



Thomas Jefferson University

Preliminary Unaudited Consolidated Financial Statements

For the Fiscal Year Ending June 30, 2023

Management's Discussion and Analysis

Operating Performance

Fiscal Year Ending June 30, 2023

For the fiscal year 2023, TJU operations experienced a \$78.5 million loss (-0.8% margin) compared to a \$125.8 million loss (-1.6% margin) in the prior year.

On October 4, 2021 pursuant to the terms of an integration agreement, TJU became the sole corporate member of Albert Einstein Healthcare Network (AEHN). The TJU board was reconstituted to include members designated by AEHN. The acquisition of AEHN 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 November 1, 2021 TJU acquired Temple's membership interest in Health Partners Plans (HPP). With the acquisition of Temple's membership interest, TJU has total ownership of HPP and created the regions first Integrated Delivery and Financing System (IDFS). The acquisition of HPP better positions TJU to advance its value-based care model while reducing cost of healthcare services, particularly to underserved patients and families of the Greater Philadelphia region. The consolidated statement of operations for the period ended June 30, 2022 includes the accounts of HPP and AEHN as of their respective acquisition dates.

Total operating revenue through June was \$1.8 billion or 22.6% greater than the prior year. The increase is driven by insurance premium revenue (\$992.7 million), net patient service revenue (\$516.3 million) and other revenues (\$253.0 million), offset in part by a decrease in government support for COVID-19 (\$70.8 million). The increase in insurance premium and patient service revenues is primarily due to the aforementioned business combinations occurring in fiscal year 2022 which only reflect revenue in fiscal year 2022 from the dates of acquisition. The increase in other revenue is primarily driven by specialty pharmacy revenues (\$110.2 million), gain on sale of 51% of the investment in the DVACO (\$25.0 million), gain on sale of laboratory outreach testing business (\$108.0 million) and gain on sale of a noncontrolling interest in mammography business (\$19.7 million). The sale of the laboratory outreach business is intended to provide physicians and patients with access to enhanced laboratory services and advanced clinical innovation.

Operating expenses are \$1.7 billion or 21.6% greater than the prior year. The increase is driven by insurance services medical expenses (\$713.5 million), salaries and wages (\$435.5 million) and employee benefits (\$157.9 million). The increases are mainly due to the aforementioned business combinations occurring in fiscal year 2022 which only reflect expenses in fiscal year 2022 from the dates of acquisition. Additionally, employee retirement benefits were paused in calendar year 2021 as a

THOMAS JEFFERSON UNIVERSITY (TJU)

Clinical Operations

- 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)*
- *Albert Einstein Healthcare Network*
 - EMC Philadelphia
 - EMC Elkins Park
 - EMC Montgomery
 - Moss Rehab

Academic Operations

- *Thomas Jefferson University*

Insurance Operations

- *Health Partners Plans (HPP)*

Enterprise Services

- Administrative Services
- Facility Services
- Information & Technology
- Bio-medical Services
- Enterprise Clinical Services
 - DVACO
 - Health Management Information
 - Strategy & Business Development
 - Patient Access
 - Managed Care Contracting
 - Enterprise Pharmacy & Pop Health

cost reduction measure in response to the financial impact of the COVID-19 pandemic.

TJU's total operating income compared favorably to budget by \$1.7 million. The operating margin of -0.8% approximated the budgeted amount of -0.9%.

Total TJU operating revenue for fiscal year 2023 was \$351.4 million or 3.8% favorable to budget. The favorable variance was driven by insurance premium revenue (\$175.4 million or 8.9%) and other revenue (\$151.2 million or 25.2%) mainly due to the aforementioned specialty pharmacy revenues and gains on business line and investment sales. Inpatient admissions, outpatient visits, and physician visits were 5.7%, 5.7%, and 5.6% unfavorable to budget, respectively.

