NEW ISSUE/Book-Entry Only **RATINGS: See "RATINGS" herein**

In the opinion of Bond Counsel, interest on the 2015A Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax laws. Interest on the 2015A Bonds will not be a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest paid to corporate holders of the 2015A Bonds may be indirectly subject to alternative minimum tax under circumstances described under "TAX MATTERS" herein. Under the laws of the Commonwealth of Pennsylvania, the 2015A Bonds are exempt from personal property taxes in Pennsylvania and interest on the 2015A Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. For a more complete discussion, see "TAX MATTERS" herein.

$301,805,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A

Dated: Date of Delivery **Due: September 1, as shown on the inside front cover**

SEE "INTRODUCTION – CERTAIN UPDATES TO THE PRELIMINARY OFFICIAL STATEMENT" HEREIN FOR A SUMMARY OF CERTAIN REVISIONS HERETO SINCE THE DATE OF THE PRELIMINARY OFFICIAL STATEMENT, INCLUDING, IN PARTICULAR, IN APPENDIX C TO THIS OFFICIAL STATEMENT.

The Pennsylvania Higher Educational Facilities Authority (the "Authority") is issuing its $301,805,000 Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A (the "2015A Bonds"). Concurrently with the issuance of the 2015A Bonds, the Authority is also issuing its approximately $60,000,000 Thomas Jefferson University Variable Rate Revenue Bonds, Series 2015B (the "2015B Bonds," and, together with the 2015A Bonds, the "2015 Bonds"). **Although this Official Statement discusses the 2015B Bonds, it is intended to be used in connection with the offering of the 2015A Bonds only. The 2015B Bonds are being offered pursuant to a separate Official Statement.**

The 2015A Bonds are being issued under a Trust Indenture, dated as of February 1, 2015 (the "Original Indenture"), as supplemented by a First Supplemental Trust Indenture, dated as of February 1, 2015 (the "Original Indenture, as supplemented, the "Indenture"), each between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to a Loan and Security Agreement, dated as of February 1, 2015 (the "Original Loan Agreement"), as supplemented by a First Supplemental Loan and Security Agreement, dated as of February 1, 2015 (the Original Loan Agreement, as supplemented, the "Loan Agreement"), between the Authority and Thomas Jefferson University ("TJU"), a Pennsylvania nonprofit corporation, the proceeds of the 2015A Bonds will be loaned to TJU to be used to finance a portion of the Project described herein. Pursuant to separate Contribution Agreements with TJU, each dated as of February 1, 2015 (collectively, the "Contribution Agreements"), TJUH System, Thomas Jefferson University Hospitals, Inc. and Jefferson University Physicians (each, together with TJU, a "University Entity" and, collectively with TJU, the "University" or "Jefferson") have each agreed to pay all amounts due under the Loan Agreement including amounts necessary to duly and punctually pay the principal of, premium, if any, and interest on the 2015A Bonds and to otherwise comply with all covenants in the Loan Agreement.

Jefferson™

The 2015A Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2015A Bonds. Purchases of beneficial interests in the 2015A Bonds will be made in book-entry form in denominations of $5,000 and any integral multiple thereof. So long as Cede & Co., is the registered owner of the 2015A Bonds, purchasers of beneficial interests ("Beneficial Owners") will not receive certificates representing their interests in 2015A Bonds. So long as DTC, or its nominee, Cede & Co., is the registered owner of the 2015A Bonds, payments of the principal of, premium, if any, and interest on the 2015A Bonds will be made directly to DTC or Cede & Co. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owner is the responsibility of the DTC Participants, as more fully described herein. See "THE 2015A BONDS – Book-Entry-Only System" herein.

The 2015A Bonds will bear interest from the date of delivery payable semiannually on March 1 and September 1, commencing September 1, 2015.

The 2015A Bonds are subject to redemption, including purchase in lieu of redemption, prior to maturity as more fully set forth herein. See "THE 2015A BONDS - Redemption Provisions" herein.

See "BONDHOLDERS' RISKS" for certain factors that should be considered by prospective purchasers of the 2015A Bonds.

THE 2015A BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, ARE SECURED UNDER THE PROVISIONS OF THE INDENTURE AND ARE PAYABLE SOLELY FROM CERTAIN FUNDS HELD UNDER THE INDENTURE AND FROM PAYMENTS TO BE MADE BY THE UNIVERSITY PURSUANT TO THE LOAN AGREEMENT AND THE CONTRIBUTION AGREEMENTS. NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE CREDIT OR TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE 2015A BONDS, NOR SHALL THE 2015A BONDS BE DEEMED TO BE GENERAL OBLIGATIONS OF THE AUTHORITY OR OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF, NOR SHALL THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR THE INTEREST ON THE 2015A BONDS. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the Appendices, to obtain information essential to making an informed investment decision.

The 2015A Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to the approving legal opinion of Ballard Spahr LLP, Philadelphia, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the University by the office of University Counsel and Ballard Spahr LLP, Philadelphia, Pennsylvania, in its capacity as counsel to the University; for the Authority by its counsel, Hartman Underhill & Brubaker, LLC, Lancaster, Pennsylvania and for the Underwriters by their counsel, Cozen O'Connor, Philadelphia, Pennsylvania. It is expected that the 2015A Bonds in definitive form will be available for delivery through the facilities of DTC on or about February 26, 2015.

BofA Merrill Lynch **J.P. Morgan**

Dated: February 11, 2015

$301,805,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, PRICES AND CUSIP NUMBERS

Maturity September 1	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2025*	$1,490,000	5.000%	2.760%	119.481	70917S NB5
2026*	670,000	5.000	2.860	118.519	70917S NC3
2027	1,325,000	3.000	3.130	98.662	70917S ND1
2027*	1,255,000	5.000	3.130	115.968	70917S NQ2
2028	1,050,000	3.250	3.250	100.000	70917S NE9
2028*	1,505,000	5.000	3.250	114.855	70917S NR0
2029	500,000	3.375	3.375	100.000	70917S NF6
2029*	1,985,000	5.000	3.300	114.396	70917S NS8
2030*	2,515,000	5.000	3.350	113.938	70917S NG4
2031	1,750,000	3.500	3.550	99.378	70917S NH2
2031*	2,085,000	5.000	3.400	113.483	70917S NT6
2032*	7,090,000	5.000	3.460	112.939	70917S NJ8
2033*	8,435,000	5.000	3.500	112.578	70917S NK5
2034	1,520,000	4.000	4.000	100.000	70917S NL3
2035	2,440,000	4.000	4.020	99.721	70917S NM1

$2,000,000 4.00% Term Bond Due September 1, 2039 (Priced @ 99.226 to yield 4.05%) CUSIP† 70917S NV1

$15,565,000 5.00% Term Bond Due September 1, 2039* (Priced @ 111.060 to yield 3.67%) CUSIP† 70917S NW9

$40,000,000 4.00% Term Bond Due September 1, 2045 (Priced @ 97.586 to yield 4.14%) CUSIP† 70917S NN9

$100,005,000 5.00% Term Bond Due September 1, 2045* (Priced @ 110.443 to yield 3.74%) CUSIP† 70917S NU3

$108,620,000 5.25% Term Bond Due September 1, 2050* (Priced @ 111.629 to yield 3.84%) CUSIP† 70917S NP4

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* Yield/Price to March 1, 2025 optional redemption date.

† Copyright 2015, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are set forth herein for convenience of reference only. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of delivery of the 2015A Bonds and the Authority, the University and the Underwriters do not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2015A Bonds as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2015A Bonds.

$301,805,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A

AUTHORITY

Pennsylvania Higher Educational Facilities Authority
(Commonwealth of Pennsylvania)
1035 Mumma Road
Wormleysburg, Pennsylvania 17043

MEMBERS OF THE AUTHORITY

The Honorable Thomas W. Wolf Governor of the Commonwealth of Pennsylvania	President
The Honorable Lloyd K. Smucker Designated by the President Pro Tempore of the Senate	Vice President
The Honorable Andrew E. Dinniman Designated by the Minority Leader of the Senate	Vice President
The Honorable Michael C. Turzai Speaker of the House of Representatives	Board Member
The Honorable Curtis M. Topper Acting Secretary of General Services	Secretary
The Honorable Christopher B. Craig Executive Deputy State Treasurer	Treasurer
The Honorable Anthony M. DeLuca Designated by the Minority Leader of the House of Representatives	Board Member
The Honorable Eugene A. DePasquale Auditor General	Board Member
The Honorable Pedro A. Rivera Acting Secretary of Education	Board Member

EXECUTIVE DIRECTOR

Robert Baccon

AUTHORITY COUNSEL

(Appointed by the Office of General Counsel)
Hartman Underhill & Brubaker, LLC
Lancaster, Pennsylvania

BOND COUNSEL

(appointed by the Office of General Counsel)
Ballard Spahr LLP
Philadelphia, Pennsylvania

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.
Philadelphia, Pennsylvania

SENIOR MANAGING UNDERWRITER

Merrill Lynch, Pierce, Fenner & Smith Incorporated
New York, New York

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY, OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE 2015A BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

The information set forth herein has been obtained from the Authority, the University, DTC and other sources which are believed to be reliable, but the information provided by sources other than the Authority is not guaranteed as to accuracy or completeness by the Authority. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Underwriters or the University to give any information or to make any representations with respect to the 2015A Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy any of the 2015A Bonds in any jurisdiction in which it is unlawful to make such an offer, solicitation, or sale.

The 2015A Bonds are not and will not be registered under the Securities Act of 1933, or under any state securities laws, and the Indenture has not been and will not be qualified under the Trust Indenture Act of 1939, as amended, because of available exemptions therefrom. Neither the Securities and Exchange Commission nor any federal, state, municipal, or other governmental agency will pass upon the accuracy, completeness, or adequacy of this Official Statement.

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OFFICIAL STATEMENT

$301,805,000
PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY
Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A

INTRODUCTION

The following introductory statement is subject in all respects to more complete information contained elsewhere in this Official Statement. Capitalized terms used in this Official Statement that are not otherwise defined herein have the meanings given to them in APPENDIX C hereto.

Purpose of the Official Statement

The purpose of this Official Statement, including the cover page and the appendices, is to furnish certain information relating to: (1) the Pennsylvania Higher Educational Facilities Authority (the "Authority"), (2) Thomas Jefferson University ("TJU"), including TJU subsidiaries TJUH System ("TJUH System"), Thomas Jefferson University Hospitals, Inc. ("JUH" or "Jefferson University Hospitals") and Jefferson University Physicians ("JUP"), as the initial entities who are obligated pursuant to the Loan Agreement and Contribution Agreements (defined below) to make payments sufficient to pay debt service on the 2015A Bonds when due and (3) the issuance by the Authority of $301,805,000 aggregate principal amount of its Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A (the "2015A Bonds").

