without donor restriction	3,417,492	2,525,218
Noncontrolling interest in joint ventures	17,501	20,497
Net assets with donor restriction	951,047	797,194
Total Net Assets	4,386,040	3,342,909
Total Liabilities and Net Assets	**$9,257,293**	**$8,372,173**

THOMAS JEFFERSON UNIVERSITY

FINANCIAL AND STATISTICAL REPORT

CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

(IN THOUSANDS)

(UNAUDITED)

	Year-to-date		
	Actual	Prior Yr.	Var %
Revenues:			
Net patient service revenue	$4,604,549	$4,155,428	10.8%
Grants and contracts - direct	124,687	93,774	33.0%
Grants and contracts - indirect cost recovery	35,916	29,346	22.4%
Tuition and fees, net	208,909	215,181	-2.9%
Investment income	78,060	54,495	43.2%
Contributions	3,543	3,478	1.9%
Other revenue	394,283	339,185	16.2%
Government support for COVID-19	154,977	325,057	-52.3%
Net assets released from restriction	57,948	56,563	2.4%
Total revenues	5,662,873	5,272,507	7.4%
Expenses:			
Salaries and wages	2,585,100	2,529,094	-2.2%
Employee benefits	549,176	574,895	4.5%
Supplies	565,656	506,608	-11.7%
Drugs	414,637	377,409	-9.9%
Insurance	108,716	115,770	6.1%
Utilities	69,066	66,156	-4.4%
Interest	56,043	60,056	6.7%
Depreciation and amortization	267,197	262,708	-1.7%
Other	1,041,397	1,077,979	3.4%
Total expenses	5,656,988	5,570,676	-1.5%
Income (Loss) from operations before nonrecurring items	**$5,884**	**($298,169)**	
Goodwill impairment	0	(161,256)	
Income (Loss) from operations	**$5,884**	**($459,425)**	
Nonoperating items and other changes in net assets without donor restriction:			
Return on investments, net of amounts classified as operating revenue	475,581	60,546	
Distribution to noncontrolling interest	(13,014)	(9,755)	
Net assets released from restrictions used for purchase of property and equipment	7,779	6,704	
Decrease (Increase) in pension liability	379,654	(315,788)	
Other changes in net assets	33,394	(42,603)	
Total nonoperating items and other changes in net assets without donor restriction	883,394	(300,897)	
Increase (Decrease) in net assets without donor restriction	**$889,278**	**($760,322)**	