Total TJU operating expenses for fiscal year 2023 were \$349.6 million or 3.7% unfavorable to budget. This variance was driven by insurance services medical expenses (\$44.7 million or 2.9%) due to increased membership enrollment related to the DHS Expansion contract, salaries and wages (\$71.1 million or 1.9%) due in part to employee severance cost recognition of \$32.4 million, insurance (\$14.4 million or 9.9%) due to adverse professional liability claims experience, employee benefits (\$9.7 million or 1.1%) and other expenses (\$177.2 million or 13.4%). While salary costs exceeded budget by \$71.1 million for fiscal year 2023, the cost of non-employee temporary staffing, which is reflected in the other expense line item, significantly impacted operating performance. Due to turnover and staffing shortages, the costs associated with temporary staffing are \$92.2 million unfavorable to budget.

Clinical operations experienced a \$215.8 million loss from operations for an unfavorable budget variance of \$17.3 million. Academic operations experienced an operating loss of \$6.7 million, which was \$7.3 million unfavorable to budget. Insurance operations experienced an operating gain of \$48.4 million, which was \$15.9 million favorable to budget. Including risk-based contracts of hospital providers, Insurance operations experienced an operating gain of \$203.2 million, which was \$120.3 million favorable to budget. Risk based contract results reflect continued lower member utilization of medical services. Insurance membership enrollment was 8.0% favorable to budget.

Enterprise Services net costs are \$81.6 million or 7.8% unfavorable to budget through June mainly due to unbudgeted costs for interest on credit line draws, employee severance, DVACO losses and support to St. Christopher's Hospital.

Key Financial Indicators

Divisional Operating Performance For the Fiscal Year Ending June 30, 2023 (in thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Academic	\$573	(\$6,698)	(7,271)
Clinical	(198,491)	(215,797)	(17,306)
Insurance	32,539	48,416	15,877
Transactional Improvements	85,085	127,704	42,619
Eliminations	<u>-</u>	<u>(32,173)</u>	<u>(32,173)</u>
Income (Loss) from Operations	<u>(\$80,294)</u>	<u>(\$78,547)</u>	<u>\$1,747</u>

Operating Ratios: For the Fiscal Year Ending June 30, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Prior Yr</u>
Operating Margin	-0.9%	-0.8%	-1.6%
EBIDA	\$386,580	\$396,425	\$286,459
EBIDA Margin	4.1%	4.1%	3.6%
	<u>June 2023</u>	<u>Jun 2022</u>	<u>Moody's A2 Median</u>
Days Cash on Hand - Clinical and Academic	179.3	194.2	213.0
Days Cash on Hand - Consolidated	151.5	169.4	213.0
Days Revenue in Receivable	44.5	47.3	45.9
Debt to Capitalization	46.9%	47.4%	32.3%
Current Ratio	1.7	1.7	1.8

Clinical Operations – Patient Volume

Hospital Inpatient Activity

Fiscal year-to-date, inpatient admissions are greater than the prior year by 9,254 cases or 5.5% (mainly due to the acquisition of AEHN) and are unfavorable to budget by 9,254 cases or -5.7%.

Fiscal year-to-date, outpatient observation cases are greater than the prior year by 3,475 cases or 8.8% (mainly due to the acquisition of AEHN) and favorable to budget by 3,475 cases or 7.4%. The ratio of observation cases to total inpatient admissions plus observation cases was 24.8% and 24.2% for the fiscal years ending June 30, 2023 and 2022, respectively.

Fiscal year-to-date, total admissions plus outpatient observations are unfavorable to budget by 5,780 cases or -2.8%.

Hospital Outpatient Activity

Fiscal year-to-date, outpatient visits of 2,136,559 are greater than the prior year by 37,257 visits or 1.8% (mainly due to the acquisition of AEHN) and are unfavorable to budget by 128,605 visits or -5.7%.

Physician Network Office Visits

Fiscal year-to-date visits are 2,745,081 visits or 9.2% greater than the prior year (mainly due to the acquisition of AEHN) while unfavorable to budget by 163,587 visits or -5.6%.

Insurance Operations – Enrollment

Fiscal year-to-date, insurance membership enrollment of 376,548 is favorable to budget by 27,858 or 8.0%.