Concurrently with the issuance of the 2015A Bonds, the Authority will issue: (i) its $60,000,000* Thomas Jefferson University Variable Rate Revenue Bonds, Series 2015B (the "2015B Bonds," and, together with the 2015A Bonds, the "2015 Bonds"); and (ii) six series of revenue bonds in the aggregate principal amount of $190,000,000* (the "Direct Placement Bonds") to evidence several loans (the "Bank Loans") to the University by certain commercial banks and a trust. Although this Official Statement discusses the 2015B Bonds and the Direct Placement Bonds, it is intended to be used in connection with the offering of the 2015A Bonds only. The 2015B Bonds are being offered pursuant to a separate official statement. See "PLAN OF FINANCING".

Subject to market conditions, the University plans to restructure certain existing interest rate swaps. See "PLAN OF FINANCING".

Certain Updates to the Preliminary Official Statement

This Official Statement includes certain revisions since the date of the Preliminary Official Statement. TJU is now required to engage an Independent Consultant if the Debt Service Coverage Ratio is less than 1.0 for any Fiscal Year. See "SECURITY AND SOURCES

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* Preliminary, subject to change.

OF PAYMENT FOR THE 2015A BONDS –Debt Service Coverage Ratio Covenant". See "CERTAIN CHANGES TO APPENDIX C" after the Table of Contents within APPENDIX C – "DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE INDENTURE, THE LOAN AGREEMENT AND THE CONTRIBUTION AGREEMENTS" for a description of certain changes therein, including, among others, certain clarifying definitional revisions, and a further description of the pledge of Gross Revenues in the Contribution Agreements. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" regarding the additional undertaking by TJU, on behalf of the University, to provide quarterly updates of certain operating data. The 2015A Bonds will be subject to purchase in lieu of redemption. See "THE 2015A BONDS – Redemption Provisions – Purchase in Lieu of Redemption of 2015A Bonds". See "CERTAIN RELATIONSHIPS" for a clarification regarding the role of an affiliate of an Underwriter in connection with the Direct Placement Bonds.

The Authority

The Authority is a body corporate and a governmental instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth") created by the Pennsylvania Higher Educational Facilities Authority Act of 1967 (Act No. 318 of the General Assembly approved December 6, 1967, as amended) (the "Act"). See "THE AUTHORITY" herein.

The University

Thomas Jefferson University. TJU is a private, non-sectarian, not-for-profit institution of higher education, founded as a medical college in 1824, with its principal offices located at 10th and Chestnut Streets, Philadelphia, Pennsylvania. TJU's academic activities are conducted through six academic divisions: Sidney Kimmel Medical College (formerly, the Jefferson Medical College), one of the largest and oldest private medical schools in the United States; the Jefferson School of Health Professions, which provides undergraduate training in the area of health professions such as physical therapy; the Jefferson School of Nursing; the Jefferson School of Pharmacy; the Jefferson School of Population Health; and the Jefferson Graduate School of Biomedical Sciences (formerly known as the Jefferson College of Graduate Studies), which offers degrees of doctor of philosophy in the basic medical sciences. For the 2014-2015 academic year, TJU has a total full-time equivalent enrollment of 2,971 students. TJU is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). For further information concerning TJU, see APPENDIX A.

Other University Entities. On June 30, 2014, TJU became the sole corporate member of TJUH System, and TJUH System became the sole member of JUH and JUP, thereby aggregating all clinical operations under the control of TJU. TJUH System, located in Philadelphia, Pennsylvania, is an integrated healthcare organization that provides comprehensive primary, secondary, tertiary and quaternary inpatient, outpatient, and emergency care services through acute care, ambulatory care, physician, and other services for residents of the Greater Philadelphia region. JUH owns and operates Thomas Jefferson University Hospital, Jefferson Hospital for Neuroscience and The Methodist Hospital Division. JUP is a not-for-profit, multi-specialty physician practice group comprised of the full-time salaried faculty of the Sidney Kimmel Medical College. JUP was organized to allow members of TJU's full-time faculty to use their professional expertise in the provision of patient care as well as in pursuit of the educational and research missions of TJU. For further information, see APPENDIX A.

TJU and each other University Entity (hereafter defined) are collectively referred to as the "University" or "Jefferson" for purposes of the front portion of this Official Statement and the Loan Agreement. A "University Entity" means TJU, TJUH System, JUH, JUP, and any other entity that has executed Contribution Agreement pursuant to the Loan Agreement, unless and until such person is released from its obligations as a "University Entity" pursuant to the Loan Agreement. Any University Entity other than TJU may be released from being a University Entity upon compliance with certain provisions of the Loan Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Addition and Release of University Entities" and "APPENDIX C – DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE INDENTURE, THE LOAN AGREEMENT AND THE CONTRIBUTION AGREEMENTS – SUMMARY OF THE LOAN AGREEMENT – TJU Covenants".

For the fiscal year ended June 30, 2014 ("Fiscal Year 2014"), the University on an unaudited basis had total operating revenues of approximately $2.1 billion. Approximately 83% of such operating revenues were attributable to net patient service revenue and the remaining 17% of such operating revenues was attributable to University educational activities, gifts and pledges, grants and contracts and other sources.

Affiliation Discussions. The University has entered into a definitive agreement dated January 29, 2015 to integrate with Abington Health. Abington Health and its controlled affiliates own and operate a major teaching hospital, a community hospital and other healthcare facilities in Montgomery County and Bucks County, Pennsylvania, approximately 12 miles from TJU's main campus. For a further discussion, see "Future Plans and Projects" and "Abington Health Definitive Agreement" in "MANAGEMENT'S DISCUSSION AND ANALYSIS" in APPENDIX A. See also "BONDHOLDERS' RISKS – Definitive Agreement with Abington Health; Other Potential Transactions".

The 2015A Bonds

The 2015A Bonds are being issued pursuant to the Act, resolutions adopted by the Authority on November 13, 2014 and February 5, 2015, and a Trust Indenture dated as of February 1, 2015 (the "Original Indenture"), as supplemented by a First Supplemental Trust Indenture, dated as of February 1, 2015 (the "First Supplemental Indenture"), each between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), for the purpose of providing funds to make a loan to TJU pursuant to a Loan and Security Agreement, dated as of February 1, 2015 (the "Original Loan Agreement"), as supplemented by a First Supplemental Loan and Security Agreement, dated as of February 1, 2015 (the "First Supplemental Loan Agreement").

The 2015B Bonds are being issued concurrently with the 2015A Bonds pursuant to the Original Indenture, as supplemented by a Second Supplemental Trust Indenture, dated as of February 1, 2015 (the "Second Supplemental Indenture," and together with the Original Indenture and the First Supplemental Indenture, the "Indenture") for the purpose of providing funds to make a loan to TJU pursuant to the Original Loan Agreement, as supplemented by a Second Supplemental Loan and Security Agreement, dated as of February 1, 2015 (the "Second Supplemental Loan Agreement," and together with the Original Loan Agreement and the First Supplemental Loan Agreement, the "Loan Agreement").

The proceeds of the 2015A Bonds are being loaned to TJU to provide funds, together with other available funds, including proceeds of the 2015B Bonds and the Direct Placement Bonds for a project (the "Project"), as further described herein. A description of the Project and the estimated sources and uses of funds in connection with the Project is set forth under "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS".

A description of the 2015A Bonds is set forth under "THE 2015A BONDS". All references to the 2015A Bonds are qualified in their entirety by the definitive form of the 2015A Bonds and the provisions with respect to the 2015A Bonds included in the Indenture and the Loan Agreement.

Security and Sources of Payment for the 2015A Bonds

The 2015A Bonds are special limited obligations of the Authority payable solely from (1) payments to be made by the University under the Loan Agreement and pursuant to the Contribution Agreements described below and (2) certain funds held by the Trustee under the Indenture, and are secured under the Indenture as described herein. The 2015B Bonds are secured on a parity basis with the 2015A Bonds and the Direct Placement Bonds under the Indenture.

Under the Loan Agreement, TJU is obligated to make payments which are sufficient, in the aggregate, together with other funds available for such purpose, to pay when due the principal of, premium, if any, and interest on the 2015A Bonds and other Bonds issued under the Indenture (including the 2015B Bonds, the Direct Placement Bonds and Additional Bonds). Pursuant to separate Contribution Agreements, each dated as of February 1, 2015 (collectively, the "Contribution Agreements"), each of TJUH System, JUH, and JUP, as the initial University Entities (in addition to TJU) have agreed with TJU, on a joint and several basis with all other University Entities, to pay all amounts due under the Loan Agreement, Senior Secured Obligations, including the 2015A Bonds, and Subordinated Obligations (as such terms are defined in APPENDIX C).

Pursuant to the Indenture, the Authority will assign to the Trustee, for the benefit and security of the owners of the Bonds, substantially all of the rights of the Authority in the Loan Agreement (excluding the Authority's rights to indemnification and payment of fees and expenses and certain other unassigned rights), including all Loan Payments payable under the Loan Agreement.

Each University Entity has entered into a Contribution Agreement with TJU pursuant to which the University Entity grants to the Trustee a lien on and security interest in all of such University Entity's right, title and interest in its Gross Revenues (as defined in the Contribution Agreement) as security for TJU's obligations under the Loan Agreement, the Senior Secured Obligations and the Subordinated Obligations. As security for the University Entity's obligations under the applicable Contribution Agreement, each University Entity grants to TJU and to the Trustee (as assignee of TJU) a lien on and security interest in all of the University Entity's right, title and interest in its Gross Revenues.

TJU has assigned its rights under the Contribution Agreements to the Trustee as security for the 2015 Bonds and other Senior Secured Obligations and Subordinated Obligations, including without limitation, its right to require each party which has entered into a Contribution Agreement with TJU to make payments to or to the order of TJU in respect of the Senior Secured Obligations and the Subordinated Obligations pursuant to the applicable Contribution Agreement.

The obligation of the University to make Loan Payments under the Loan Agreement and the Contribution Agreements constitutes general obligations of TJU and the other University Entities, respectively, to which each University Entity's full faith and credit is pledged. The obligations, agreements, covenants and restrictions of the Loan Agreement are joint and several obligations, agreements and covenants of and restrictions relating to all University Entities (including TJU).

In addition, pursuant to the Loan Agreement, TJU has (1) granted to the Authority a lien on and security interest in TJU's Gross Revenues (as defined herein) as security for TJU's obligation to make payments required under the Loan Agreement and (2) agreed to cause the other University Entities to pay moneys in an amount sufficient to pay all amounts due and payable by TJU under the Loan Agreement. Pursuant to the Contribution Agreements, each of the respective parties which has entered into a Contribution Agreement with TJU has granted to the Trustee (directly and as assignee of TJU) a lien on and security interest in all of such party's right, title and interest in its Gross Revenues.

The University Entities may not grant a lien (including a mortgage) on any of their property unless: (i) the lien is a Permitted Encumbrance under the Loan Agreement; (ii) such property is also mortgaged or made subject to a lien for the equal benefit of the Trustee; or (iii) the lien is a subordinated lien on Gross Revenues. The 2015A Bonds are not secured by a mortgage on any real property of the University.

The Loan Agreement provides that Persons (e.g., trustees, lenders and swap counterparties) may become Additional Secured Parties (as a Senior Security Party or Subordinated Security Party) under the Loan Agreement, but only if they enter into a Joinder Agreement. The Additional Secured Party, by entering into a Joinder Agreement, becomes subject to, and bound by, the Loan Agreement with the same force and effect as if the Additional Secured Party had originally been named in the Loan Agreement as a Secured Party.

THE 2015A BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, ARE SECURED UNDER THE PROVISIONS OF THE INDENTURE AND ARE PAYABLE SOLELY FROM CERTAIN FUNDS HELD UNDER THE INDENTURE AND FROM PAYMENTS TO BE MADE BY THE UNIVERSITY PURSUANT TO THE LOAN AGREEMENT AND THE CONTRIBUTION AGREEMENTS. NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE CREDIT OR TAXING POWER OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2015A BONDS, NOR SHALL THE 2015A BONDS BE DEEMED TO BE GENERAL OBLIGATIONS OF THE AUTHORITY OR OBLIGATIONS OF THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF, NOR SHALL THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2015A BONDS. THE AUTHORITY HAS NO TAXING POWER.

Bondholders' Risks

There are risks involved in the purchase of the 2015A Bonds. See "BONDHOLDERS' RISKS" herein.

Continuing Disclosure

TJU, on behalf of the University, will covenant, in a Continuing Disclosure Agreement, to provide disclosure of certain financial and operating information on an ongoing basis. Such information will include (a) consolidated audited annual financial statements for Thomas Jefferson University (and the annual financial statements of each other University Entity to the extent such entity's results are not consolidated with the results of TJU), and updates of certain other annual financial and operating information of the University set forth in APPENDIX A hereto to be provided within 180 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2015, and (b) notice of the occurrence of certain specified events subject to TJU's determination of the materiality of certain of such events. TJU will also covenant to provide its consolidated unaudited quarterly balance sheet and statement of activities and quarterly updates of certain operating data within 45 days after the end of each fiscal quarter, commencing with the fiscal quarter ending March 31, 2015. See "CONTINUING DISCLOSURE" herein. The form of the Continuing Disclosure Agreement is set out in APPENDIX E.

Forward-Looking Statements

Information included in this Official Statement, including APPENDIX A, includes forward-looking statements about the future that are necessarily subject to various risks and uncertainties (the "Forward-Looking Statements"). These Forward-Looking Statements are (i) based on the beliefs and assumptions of management of the University and on information currently available to such management; and (ii) generally identifiable by words such as "estimates," "expects," "expected," "anticipates," "plans," "believes" and similar expressions.

Events that could cause future results to differ materially from those expressed in or implied by Forward-Looking Statements or historical experience include the impact or outcome of many factors, including those described throughout this Official Statement and APPENDIX A. Although the ultimate impact of such factors is uncertain, they may cause future performance to differ materially from results or outcomes that are currently sought or expected by the University.

Definitions and Summaries of Documents

Definitions of certain words and terms used in the Official Statement and summaries of the Indenture, the Loan Agreement and the Contribution Agreements are included in this Official Statement in APPENDIX C. Such definitions and summaries do not purport to be comprehensive or definitive. All references herein to such documents are qualified in their entirety by reference to the definitive forms of such documents, copies of which may be viewed at the office of The Bank of New York Mellon Trust Company, N.A., in Philadelphia, Pennsylvania, and will be provided to any prospective purchaser requesting the same upon payment by such prospective purchaser of the cost of complying with such request.

THE AUTHORITY

The Authority is a body corporate and politic, constituting a public corporation and a governmental instrumentality of the Commonwealth, created by the Act. The Authority's address is 1035 Mumma Road, Wormleysburg, Pennsylvania 17043.

Under the Act, the Authority consists of the Governor of the Commonwealth, the State Treasurer, the Auditor General, the Secretary of Education, the Secretary of the Department of General Services, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives. The President Pro Tempore of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate and the Minority Leader of the House of Representatives may designate a member of their respective legislative bodies to act as a member of the Authority in his or her stead. The members of the Authority serve without compensation, but are entitled to reimbursement for all necessary expenses incurred in connection with the performance of their duties as members. The powers of the Authority are exercised by a governing body consisting of the members of the Authority acting as a board.

The Authority is authorized under the Act to, among other things, acquire, construct, finance, improve, maintain and operate any educational facility (as defined in the Act), with the rights and powers, inter alia: (1) to finance projects for colleges (including universities) by making loans to such colleges which may be evidenced by, and secured as provided in, loan agreements, security agreements or other contracts, leases or agreements; (2) to borrow money for the purpose of paying all or any part of the cost of construction, acquisition, financing, alteration, reconstruction and rehabilitation of any education facility which the Authority is authorized to acquire, construct, finance, improve, install, maintain or operate under the provisions of the Act and to pay the expenses incident to the provision of such loans; and (3) to issue bonds and other obligations for the purpose of paying the cost of projects, and to enter into trust indentures providing for the issuance of such obligations and for their payment and security.

None of the revenues of the Authority with respect to its revenue bonds and notes issued for the benefit of other institutions will be pledged as security for any bonds or notes issued for the benefit of the University. Further, no revenue bonds and notes issued for the benefit of other institutions will be payable from or secured by the revenues of the Authority or other moneys securing any bonds or notes issued for the benefit of the University.

The Authority has issued, and may continue to issue, other series of bonds for the purpose of financing other projects, including other educational facilities. Each such series of bonds to the extent issued to benefit educational institutions other than the University is or will be secured by instruments separate and apart from the Indenture securing the Bonds.

The Act provides that the Authority is to obtain from the Pennsylvania State Public School Building Authority ("SPSBA"), for a fee, those executive, fiscal and administrative services, as may be required to carry out the functions of the Authority under the Act. Accordingly, the Authority and the SPSBA share an executive, fiscal and administrative staff, which currently numbers five people, and operate under a joint administrative budget.

The following are key staff members of the Authority who are involved in the administration of the financing and projects:

Robert Baccon - Executive Director

Mr. Baccon has served as an executive with the Authority and SPSBA since 1984. He is a graduate of St. John's University with a bachelor's degree in management, and holds a master's degree in international business from the Columbia University Graduate School of Business. Prior to his present post, Mr. Baccon held financial management positions with multinational U.S. corporations and was Vice President - Finance for a major highway construction contractor.

David Player - Comptroller & Director of Financial Management

Mr. Player serves as the Comptroller & Director of Financial Management of both the Authority and SPSBA. He has been with the Authority and SPSBA since 1999. Prior to his present position, he served as Senior Accountant for both the Authority and SPSBA and as an auditor with the Pennsylvania Department of the Auditor General. Mr. Player is a graduate of the Pennsylvania State University and a Certified Public Accountant.

Beverly M. Nawa - Administrative Officer

Mrs. Nawa has served as the Administrative Officer of both the Authority and SPSBA since 2004. She is a graduate of Alvernia University with a bachelor's degree in business administration. Prior to her present employment, Mrs. Nawa served as an Audit Senior and an Accounting Systems Analyst with the Pennsylvania Department of the Auditor General.

THE AUTHORITY HAS NOT PREPARED OR ASSISTED IN THE PREPARATION OF THIS OFFICIAL STATEMENT, EXCEPT THE STATEMENTS UNDER THIS SECTION AND UNDER THE HEADINGS "INTRODUCTION – THE AUTHORITY," AND "LITIGATION - THE AUTHORITY" AND, EXCEPT AS AFORESAID, THE AUTHORITY

DISCLAIMS RESPONSIBILITY FOR THE DISCLOSURES SET FORTH HEREIN MADE IN CONNECTION WITH THE OFFER, SALE, AND DISTRIBUTION OF THE 2015A BONDS.

PLAN OF FINANCING

The Project

The proceeds of the 2015A Bonds will be loaned to TJU to be used, together with other funds including the proceeds of the 2015B Bonds and the Bank Loans, to pay certain costs of the Project, which consists generally of: (i) the current refunding of the Authority's outstanding Revenue Bonds (Thomas Jefferson University) Series 2008A issued in the original principal amount of $25,000,000 (the "2008A Bonds"), the Authority's outstanding Revenue Bonds (Thomas Jefferson University) Series 2008B issued in the original principal amount of $46,935,000 (the "2008B Bonds," and collectively with the 2008A Bonds, the "2008 Bonds") and the outstanding Notes (defined below); (ii) the payment of (or the reimbursement to the University and its Affiliates (as defined herein) for) the costs of the acquisition, construction and development of various capital assets and the making of other capital improvements in various academic health care, research, education and clinical care programs and related missions of the University, and the acquisition of real property currently planned to be used in furtherance of such programs, and related missions of the University (the "Project Facilities"); (iii) the payment of all or a portion of the termination costs of certain interest rate hedging agreements previously entered into for the benefit of the University, and the entry by the University into certain other interest rate hedging arrangements and/or the amendment of existing interest rate hedging arrangements; and (iv) the payment of certain costs and expenses incident to the issuance of the 2015 Bonds. The Project Facilities that will be financed are expected to consist of various projects within the University's capital improvement program within its current and next two fiscal years.

The 2008A Bonds and the 2008B Bonds in the outstanding aggregate principal amounts of $25,000,000 and $42,260,000, respectively, together with accrued interest, will be redeemed at a redemption price of par plus accrued interest on March 2, 2015 pursuant to draws on the letters of credit securing the 2008 Bonds. Simultaneously with the issuance of the 2015 Bonds, a portion of the proceeds of the 2015 Bonds, together with other available funds of TJU, will be used to reimburse in full such redemption draws.

On June 30, 2014, the Authority issued (i) $328,395,000 in aggregate principal amount of its Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014A (the "Series 2014A Notes") and (ii) $24,410,000 in aggregate principal amount of its Taxable Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014B (the "Series 2014B Notes" and, together with the Series 2014A Notes, the "Notes"), the proceeds of which Notes were applied to the payment of the costs of the acquisition of the membership interest in TJUH System by TJU on June 30, 2014. See the discussion under "*Background*" and "*Integrated Jefferson*" under "MANAGEMENT'S DISCUSSION AND ANALYSIS" in APPENDIX A hereto. A portion of the proceeds of the 2015A Bonds will be used to redeem a portion of the Notes in the currently outstanding aggregate principal amount of $332,310,000 on the date of issuance of the 2015A Bonds.