Non-operating Items

Fiscal year-to-date, non-operating items and other changes in net assets without donor restriction resulted in a \$292.5 million increase in net assets. Driving this increase are gains on investments of \$106.0 million and a decrease in accrued pension costs of \$153.0 million.

Net Assets with Donor Restriction

Fiscal year-to-date, net assets with donor restriction experienced an increase of \$100.5 million. The increase is primarily due to contribution revenue of \$116.8 million and investment gains of \$48.7 million that were offset in part by net assets released from restriction of \$76.6 million.

Balance Sheet

Total net assets at June 30th, 2023 increased \$314.5 million (6.5%) compared to the beginning of the fiscal year. Net assets without donor restriction increased by \$214.0 million while net assets with donor restriction increased \$100.5 million.

Total assets increased \$137.3 million (1.2%). The net change in total assets of \$137.3 million includes increases in cash and investments of \$87.5 million due in part to favorable investment returns and a reduction in insurance premium receivables, and land, buildings and equipment, net of \$245.9 million, primarily related to the construction of the Honickman Center, offset in part by a decrease in accounts receivable of \$129.7 million mainly due to insurance premium payments from the Commonwealth.

Other significant asset line item changes were primarily impacted by the transfer of the AEHN professional liability insurance program from the wholly-owned Broadline Risk Retention Group to Five Pointe, a joint

venture with Main Line Health. This transfer of self-insurance assets is the main driver of the decrease of assets whose use is limited of \$191.6 million (due to a transfer of assets to Five Pointe of \$108.6 million and spend-down of the Series 2022B bond proceeds of \$59.8 million) and increases in other non current assets of \$93.3 million (due to the recognition of insurance recoverable amounts of \$71.3 million at Five Pointe).

Total liabilities decreased \$177.1 million (-2.6%). The decrease in liabilities of \$177.1 million is mainly due to a decrease in accrued pension costs of \$158.6 million and a decrease in advances and credit line draws of \$222.6 million due to credit line repayment of \$50.0 million and repayment of the CMS advances of \$127.8 million. These decreases were partially offset by increases in long-term obligations of \$115.5 million due to Honickman Center obligations, and accrued professional liability of \$35.9 million.

Capital expenditures were \$439.4 million, including \$249.5 million related to the construction of the Honickman Center. Construction costs project-to-date are \$533.1 million for the Honickman Center. The Honickman Center is a \$762 million project for the construction of a specialty care center at 11th and Chestnut Streets on the Center City Campus that will offer convenient and centralized access to care for the majority of TJU's signature specialties. The new facility is targeted for opening in 2024 and will encompass the most advanced technology but not detract from the human interaction between patient and caregiver. The Honickman Center will be 462,000 square feet that features more than 300 exam rooms, 58 infusion chairs, 10 operating rooms, imaging and laboratory services, a pharmacy and three levels of underground parking.

Days-Cash-On-Hand

On a consolidated basis, days-cash-on-hand (DCOH) at June 30th is at 151.5, which is 17.9 days lower than the prior fiscal year. The decrease is primarily due to the increase in average expense per day (13.8 days) and the repayment of government advances (6.7 days) offset by the decrease in accounts receivable and increase in deferred revenue (4.9 days).

DCOH, excluding HPP, at June 30th is at 179.3 which is a decrease of 14.9 days from the start of the fiscal year.

Preliminary Financial Results

The accompanying financial statements and statistical data are a preliminary draft and unaudited. Management review and analysis of key assumptions and estimates that affect the reported amounts of assets and liabilities is not complete. Included in these key assumptions and estimates is the determination of fair values of certain financial instruments.