As part of the University's plan of finance related to the Project, the Authority is issuing the Direct Placement Bonds for the benefit of the University to evidence the Bank Loans. The Bank Loans in the aggregate principal amount of $190,000,000* (comprised of $160,950,000* of tax-exempt debt and $29,050,000* of taxable debt) consist of variable rate debt that will be evidenced by the Authority's Thomas Jefferson University, Revenue Bonds, Series 2015C in the principal amount of $35,125,000* with a term of 8 years*, Series 2015D Bonds in the principal amount of $34,875,000* with a term of 10 years*, Series 2015E Bonds in the principal amount of $35,125,000* with a term of 8 years*, Series 2015F Bonds in the principal amount of $34,875,000* with a term of 10 years*, Series 2015G Bonds in the principal amount of $20,950,000* with a term of 8 years*, and Series 2015H Bonds in the principal amount of $29,050,000* with a term of 10 years*. For a further description of the Bank Loans and the related security provisions, see "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Bank Loans" below.

The 2015B Bonds and the Direct Placement Bonds are expected to be delivered on the issuance date of the 2015A Bonds.

Around the time of, or sometime after, the issuance of the 2015A Bonds, subject to market conditions and available alternatives, the University plans to restructure certain existing swaps to align such swaps to hedge approximately half of the University's then existing variable rate debt. The University will not spend the proceeds of any tax-exempt bonds on any termination or amendment costs of the related interest rate hedging agreements. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Interest Rate Swaps" below and "INDEBTEDNESS – Interest Rate Derivatives" in APPENDIX A.

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* Preliminary, subject to change.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the plan of financing:

	2015A Bonds	2015B Bonds[1]	Direct Placement Bonds[1]	TOTAL[1]
Source of Funds:				
Par Amount of the 2015 Bonds	$ 301,805,000.00	$ 60,000,000.00	$ –	$ 361,805,000.00
Net Original Issue Premium	27,513,991.45	–	–	27,513,991.45
Direct Placement Bonds	–	–	190,000,000.00	190,000,000.00
University Funds	439,053.73	98,667.82	24,519.88	562,241.43
Total Sources of Funds	$ 329,758,045.18	$ 60,098,667.82	$ 190,024,519.88	$ 579,881,232.88
Use of Funds:				
Project Facilities	$ –	$ –	$ 175,000,000.00	$ 175,000,000.00
Refunding of Notes/2008 Bonds	326,469,053.73	59,508,667.82	14,154,519.88	400,132,241.43
Cost of Issuance[2]	3,288,991.45	590,000.00	870,000.00	4,748,991.45
Total Uses of Funds	$ 329,758,045.18	$ 60,098,667.82	$ 190,024,519.88	$ 579,881,232.88

(1)Preliminary, subject to change.
(2)Includes legal fees and expenses, fees of the Authority and the Trustee, rating agency fees, Underwriters' discount, accounting fees, printing fees, and miscellaneous fees and expenses.

THE 2015A BONDS

General Description

The 2015A Bonds will be dated the date of their delivery and will mature on the dates and in the amounts set forth on the inside front cover page of this Official Statement.

Interest on the 2015A Bonds is payable as described below.

The 2015A Bonds are subject to redemption prior to maturity as described below.

The 2015A Bonds are issuable in the form of fully registered bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2015A Bonds. Purchases of the 2015A Bonds will be made in book-entry form. Beneficial Owners (as defined herein) will not receive certificates representing their interest in the 2015A Bonds purchased. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to the registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2015A Bonds. See "Book-Entry-Only System" herein.

Payments of principal, premium, if any, and interest on the 2015A Bonds will be paid through The Bank of New York Mellon Trust Company, N.A., as Trustee and Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner, such payments will be made directly to Cede & Co. Disbursements of such payments to DTC's participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. See "Book-Entry-Only System" herein.

As long as DTC or its nominee, Cede & Co., is the registered owner of the 2015A Bonds, payments of principal and interest on the 2015A Bonds will be made directly to Cede & Co. Transfers of beneficial ownership in the 2015A Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants, as appropriate.

Interest on the 2015A Bonds is payable semi-annually on March 1 and September 1 of each year, commencing September 1, 2015 (each, a "Regular 2015A Interest Payment Date") at the rates set forth on the inside front cover page of this Official Statement. Purchases of the 2015A Bonds will be made in denominations of $5,000 and any integral multiple thereof.

The record date for any Regular 2015A Interest Payment Date (each, a "Regular 2015A Record Date") shall be the fifteenth day (whether or not a Business Day) of the calendar month immediately preceding such Regular 2015A Interest Payment Date. If sufficient funds for the payment of interest becoming due on any Regular 2015A Interest Payment Date are not on deposit with the Trustee on such date, the interest so becoming due shall forthwith cease to be payable to the registered owner otherwise entitled thereto as of such date. If sufficient funds thereafter become available for the payment of such overdue interest, the Trustee shall establish a special interest payment date (any such date being herein referred to as a "Special 2015A Interest Payment Date") on which such overdue interest shall be paid and a Special Record Date relating thereto (any such date being herein referred to as a "Special 2015A Record Date"), and shall mail a notice of each such date to the registered owner thereof at least 10 days prior to the Special 2015A Record Date, but not more than 30 days prior to the Special 2015A Interest Payment Date.

Book-Entry-Only System

The 2015A Bonds will be available initially only in book-entry form. Purchasers of the 2015A Bonds will not receive certificates representing their interest in the 2015A Bonds.

DTC will act as securities depository for the 2015A Bonds. The 2015A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the 2015A Bonds of each maturity and interest rate, each in the aggregate principal amount of the 2015A Bonds of such maturity and interest rate, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S., equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of bond certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies.

DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2015A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2015A Bonds, except in the event that use of the book-entry system for the 2015A Bonds is discontinued.

To facilitate subsequent transfers, all 2015A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2015A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 2015A Bonds of a maturity and interest rate are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2015A Bonds of such maturity and interest rate to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2015A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2015A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the 2015A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the 2015A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2015A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. The University, the Authority and Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Representative") on behalf of itself and the other underwriters of the 2015A Bonds (the "Underwriters") take no responsibility for the accuracy thereof, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

None of the Authority, the Underwriters, the Trustee, and the University will have any responsibility or obligations to any Direct Participants or Indirect Participants or the persons for whom they act with respect to: (i) the accuracy of any records maintained by DTC or any *such Direct Participant or Indirect Participant; (ii) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of, premium, if any, or interest on the 2015A Bonds; (iii) the delivery by any such Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Indenture to be given to Bondholders; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the 2015A Bonds; or (v) any consent given or other action taken by DTC as Bondholder.*

Redemption Provisions

Optional Redemption. The 2015A Bonds are subject to optional redemption prior to maturity by the Authority, upon the written direction of TJU, on and after March 1, 2025 as a whole or in part at any time, out of moneys deposited with or held by the Trustee for such purpose, at a redemption price of 100% of the principal amount being redeemed, without premium, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The 2015A Bonds maturing September 1, 2039 (5.00% coupon), September 1, 2039 (4.00% coupon), September 1, 2045 (5.00% coupon), September 1, 2045 (4.00% coupon) and September 1, 2050 are subject to mandatory sinking fund redemption prior to maturity in part by lot, on September 1 in the years and in the principal amounts set forth in the tables below, at a redemption price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the redemption date.

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2015A Term Bond due September 1, 2039 (5.00% coupon)

Year (September 1)	Principal Amount
2036	$3,105,000
2037	4,060,000
2038	4,160,000
2039†	4,240,000

2015A Term Bond due September 1, 2039 (4.00% coupon)

Year (September 1)	Principal Amount
2036	$395,000
2037	520,000
2038	535,000
2039†	550,000

2015A Term Bond due September 1, 2045 (5.00% coupon)

Year (September 1)	Principal Amount
2041	$16,790,000
2042	19,560,000
2043	20,365,000
2044	21,200,000
2045†	22,090,000

2015A Term Bond due September 1, 2045 (4.00% coupon)

Year (September 1)	Principal Amount
2040	$19,465,000
2041	3,450,000
2042	4,010,000
2043	4,180,000
2044	4,355,000
2045†	4,540,000

2015A Term Bond due September 1, 2050

Year (September 1)	Principal Amount
2046	$19,505,000
2047	20,555,000
2048	21,665,000
2049	22,830,000
2050†	24,065,000

† Stated maturity.

In the event of any partial redemption of 2015A Bonds (other than mandatory sinking fund redemption) within a maturity or any purchase and surrender thereof to the Trustee for cancellation prior to maturity, the principal amount so redeemed or purchased shall be credited against a principal amount of 2015A Bonds of the same maturity and interest rate thereafter coming due upon mandatory redemption in such amounts and on such dates as shall be designated by TJU; provided, however, that if no such designation is made at or prior to the time of the required notice of any such redemption or at or prior to the purchase in question, such credit shall be applied against such redemption amounts in their inverse order of due dates.

Purchase in Lieu of Redemption of 2015A Bonds. In lieu of redemption under the First Supplemental Indenture, the Trustee may, at the request of the Authority upon written direction from TJU, use funds otherwise available under the First Supplemental Indenture to purchase 2015A Bonds identified by TJU in the open market for cancellation at a price specified by TJU not exceeding the applicable redemption price.

Selection of Bonds for Redemption. In the case of any partial optional redemption of 2015A Bonds, the particular Bonds of such maturity and interest rate to be called for redemption shall be selected by the Trustee from maturities selected by the Authority (at the written direction of TJU), and within a maturity by lot.

Notice of Redemption. Notice of any redemption of 2015A Bonds shall be made as provided in the Indenture upon at least 20 days' but not more than 45 days' notice by mailing a copy of the redemption notice by first class mail to the registered holder of the 2015A Bonds to be redeemed at the address shown on the bond registration books maintained by the Trustee. However, failure to mail any notice or any defect therein or in the mailing thereof, as it affects any particular 2015A Bond, shall not affect the validity of the proceedings for redemption of any other 2015A Bonds for which notice was properly given. Any redemption of less than the entire principal amount of a 2015A Bond shall be made only in denominations of $5,000 principal amount or any integral multiple thereof. In such case, the registered owner shall surrender such 2015A Bond in exchange for one or more 2015A Bonds in an aggregate principal amount equal to the unredeemed portion of the principal amount thereof. Copies of any redemption notice shall also be sent to the registered securities depository and to certain national information services in accordance with the Indenture. In addition, the Trustee shall give notice of the redemption of 2015A Bonds in accordance with any regulation or release of the Municipal Securities Rulemaking Board or governmental agency or body from time to time applicable to such 2015A Bonds.