Thomas Jefferson University
Financial and Statistical Dashboard
June 2023
UNAUDITED

		Year to Date		
Utilization		Actual	Prior Yr	Fav/ (Unfav)%
1	Admissions	152,849	144,932	5.5%
2	Patient Days	927,822	875,843	(5.9%)
3	Average Daily Census	2,541.98	2,556.63	(0.6%)
4	Average Length-of-Stay	6.10	6.05	(0.8%)
5	Occupancy %	73.1%	74.8%	(2.2%)
6	Inpatient Surgeries	35,471	38,493	(7.9%)
7	Outpatient Surgeries	63,743	60,454	5.4%
8	Outpatient Visits	2,136,559	2,099,302	1.8%
9	Observation Unit Cases	50,360	46,288	8.8%
10	Adjusted Discharges	268,080	265,141	1.1%
Operating Indicators				
		Actual	Prior Yr	Fav/ (Unfav)%
11	Total FTE's including agency (excl Enterprise Services)			
a	TJUH System	9,401.1	9,301.1	(1.1%)
b	Academic	3,057.0	3,027.9	(1.0%)
c	Corporate	5,247.8	5,138.4	(2.1%)
d	Abington	4,301.1	4,356.9	1.3%
e	JHNE	3,126.0	3,058.4	(2.2%)
f	JHNJ	3,435.6	3,403.8	(0.9%)
g	Magee	506.3	513.2	1.3%
h	Einstein	7,280.1	7,353.2	1.0%
i	Total	36,354.9	36,153.0	(0.6%)
12	Medical Supply Cost per Adjusted Discharge			
a)	TJUH Inc	\$6,828	\$6,306	(8.3%)
b)	Abington	\$2,219	\$2,183	(1.6%)
c)	JHNE	\$1,493	\$1,460	(2.2%)
d)	JHNJ	\$2,715	\$2,956	8.2%
e)	Magee	\$1,967	\$2,036	3.4%
f)	Einstein	\$2,615	\$2,661	1.7%
13	Hospital Operating Expense per Adjusted Discharge			
a)	TJUH Inc	\$30,186	\$26,522	(13.8%)
b)	Abington	\$15,328	\$13,972	(9.7%)
c)	JHNE	\$14,451	\$14,442	(0.1%)
d)	JHNJ	\$16,536	\$17,240	4.1%
e)	Magee	\$68,681	\$62,109	(10.6%)
f)	Einstein	\$13,949	\$16,532	15.6%
14	Case Mix Index (All payers)			
a)	TJUH Inc	2.24	2.22	0.8%
b)	Abington	1.67	1.68	(0.5%)
c)	JHNE	1.85	1.81	2.1%
d)	JHNJ	1.57	1.56	0.8%
f)	Einstein	1.68	1.67	0.3%
15	Managed Care Payer Mix			
a)	TJUH Inc	21.79%	22.61%	(3.6%)
b)	Abington	24.62%	24.51%	0.4%
c)	JHNE	12.39%	12.65%	(2.1%)
d)	JHNJ	17.23%	18.33%	(6.0%)
e)	Magee	21.06%	22.05%	(4.5%)
f)	Einstein	17.80%	18.42%	(3.4%)
16	Income (Loss) from Operations (in thousands)	(\$78,547)	(\$125,839)	
Key Ratios & Balance Sheet Items				
		Actual	Prior Yr	
17	Operating Margin %	(0.81%)	(1.59%)	
18	EBIDA Margin	4.09%	3.62%	
19	Increase in net assets without donor restriction (in thousands)	\$213,943	\$334,750	
June 2023 June 2022				
20	Cash & Short-Term Investments (in thousands)	\$1,603,342	\$1,754,702	
21	Days Cash on Hand	151.53	169.40	
22	Days in Accounts Receivable	44.5	47.3	
23	Maximum Annual Debt Service Coverage Ratio ⁽¹⁾	2.27	1.64	
24	Debt Service % of Revenues	1.80%	2.21%	
25	Debt to Capitalization	46.89%	47.40%	

(1) Debt Service Coverage Ratio calculated over the twelve-month period of July 2022 through June 2023.