If, at the time of mailing of any notice of optional redemption, the Authority shall not have deposited with the Trustee moneys sufficient to redeem all the 2015A Bonds called for optional redemption, such notice shall state that it is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date and shall be of no effect unless such moneys are so deposited and available.

For so long as DTC is effecting book-entry transfers of the 2015A Bonds, the Trustee will provide the redemption notices described above to DTC. It is expected that DTC will, in turn, notify the Direct Participants, and that the Direct Participants, in turn, will notify or cause to be notified the Beneficial Owners of the 2015A Bonds to be redeemed. The Authority, the Trustee and TJU will have no responsibility or liability in connection with any failure on the part of DTC or a Participant, or failure on the part of a nominee of a Beneficial Owner of a Bond, to notify the Beneficial Owner of the 2015A Bond so affected, and such failure shall not affect the validity of the redemption of such 2015A Bond. See "Book-Entry-Only System" above.

Transfer and Exchange of 2015A Bonds; Persons Treated as Owners

Any action to be taken by Bondholders may be evidenced by one or more concurrent written instruments of similar tenor signed or executed by such Bondholders in person or by agent appointed in writing. The fact and date of the execution by any person of any such instrument may be proved by acknowledgement before a notary public or other officer empowered to take acknowledgements or by an affidavit of a witness to such execution. Any action by the holder of any 2015A Bond will bind all future holders of the same 2015A Bond in respect of anything done or suffered by the Authority or the Trustee in pursuance thereof. The ownership of 2015A Bonds will be proved by the Bond Register.

The Trustee is not required to transfer or exchange any 2015A Bond during the 15 days immediately preceding the date of mailing of notice of redemption or at any time following the mailing of any such notice, if the 2015A Bond to be transferred or exchanged has been called for such redemption in whole or in part.

The Authority, the Trustee, the bond registrar and any authenticating agent may deem and treat the Person in whose name any 2015A Bond is registered as the absolute owner thereof (whether or not such 2015A Bond is overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the principal of (and premium, if any, on), and (subject to certain provisions of the Indenture) interest on, such 2015A Bonds, and for all other purposes, and neither the Authority, the Trustee, the bond registrar nor the authenticating agent will be affected by any notice to the contrary.

So long as the 2015A Bonds are held in book-entry form, transfers of the 2015A Bonds by Beneficial Owners may only be made as described under "Book-Entry-Only System" above. At any other time, any 2015A Bond may be transferred or exchanged only upon the books kept for the registration and transfer of 2015A Bonds as provided in the Indenture.

SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS

Limited Obligations

THE 2015A BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, ARE SECURED UNDER THE PROVISIONS OF THE INDENTURE, AND ARE PAYABLE SOLELY FROM CERTAIN FUNDS HELD UNDER THE INDENTURE AND FROM PAYMENTS TO BE MADE BY THE UNIVERSITY IN RESPECT OF THE 2015A BONDS PURSUANT TO THE LOAN AGREEMENT AND THE CONTRIBUTION AGREEMENTS. NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE CREDIT OR TAXING POWER OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2015A BONDS, NOR SHALL THE 2015A BONDS BE DEEMED TO BE GENERAL OBLIGATIONS OF THE AUTHORITY OR OBLIGATIONS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE, OR DEEMED TO BE, LIABLE

FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE 2015A BONDS. THE AUTHORITY HAS NO TAXING POWER.

Trustee's Rights under the Indenture, the Loan Agreement and the Contribution Agreements

The Indenture. In order to secure the payment of the principal of, premium, if any, and interest on the 2015A Bonds and any other series of Bonds (including the 2015B Bonds and the Direct Placement Bonds) issued within the terms of the Indenture (collectively, the "Bonds"), the Authority has assigned to the Trustee, under the Indenture, and granted a security interest in all of its right, title and interest in, to and under the Loan Agreement (including TJU's grant of a lien on and security interest in its Gross Revenues) and all payments received or receivable by the Authority from TJU under the Loan Agreement (excluding the Authority's rights to payment of its fees and expenses, to indemnification and as otherwise expressly set forth in the Loan Agreement), all of the right, title and interest of the Authority in and to all Funds and Accounts established under the Indenture except for the Rebate Fund (subject to amounts held in the debt service reserve fund established for any Bonds being held solely for the benefit of the Bonds secured by such debt service reserve fund and subject to the proceeds of any Bonds deposited in the Construction Fund established in connection with such Bonds being held for the benefit of the Holders of such Bonds, pending the disbursement of such proceeds) and all moneys and investments held therein and all Pledged Revenues.

The Indenture defines "Pledged Revenues" as (a) all amounts payable to the Trustee with respect to the principal or redemption price of, or interest on the Bonds (i) upon deposit in the Debt Service Fund from the proceeds of the Bonds or of obligations issued by the Authority to refund the Bonds; and (ii) by TJU under the Loan Agreement; (b) any proceeds of Bonds originally deposited with the Trustee for the payment of accrued interest on the Bonds or otherwise, and (c) investment income with respect to any moneys held by the Trustee in the Debt Service Fund, the Construction Fund and any debt service reserve fund established pursuant to the Indenture (subject to the income from the investment of the Construction Fund established in connection with a Series of Bonds being held solely for the benefit of the Holders of such Bonds). The 2015A Bonds are not secured by any debt service reserve fund under the Indenture.

The 2015A Bonds, the 2015B Bonds and the Direct Placement Bonds are secured on a parity basis under the Indenture.

Contribution Agreements. As of the date of issuance of the 2015A Bonds, TJUH System, JUH and JUP constitute all of TJU's Material Affiliates (as defined below under "TJU, Material Affiliates and Contribution Agreements – Distinctions among Affiliates under the Loan Agreement") and each has entered into a Contribution Agreement with TJU, thereby making each a University Entity for purposes of the Loan Agreement. TJU has assigned its rights under each Contribution Agreement to the Trustee as security for the 2015A Bonds, other Senior Secured Obligations and any Subordinated Obligations. Each University Entity has agreed, jointly and severally with the other University Entities, to pay all amounts due under the Loan Agreement, Senior Secured Obligations, including the 2015 Bonds and the Direct Placement Bonds, and Subordinated Obligations. This obligation of each such University Entity is a general obligation, the full faith and credit of which is pledged to the payment of all such sums due under respective Contribution Agreements and the Loan Agreement. In addition, pursuant to the Contribution Agreements, each University Entity has agreed to comply with the provisions of the Loan Agreement as if it were a party to the Loan Agreement and has granted to the Trustee (as the assignee of TJU) a lien on and security interest in its "Gross Revenues". The Trustee's lien on the Gross Revenues of each University Entity pursuant to the applicable Contribution Agreement, as security for TJU's obligations under the Loan Agreement, the Senior Secured Obligations and the Subordinated Obligations, has and shall have priority over TJU's lien on the Gross Revenues of each University Entity as security for the University Entity's obligations under the applicable Contribution Agreement.

See "Obligations of the University under the Loan Agreement and Contribution Agreements – *Gross Revenue Pledge*" below for a further description of the Gross Revenue pledge by the University pursuant to the Loan Agreement and Contribution Agreements.

Affiliates of the University and other Persons may become subject to the provisions of the Loan Agreement or excluded or released from the provisions thereunder, subject to meeting certain conditions and/or tests as described within. See "Addition, Exclusion and Release of Entities with Respect to the Requirements of the Loan Agreement" below.

See APPENDIX C for summaries of the Indenture, the Loan Agreement and the Contribution Agreements and certain definitions contained therein.

Obligations of the University under the Loan Agreement and the Contribution Agreements

University Entities Obligated under the Loan Agreement. Under the Loan Agreement, TJU is required to make Loan Payments to the Trustee in amounts sufficient to pay when due the principal of, premium, if any, and interest on Bonds including the 2015A Bonds. The obligation of TJU to make Loan Payments constitutes a general obligation of TJU to which its full faith and credit is pledged. The Loan Agreement provides that TJU must pay all Loan Payments and additional payments without notice or demand, and without abatement, diminution or deduction and regardless of any cause or circumstance whatever including, without limitation, any set-off, counterclaim, recoupment or defense. TJU covenants pursuant to the Loan Agreement to cause each University Entity to pay all amounts due thereunder (whether through a loan, an advance, a transfer of funds any combination thereof or through any other method). Except in the case of a new parent corporation assuming the obligations of TJU in accordance with the Loan Agreement, TJU may not otherwise be released from the requirements of the Loan Agreement.

The obligations, agreements, covenants and restrictions of the Loan Agreement are joint and several obligations, agreements and covenants of and restrictions of all University Entities (including TJU).

Pursuant to the respective Contribution Agreements, all of TJU's current Material Affiliates are affirmatively obligated under the Loan Agreement. TJU has a number of Affiliates which are not Material Affiliates ("Immaterial Affiliates") that have not executed Contribution Agreements and therefore are not affirmatively obligated under the Loan Agreement. However, TJU's interests in such Immaterial Affiliates are assets of the University which are reflected within the Audit Group (as hereafter defined) for certain tests under the Loan Agreement. See "Debt Service Coverage Ratio Covenant" and "Additional Long Term Indebtedness" below.

Gross Revenues Pledge. As security for its obligations under the Loan Agreement and Contribution Agreements, as applicable, each of TJU and the other University Entities has granted a lien on, and security interest in, its respective Gross Revenues. TJU has also agreed pursuant to the Loan Agreement to cause each University Entity entering into a Contribution Agreement with TJU to secure its obligations thereunder by granting a Lien on its Gross Revenues to the Trustee (as assignee of TJU).

"Gross Revenues" as defined under the Loan Agreement consist of all receipts, revenues, income and other moneys received by or on behalf of TJU, and where applicable, another University Entity and all rights to receive the same, whether in the form of accounts, accounts receivable, deposit accounts, contract rights, chattel paper, instruments, documents, general intangibles, letter of credit rights, investment property or other rights, and the proceeds thereof, and insurance thereon, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by TJU, and where applicable, another University Entity and including all Swap Receipts and Swap Termination Payments (as such terms are defined in the Loan Agreement) payable to TJU or another University Entity; provided, however, that there shall be excluded from Gross Revenues any Excluded Property.

"Excluded Property" is defined under the Loan Agreement to mean (i) any assets of "employee pension benefit plans," including "multi-employer plans", as defined in the Employee Retirement Income Security Act of 1974, as amended, or any similar funds established for provision of pension or other post-retirement benefits, (ii) any assets of a self-insurance trust which prohibits any application of such assets for purposes which are not related to claims as defined in the governing trust document, and (iii) all endowment funds and property derived from gifts, grants, research contracts, bequests, donations and contributions heretofore or hereafter made to or with any University Entity which are specifically restricted by the donor, testator or grantor to a particular purpose inconsistent with the payment of debt service on Obligations, and the income and gains derived therefrom, if so restricted.

See "SUMMARY OF THE CONTRIBUTION AGREEMENT – Pledge of Gross Revenues" in Appendix C for a description of "Gross Revenues" as defined for purposes of the Contribution Agreements.

The University's pledge of its Gross Revenues will secure, on a parity basis, the 2015A Bonds, the 2015B Bonds, the Direct Placement Bonds and the outstanding Prior University Bonds (as hereafter defined) issued for the benefit of TJU. The Prior University Bonds consist of the Authority's $85,920,000 original aggregate principal amount of Revenue Bonds (Thomas Jefferson University) Series 2006A and Series 2006B (collectively, the "2006 Bonds"), the Authority's $75,000,000 original aggregate principal amount of Revenue Bonds (Thomas Jefferson University) Series 2010 (the "2010 Bonds") and the Authority's $42,195,000 original aggregate principal amount of Revenue Bonds (Thomas Jefferson University) Series 2012 (the "2012 Bonds" and, together with the 2006 Bonds, and the 2010 Bonds, the "Prior University Bonds"). See "INDEBTEDNESS" in APPENDIX A for a schedule of debt service for the Prior University Bonds.

Such pledge of its Gross Revenues by the University will also secure Parity Indebtedness and other Senior Secured Obligations, including the 2015B Bonds and the obligations under Continuing Covenant Agreements (hereafter defined) relating to the Bank Loans, on a parity basis with the 2015 Bonds and the outstanding Prior University Bonds. See “PLAN OF FINANCING” above and “—Bank Loans” below for a description of the Bank Loans. See “SUMMARY OF THE LOAN AGREEMENT – Additional Indebtedness” and “SUMMARY OF LOAN AGREEMENT – Additional Party Obligations” in APPENDIX C for a summary of the provisions of the Loan Agreement relating to Parity Indebtedness and other Senior Secured Obligations. See also “Additional Long Term Indebtedness” below.

Negative Pledge. Pursuant to the Loan Agreement and the Contribution Agreements, the University may not grant a Lien on any of its Property (including its Gross Revenues) to secure its obligations with respect to any Obligation unless: (i) the Lien is a Permitted Encumbrance; (ii) TJU, and, if applicable, each other University Entity granting such Lien, grants an equal and ratable Lien in the same Property or its Gross Revenues to the Trustee, to secure TJU’s obligations under the Loan Agreement and each other University Entity’s Obligations under the Contribution Agreement to which it is a party; or (iii) the Lien is a subordinated Lien on Gross Revenues granted to secure Subordinated Obligations incurred and secured in accordance with the Loan Agreement. The University further covenants, pursuant to the Loan Agreement and the Contribution Agreements, that if a Lien upon the Property of the University which does not qualify as a Permitted Encumbrance is created or assumed by any University Entity, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any Indebtedness secured by such Lien. See APPENDIX C – “DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE INDENTURE, THE LOAN AGREEMENT AND THE CONTRIBUTION AGREEMENTS – SUMMARY OF THE LOAN AGREEMENT – TJU Covenants – Permitted Encumbrances.”

None of the 2015 Bonds, the Direct Placement Bonds, the Outstanding Prior University Bonds and the Existing Swaps (as defined in APPENDIX C) are secured by a mortgage on any real property of TJU or any of its Affiliates. See “Interest Rate Swaps” below for a description of the Existing Swaps.

Debt Service Coverage Ratio Covenant

Pursuant to the Loan Agreement, within 180 days after the end of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2015), TJU shall compute the Debt Service Coverage Ratio for the Audit Group for such Fiscal Year and furnish a TJU Certificate setting forth such computations to the Trustee.

TJU covenants that, if at the end of any Fiscal Year the Debt Service Coverage Ratio shall have been less than 1.10 to 1.0, it will use its best efforts to adopt a budget for the current Fiscal Year that will result in the Debt Service Coverage Ratio for such Fiscal Year to be at least 1.10 to 1.0. If the Debt Service Coverage Ratio is less than 1.0 for any Fiscal Year, TJU will engage an Independent Consultant to advise TJU on possible steps to take to enhance future revenues and/or reduce future expenses in order to achieve a Debt Service Coverage Ratio not less than 1.10 to 1.0 in the future. Failure to maintain a Debt Service Coverage Ratio equal to 1.10 to 1.0 shall not constitute an event of default so long as: (i) TJU engages an Independent

Consultant as/when required and consider such Independent Consultant's recommendations, and (ii) Liquid Unrestricted Net Assets is greater than 25% of the Audit Group's Outstanding Long Term Indebtedness. Copies of the recommendations of the Independent Consultant shall be filed with the Trustee.

Notwithstanding the foregoing, the Audit Group (as described below under "Additional Long Term Indebtedness") may permit the rendering of services or the use of their Property without charge or at reduced charges, at the discretion of the governing body of TJU or an Audit Group member to the extent necessary for maintaining its tax-exempt status and its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant or as a result of Industry Restrictions. "Industry Restrictions" means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by any member of the Audit Group.

Bank Loans

The Bank Loans are Senior Secured Obligations that are on parity with the 2015 Bonds under the Loan Agreement and are evidenced by the related series of Direct Placement Bonds issued by the Authority pursuant to the Indenture. The Direct Placement Bonds are secured on a parity basis with the 2015A Bonds. The Authority is entering into a separate Supplemental Indenture with the Trustee, and TJU and the Authority are entering into a separate Supplemental Loan and Security Agreement related to the issuance and payment of each of the series of Direct Placement Bonds. TJU also is entering into a separate Continuing Covenant Agreement (collectively, the "Continuing Covenant Agreements") with each lender who is the direct purchaser of the related series of Direct Placement Bonds (collectively, the "Direct Purchasers").

TJU and the other University Entities are subject to compliance with certain covenants contained in the Continuing Covenant Agreements that are in addition to the covenants set forth in the Loan Agreement. Each Continuing Covenant Agreement is an Additional Parity Obligation Agreement under the Loan Agreement. Therefore, the occurrence and continuing of an event of default under a Continuing Covenant Agreement will cause an Event of Default under the Loan Agreement and could result in the acceleration of the 2015 Bonds. The Direct Purchasers have agreed to be subject to the remedies and other provisions of the Loan Agreement and the Trustee's direction over remedies. See "Additional Parity Obligations" and "Events of Default of the University" under "SUMMARY OF THE LOAN AGREEMENT" in APPENDIX C.

The Direct Placement Bonds while held by the Direct Purchasers are not subject to optional tender prior to maturity. If an event of default occurs under a Continuing Covenant Agreement, the related series of Direct Placement Bonds is subject to mandatory purchase or mandatory redemption, in accordance with the Indenture, on the fifth business day after receipt by the Trustee of a written notice from the Direct Purchaser that an event of default has occurred and is continuing together with written direction to purchase or redeem such Direct Placement Bonds, at a purchase price or redemption price, as applicable, equal to the principal amount of such Direct Placement Bonds, plus any accrued interest to the date of purchase or redemption.

Interest Rate Swaps

The University currently has four fixed-payor swaps with a total notional value of $203,205,000 and two constant maturity swaps with a total notional value of $116,375,000. Both regularly scheduled swap payments and termination payments for such existing swaps are secured on a parity basis by a gross revenue pledge of JUH and TJUH System (but not of TJU). Such payments pursuant to the existing swaps are secured on a parity basis with the Bonds with respect to such gross revenue pledge of JUH and TJUH System.

Around the time of, or sometime after, the issuance of the 2015 Bonds, the University plans to negotiate with its existing swap counterparties to restructure and/or amend its existing fixed-payor swaps to potentially extend the maturities, reduce the notional amounts and potentially make other changes to the swap terms in order to align the swaps with approximately half of the University's then outstanding variable rate debt. If the University cannot negotiate satisfactory restructuring terms for the existing swaps with the existing counterparties, the University may terminate some or all of the existing swaps and/or enter into new swaps in order to achieve the University's hedging goals.

To the extent permitted by the University's loan agreements, in connection with the restructuring the University may secure its regularly scheduled swap payments by a pledge of one or more of the University Entities' Gross Revenues so that such obligations may become secured on a parity with, but not senior to, the Gross Revenue pledge that secures the 2015 Bonds. Termination payments under the restructured swaps, if secured, are expected to be secured by a pledge of one or more of the University Entities' revenues on a subordinated basis to regularly scheduled swap payments. The University further anticipates that in certain circumstances the University Entities may have an obligation under the restructured swaps to post collateral with the swap counterparties depending, among other things, on the University's then-current bond ratings and the then-current mark-to-market value of the swaps and subject to compliance with the Loan Agreement.

The Loan Agreement provides that, subject to certain conditions, Swap Payments may be secured on a parity basis with the Bonds by a Lien on Gross Revenues equally and ratably with the Bonds; provided, however, that the Gross Revenues of TJU may not be pledged as security for any Swap Payment for so long as the Prior University Bonds are outstanding. The Loan Agreement also provides that Swap Termination Payments may only be secured as Subordinated Obligations under the Loan Agreement, but may come due without regard to any acceleration (or rescission or annulment of any acceleration) of the maturity of the Bonds. For a further description of the provisions of the Loan Agreement relating to the incurrence and securing of Swaps, including, subject to certain conditions, the posting of collateral to secure Swaps, see APPENDIX C – "SUMMARY OF THE LOAN AGREEMENT - Swaps".

Additional Long Term Indebtedness

Pursuant to the Loan Agreement and the Contribution Agreements, the University may not incur additional Long Term Indebtedness (whether through the creation of new indebtedness, the assumption of existing Indebtedness or the guaranteeing of any new or existing Indebtedness) unless TJU first delivers, among other items, the following to the Trustee. Such additional Long

Term Indebtedness may be incurred with respect to additional Bonds under the Indenture or as Parity Indebtedness.

(i) a Certificate of TJU stating that, (1) the proceeds of the Indebtedness, together with other available moneys, is expected to be sufficient for completion of the applicable project, and (2) immediately following the incurrence of the Long Term Indebtedness and the application of the proceeds thereof, the University will not be in default in the performance or observance of any covenant or condition to be performed by it under the Loan Agreement or with respect to the applicable University Entity, under the pertinent Contribution Agreement, and no Event of Default under the Loan Agreement, the Indenture or any Contribution Agreement shall exist;

(ii) a Certificate of TJU demonstrating that either: (A) immediately following the incurrence of the Long Term Indebtedness and the application of the proceeds thereof, the Liquid Unrestricted Net Assets of the Audit Group will be at least equal to 50% of the principal amount of Long Term Indebtedness of the Audit Group to be Outstanding; or (B) the Net Revenues of the Audit Group for each of the two preceding Fiscal Year (assuming that the Long Term Indebtedness in question was incurred on the last day of such Fiscal Year in question and the proceeds of such Long Term Indebtedness were applied on the last day of such Fiscal Year in question), will be equal to at least 110% of the Maximum Annual Debt Service on all Outstanding Long Term Indebtedness of the Audit Group for such testing period; and

(iii) a TJU Certificate demonstrating that immediately following the incurrence of the Long Term Indebtedness and the application of the proceeds thereof, the Maximum Annual Debt Service Requirements on all outstanding Long Term Indebtedness of the Audit Group will not exceed an amount equal to 10% of the Total Unrestricted Expenses of the Audit Group.