THOMAS JEFFERSON UNIVERSITY
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2023 AND 2022
(IN THOUSANDS)
UNAUDITED

	6/30/23	6/30/22
Assets		
Current Assets:		
Cash and cash equivalents	\$743,239	\$403,988
Short-term investments	860,103	1,350,713
Accounts receivable, less allowance for doubtful accts	1,111,125	1,240,851
Insurance recoverable	91,455	90,298
Pledges receivable	23,961	25,654
Inventory	151,767	152,398
Assets whose use is limited	1,915	27,878
Other current assets	140,846	76,273
Total Current Assets	3,124,412	3,368,054
Noncurrent Assets:		
Assets whose use is limited	210,046	375,694
Insurance recoverable	371,741	302,319
Assets held by affiliated foundation	43,892	42,703
Pledges receivable	129,808	122,313
Goodwill	216,339	216,140
Loans receivable from students, net	19,372	19,884
Land, buildings & equipment, net	4,177,930	3,932,016
Long-term investments	2,964,466	2,725,638
Right-of-use assets	310,609	350,412
Other noncurrent assets	224,770	200,875
Total Assets	\$11,793,382	\$11,656,049
Liabilities and Net Assets		
Current Liabilities:		
Current portion of:		
Deferred revenues	\$29,739	\$30,381
Long-term obligations	47,818	42,281
Accrued professional liability claims	212,628	234,404
Accrued workers' compensation claims	17,633	21,570
Advances and outstanding credit line draws	24,203	246,822
Right-of-use liabilities	48,911	44,869
Accrued payroll and related costs	465,706	462,999
Accounts payable and accrued expenses	970,236	875,362
Total Current Liabilities	1,816,873	1,958,688
Noncurrent Liabilities:		
Long-term obligations	3,466,134	3,356,188
Accrued pension liability	242,522	401,111
Accrued professional liability claims	674,127	616,458
Federal student loan advances	5,254	5,477
Deferred revenues	12,856	15,347
Accrued workers' compensation claims	26,396	24,781
Right-of-use liabilities	312,598	357,002
Interest rate hedges	11,987	18,211
Other noncurrent liabilities	86,839	79,451
Total Liabilities	6,655,587	6,832,714
Net Assets:		
Net assets without donor restriction	3,936,194	3,753,483
Noncontrolling interest in joint ventures	44,189	12,958
Net assets with donor restriction	1,157,412	1,056,894
Total Net Assets	5,137,795	4,823,335
Total Liabilities and Net Assets	\$11,793,382	\$11,656,049

THOMAS JEFFERSON UNIVERSITY
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION
FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022
(IN THOUSANDS)
UNAUDITED

	<u>FY23</u>	<u>FY22</u>
Revenues:		
Net patient service revenue	\$6,119,905	\$5,603,561
Insurance premium revenue	2,148,677	1,155,962
Grants and contracts	168,353	161,202
Tuition and fees, net	223,153	216,454
Investment income	163,799	88,572
Contributions	5,387	4,498
Other revenue	750,743	497,718
Government support for COVID-19	48,584	119,363
Net assets released from restriction	71,432	67,155
Total revenues	<u>9,700,033</u>	<u>7,914,485</u>
Expenses:		
Salaries and wages	3,751,266	3,315,772
Employee benefits	884,528	726,609
Insurance services medical expenses	1,575,777	862,277
Supplies	722,830	683,605
Drugs	634,605	538,835
Insurance	160,248	136,204
Utilities	70,508	73,982
Interest	116,405	83,995
Depreciation and amortization	358,567	328,303
Other	1,503,845	1,290,742
Total expenses	<u>9,778,580</u>	<u>8,040,324</u>
Loss from operations	(\$78,547)	(\$125,839)
Nonoperating items and other changes in net assets without donor restriction:		
Return on investments, net of amounts classified as operating revenue	105,958	(374,349)
Gain on investment in HPP acquisition	0	175,828
Distribution to noncontrolling interest	(6,000)	(11,727)
Loss on defeasance of debt	0	(35,808)
Net assets released from restrictions used for purchase of property and equipment	4,322	2,319
Contribution received in Einstein acquisition	0	490,770
Decrease in pension liability	152,953	198,830
Other changes in net assets	35,256	14,727
Total nonoperating items and other changes in net assets without donor restriction	<u>292,490</u>	<u>460,589</u>
Increase in net assets without donor restriction	<u>\$213,943</u>	<u>\$334,750</u>