For purposes of the Loan Agreement, the “Audit Group” refers to TJU and any other Person whose financial results are set forth in the TJU Financial Statements. “TJU Financial Statements” consist of the consolidated, audited financial statements of TJU and, if applicable, the consolidated, audited financial statements of any Affiliate into whose financial statements the results of TJU are consolidated and (without duplication) the consolidated, audited financial statements of any Affiliate whose financial results are otherwise not consolidated with the consolidated, audited financial statements of TJU, adjusted in each case to exclude the results of each Excluded Affiliate.

In connection with a Person becoming a University Affiliate, TJU may secure any Indebtedness of such Person as Parity Indebtedness or as Subordinated Obligations under the Loan Agreement so long as the Indebtedness in question could be incurred and secured in accordance with the other provisions of the Loan Agreement.

See APPENDIX C – “SUMMARY OF THE LOAN AGREEMENT – Additional Indebtedness – Additional Long Term Indebtedness” for a further description of provisions of the Loan Agreement permitting the incurrence of additional types of Long-Term Indebtedness without complying with, the requirements described in subparagraphs (ii) and (iii) above including: (1) Indebtedness for the completion of the construction, renovation or equipment of Operating Assets; (2) refunding Indebtedness that the incurrence of which results in Maximum Annual Debt Service on all Outstanding Long Term Indebtedness of the University not increasing by more than 10% in any Fiscal Year; and (3) Indebtedness incurred and outstanding in an amount not in excess of five percent of the Net Assets of the Audit Group for the preceding Fiscal Year end.

Loan Agreement Covenants

The Loan Agreement also sets forth various covenants and other provisions applicable to the finances and operations of the University. Such provisions address, among other things, the (i) the incurrence of additional obligations secured by Gross Revenues of the University on a parity basis with, or subordinated basis to, obligations with respect to the 2015 Bonds, additional Bonds and other Senior Secured Obligations, (ii) the incurrence and securing of Swaps, including, subject to certain conditions, the securing of Swap Payments on a parity basis with obligations related to Bonds and other Senior Secured Obligations, (iii) the incurrence of Short-Term Indebtedness, (iv) requirements related to the consolidation, merger or transfer of all or substantially all of the assets of entities subject to the Loan Agreement, (v) limitations on certain dispositions of real and personal property (including cash), (vi) Permitted Encumbrances, (vii) the addition of persons as University Entities for purposes of the Loan Agreement, the release of any University Entity from its obligations under the Loan Agreement (other than TJU), and the designation of entities as "Excluded Affiliates", and (viii) the substitution of a new parent corporation which holds the controlling interest in TJU and assumes the obligations of TJU under the Loan Agreement. For a more extensive discussion of the provisions of the Loan Agreement, see APPENDIX C – "SUMMARY OF THE LOAN AGREEMENT." See also "Interest Rate Swaps" above and "TJU, Material Affiliates and Contribution Agreements" and "Addition, Exclusion and Release of Entities with Respect to the Requirements of the Loan Agreement" below.

TJU, Material Affiliates and Contribution Agreements

Although TJU is the only borrower under the Loan Agreement with respect to the 2015A Bonds, all Material Affiliates (other than Excluded Affiliates) upon their entering into a Contribution Agreement with TJU, are made liable as though they had signed the Loan Agreement directly. Moreover, an event of default by an University Entity under a Contribution Agreement constitutes a default under the Loan Agreement.

For the fiscal year ended June 30, 2014, more than 99% of the Audit Group's Total Unrestricted Revenues and more than 99% of the Audit Group's Net Assets were attributable to TJU, TJUH System, JUH and JUP while less than 1% of the Audit Group's Total Unrestricted Revenues and less than 1% of the Audit Group's Net Assets, respectively, were attributable to other Affiliates.

Covenant of TJU with Respect to Material Affiliates. The Loan Agreement provides that TJU must cause existing or new Affiliates who become Material Affiliates to execute a Contribution Agreement requiring them to comply with all terms of the Loan Agreement as though they had directly signed the Loan Agreement, unless the Affiliate in question is qualified as an “Excluded Affiliate” (defined below). See “*Existing Affiliates that Become Material Affiliates*” and “*Non-Affiliates that Become Affiliates in the Future (e.g. Mergers, Affiliations)*” under “Addition, Exclusion and Release of Entities with Respect to the Requirements of the Loan Agreement” below for a discussion of TJU’s obligation to monitor whether an Affiliate has become or would constitute a Material Affiliate and TJU’s ability to designate such an Affiliate as an “Excluded Affiliate”. As of the date of issuance of the 2015A Bonds, TJU has not designated any Person as an Excluded Affiliate. TJU makes no representation about any future designation of Persons as Excluded Affiliates. Affiliates who have not signed Contribution Agreements have not pledged their Gross Revenues for the benefit of the Trustee and have not agreed to comply with the covenants of the Loan Agreement or the Contribution Agreements.

Distinctions among Affiliates under the Loan Agreement. The Loan Agreement defines an “Affiliate” as any Person that, directly or indirectly, controls or is controlled by or is under common control with TJU and the term “control” (and correlative terms) as used with respect to any Person means the power, directly or indirectly either to (i) vote 50% or more of securities having ordinary voting power for the election of directors, trustees or the similar governing body of such Person or (ii) direct or cause the direction of the management and policies of such person, whether by contract or otherwise.

A “Material Affiliate” is an Affiliate (other than an Excluded Affiliate) whose Total Unrestricted Revenues are equal to at least 5% of the consolidated Total Unrestricted Revenues of the Audit Group or whose Net Assets are equal to at least 5% of the consolidated Net Assets of the Audit Group.

The Loan Agreement provides that an Excluded Affiliate is a Material Affiliate or any other Person that (i) is designated by TJU as an “Excluded Affiliate” on the date on which such Person otherwise would be required to execute a Contribution Agreement pursuant to the Loan Agreement but is exempted from doing so by TJU in accordance with the Loan Agreement or (ii) has previously executed a Contribution Agreement but such Contribution Agreement has been terminated in accordance with the Loan Agreement whereby TJU demonstrates that the conditions of the Loan Agreement for the release of a party from the obligations of the Loan Agreement have been satisfied. An Excluded Affiliate, for purposes of the Loan Agreement, is treated like any unrelated third party and is not subject to the provisions of the Loan Agreement. For a discussion of the particular provisions of the Loan Agreement relating to the designation of a Person as an “Excluded Affiliate” under different circumstances, see “Addition, Exclusion and Release of Entities with Respect to the Requirements of the Loan Agreement” below.

Addition, Exclusion and Release of Entities with Respect to the Requirements of the Loan Agreement

The following describes generally the requirements of the Loan Agreement governing the addition, exclusion and release of entities as University Entities. For a further description of such provisions, see APPENDIX C – “SUMMARY OF THE LOAN AGREEMENT – TJU Covenants – University Entities; Excluded Affiliates” and “SUMMARY OF THE LOAN AGREEMENT – TJU Covenants – Provisions Governing University Entities.”

The Loan Agreement, depending on particular circumstances, will either require or allow a new or existing Affiliate or other Person to become bound by the provisions of the Loan Agreement. The Loan Agreement also allows for existing or new Affiliates, which would otherwise be required to become bound by the Loan Agreement, to be designated instead by TJU as "Excluded Affiliates" and thereby not be bound by the Loan Agreement. Subject to a certain exception for Abington Health and its affiliates and subsidiaries, for actions relating to joining, excluding or releasing a person from the requirements of the Loan Agreement, TJU must demonstrate that after giving effect to the action in question, the Financial Addition Test or Financial Release Test described below, as applicable, has been met.

With respect to the addition of a person as a University Entity, TJU is required to deliver to the Trustee a TJU Certificate demonstrating that either:

(i) the Debt Service Coverage Ratio of the Audit Group (calculated as if such Person were a University Entity) for the Fiscal Year immediately preceding the Fiscal Year in which such Person is proposed to be added as a University Entity was at least 1.50, or

(ii) the Debt Service Coverage Ratio of the Audit Group (calculated as if such Person were a University Entity) for the two most recent Fiscal Years immediately preceding the Fiscal Year in which such Person is proposed to be added as a University Entity was in each such preceding Fiscal Year at least 1.10, and the Debt Service Coverage Ratio of the Audit Group (calculated as if such Person were a University Entity) is forecasted in a report prepared by a Consultant to be at least 1.40 for each of the two complete Fiscal Years succeeding the Fiscal Year in which such Person is proposed to be added as a University Entity (the foregoing requirements, the "Financial Addition Test").

Abington Health, a Pennsylvania non-profit corporation, and/or any of its affiliates or subsidiaries can become a University Entity at any time within two years after the affiliation with TJU is consummated without meeting the Financial Addition Test.

With respect to the release of a person as a University Entity, TJU is required to deliver to the Trustee a TJU Certificate demonstrating that:

(i) either the Debt Service Coverage Ratio (calculated assuming such Person was not a University Entity) for the two most recent Fiscal Years immediately preceding the Fiscal Year in which such Person is proposed to be removed as a University Entity is, in each such preceding Fiscal Year, greater than 1.10; or (B) the Debt Service Coverage Ratio (calculated assuming that such Person is not a University Entity) for the next two succeeding Fiscal Years immediately subsequent to the Fiscal Year in which such Person is proposed to be removed as a University Entity is forecasted by TJU in a TJU Certificate to be at least equal to 1.25; and

(ii) for the Fiscal Year immediately preceding the Fiscal Year in which such Person is proposed to be removed as a University Entity (calculated assuming that such person was not a University Entity) the Days Cash on Hand Ratio was not less than 75 days (the foregoing requirements, the "Financial Release Test").

Existing Affiliates that Become Material Affiliates. Existing Affiliates of the University, who are not Material Affiliates and have not previously been designated as "Excluded Affiliates" but become Material Affiliates over time as determined upon TJU's review of the annual audited TJU Financial Statements, must within 180 days of the date on which the TJU Financial Statements are completed by TJU either (1) become subject to the Loan Agreement by signing and delivering a Contribution Agreement (without being required to demonstrate that, after giving effect to the addition of such Affiliate, the Financial Addition Test would be met), or (2) be designated as an "Excluded Affiliate" subject to meeting the requirements described below under "Release–General Provisions" which include the satisfaction of the Financial Release Test.

Non-Affiliates that Become Affiliates in the Future (e.g. Mergers, Affiliations). If an entity which is not an Affiliate of the University subsequently meets the requirements to become an Affiliate of the University (e.g. as a result of a merger, consolidation or affiliation agreement), then, if such new Affiliate would constitute a Material Affiliate as determined by TJU based upon TJU's review of TJU Financial Statements on the date of consummation of such merger, consolidation or affiliation (which may be unaudited so long as prepared substantially in accordance with Generally Accepted Accounting Principles), then the new Affiliate must within 180 days of the date on which the TJU Financial Statements are delivered to TJU either (1) become subject to the Loan Agreement by signing and delivering a Contribution Agreement (without being required to demonstrate that, after giving effect to the addition of such Affiliate, the Financial Addition Test would be met), or (2) be deemed by TJU as an "Excluded Affiliate" without the need to satisfy any other condition of the Loan Agreement.

Addition – General Provisions. Any Person may become a "University Entity" under the Loan Agreement upon compliance with certain conditions including, among others: that such Person shall deliver to the Trustee a Contribution Agreement or similar agreement in form and substance satisfactory to the Trustee evidencing the assumption by such Person, jointly and severally with the other University Entities, of the due and punctual payment of the principal of, premium, if any, and interest on all Senior Secured Obligations and Subordinated Obligations and the due and punctual performance and observance of all other covenants and conditions to be kept and performed by such Person as an University Entity under the Loan Agreement, the pertinent Contribution Agreement and any other agreement or agreements pursuant to which a Senior Secured Obligation or Subordinated Obligation is issued and evidencing the pledge to the Trustee of such Person's Gross Revenues and that TJU deliver to the Trustee a University Certificate which demonstrates that, after giving effect to the new Person becoming an University Entity, the University would meet the Financial Addition Test.

Release – General Provisions. Generally, any University Entity other than TJU may be released from its obligations and liabilities under the Loan Agreement, and upon such release shall cease to be a "University Entity" thereunder, upon compliance with certain conditions including: that TJU deliver to the Trustee a University Certificate which demonstrates that, after giving effect to the release of such person as an University Entity, the University would meet the Financial Release Test.

For a further description of the provisions relating to the addition, exclusion and release of Persons as University Entities with respect to the requirements of the Loan Agreement generally described under this Section, see APPENDIX C – "SUMMARY OF THE LOAN AGREEMENT – TJU Covenants – University Entities; Excluded Affiliates" and "SUMMARY OF THE LOAN AGREEMENT – TJU Covenants – Provisions Governing University Entities."

Joinder of Secured Parties to the Loan Agreement

As a condition to the issuance of any additional Bonds or Parity Obligations, the issuance of any Subordinated Obligations and the entry into any Swap Agreements pursuant to and in accordance with the Loan Agreement, and to secure the relevant Senior and Subordinated Secured Obligations with Liens on the Collateral (i.e., the pledges, assignments, security interests and covenants granted to the Authority and the Trustee pursuant to the Loan Agreement and assigned to the Trustee) pursuant to the Loan Agreement, the Senior Secured Party under such additional Bonds or Parity Obligations, the Subordinated Secured Party in respect of such Subordinated Obligations and the Swap Counterparty (each, an "Additional Secured Party") is required to become subject to and bound by, the provisions of the Loan Agreement, including, without limitation, the provisions setting forth the terms of Additional Parity Obligations, Subordinated Obligations and Swap Agreements. Swap Obligations may include Parity Swap Payments and Subordinated Swap Payments.

The Loan Agreement provides that such Additional Secured Party may become a Senior Security Party or Subordinated Security Party under and may become subject to and bound by, the Loan Agreement, but only pursuant to the execution and delivery by such Additional Secured Party of an instrument in the form of a Joinder Agreement. The Additional Secured Party by entering into a Joinder Agreement, becomes subject to and bound by, the Loan Agreement with the same force and effect as if the Additional Secured Party had originally been named in the Loan Agreement as a Secured Party, and the Additional Secured Party agrees to all the terms of the Loan Agreement.

BONDHOLDERS' RISKS

General

The 2015A Bonds are special limited obligations of the Authority and are payable solely from certain funds held by the Trustee pursuant to the Indenture and payments made by the University under the Loan Agreement and the Contribution Agreements. No representation or assurance can be given to the effect that the University will generate sufficient revenues to meet the payment obligations under the Loan Agreement. Future legislation; regulatory actions; economic conditions; legal matters; competition from other health care providers; the capability of the University's management; third-party reimbursement from payors, including government payors; pressures from third-party payors to limit and control healthcare costs; the availability and affordability of professional liability insurance; increases in the amount of bad debt; rising numbers of uninsured and underinsured individuals; the reduced benefit liability from commercial and governmental health insurance plans, health plans and thirty-party payor insolvencies; scientific and technological advances, new procedures, drugs and appliances; or other factors could adversely affect the University's ability to generate such revenues. Neither the Underwriters nor the Authority have made any independent investigation of the extent to which any such factors could have an adverse impact on the revenues of the University or the University's higher education and healthcare operations.

Definitive Agreement with Abington Health; Other Potential Transactions

As part of its ongoing strategic planning process, from time to time the University considers potential joint ventures, affiliations, acquisitions, divestitures and similar transactions. Such transactions may result in additional entities becoming part of the University or affiliates thereof in the future, or in certain entities no longer being part of the University. There can be no assurance as to the impact that any such transaction would have on the financial results of the University.

On January 29, 2015, TJU and Abington Health entered into a definitive agreement to affiliate to create a new academic and clinical organization structure which will operate the University and create a clinically-integrated, multi-provider healthcare delivery system. TJU will be the parent corporation in the new structure. For a further discussion of the definitive agreement to affiliate with Abington Health, see APPENDIX A – "MANAGEMENT DISCUSSION AND ANALYSIS – "Future Plans and Projects" and "Abington Health Definitive Agreement".

Given the complexity of certain of these transactions, the ongoing negotiations concerning their terms and conditions and the necessity for requisite government approvals in certain instances, there is no assurance that any particular transaction will close, that the terms of the transaction will not change materially from those initially proposed, or that the University will not incur additional operating or capital costs in connection with any such transactions. There also are no assurances that the failure to close a particular proposed transaction will not have an adverse impact on the ability of the University to achieve its strategic goals.

Covenant to Maintain Tax-Exempt Status of the 2015A Bonds

The tax-exempt status of the 2015A Bonds is based on the continued compliance by the Authority, TJU and other University Entities with certain covenants contained in the Indenture, the Loan Agreement, the Contribution Agreements and certain other documents executed by the Authority and TJU and the other University Entities. These covenants are aimed at satisfying applicable requirements of the Code and relate generally to use of the proceeds of the 2015A Bonds, maintenance of the status of TJU and the other University Entities as an organization meeting the requirements of Section 501(c)(3) of the Code, arbitrage limitations, rebate of certain excess investment earnings to the federal government and restrictions on the amount of issuance costs financed with the proceeds of the 2015A Bonds. Failure to comply with such covenants could cause interest on the 2015A Bonds to become subject to federal income taxation retroactive to the date of issuance of the 2015A Bonds.

Decreases in Federal and Commonwealth Research and Other Grants and Contract Funding

The University's ability to retain research staff and meet budgetary forecasts depends, in part, on receiving research funding from federal and state agencies, as well as other sponsors. The continual reduction of the dollar amount and numbers of grants issued by the National

Institutes of Health resulting from federal budget constraints has created an increasingly competitive environment for attracting grants.

Moreover, generally over the prior several fiscal years, the Governor of Pennsylvania proposed budgets that called for decreases in payments made to physicians under the Commonwealth's programs known as "Physician Payment Initiative" and for the elimination of research grant dollars under the "Commonwealth Universal Research Enhancement Program." No assurances can be given that future Commonwealth budgets, or with respect to certain educational programs at TJU, State of Delaware budgets, will not reduce or eliminate, in total, dollars supporting these or other programs providing funds to the University. Any such reduction or elimination can have an adverse impact on the University's financial performance and operations. See APPENDIX A – "EDUCATIONAL AND RESEARCH ACTIVITIES – Research Activities" for a discussion of funding of research at the University and the amount of operating revenues from grants and contracts for the past five fiscal years.

Local Tax Assessments

In recent years, a number of local taxing authorities in the Commonwealth have sought to subject the facilities of non-profit healthcare, higher educational and other traditionally exempt organizations to local real estate and business privilege taxes, primarily by challenging their status as "institutions of purely public charity" as described in the Pennsylvania Constitution, notwithstanding the fact that Pennsylvania nonprofit facilities historically have been viewed as exempt from such taxes. The Pennsylvania constitutional test is very subjective and frequently difficult to satisfy. Pennsylvania court decisions have been highly fact-specific and do not provide clear overall guidance on the question. In addition, the Pennsylvania law sets forth additional standards that must be satisfied for tax exemption. A recent Commonwealth Court decision that found that a nonprofit group home met the standards of the Pennsylvania law but not the Constitutional requirements to qualify for property tax exemption, coupled with a special report of the Pennsylvania Auditor General that examined the additional tax revenues that might be available from tax-exempt organizations and the financial pressures on municipal and state governments, may increase the pressure on tax-exempt entities to enter into agreements with local counties to make payments in lieu of taxes (PILOT or SILOT agreements) or face lengthy and expensive litigation as to their status under the Constitution and the law. Therefore, there is no assurance that under current Pennsylvania law that the University will remain exempt from Commonwealth sales and use tax and county real estate and other local taxes.

Enforceability of Obligations of University Entities

Security Interest in Gross Revenues. The security interest in the Gross Revenues of a University Entity may not extend to any revenues generated from the use and operation of such University Entity's property after any person other than such University Entity obtains possession of such property, whether by voluntary transfer, foreclosure under a mortgage or other security agreement or enforcement of a statutory or judicially created lien The rights of the Trustee with respect to Gross Revenues may be subject to a preference claim under the Bankruptcy Code (hereafter defined) and to the exercise of discretion by a court of equity which, under certain circumstances, may have power to direct the use of such receipts to meet expenses of the University before paying debt service.

Joint and Several Obligations. All University Entities will be jointly and severally liable for all amounts due under the Loan Agreement, Senior Secured Obligations and Subordinated Obligations. The state of insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guarantees or obligations issued by a corporation in favor of the creditors of another, or the obligation of one University Entity to make debt service payments on behalf of another University Entity is unsettled. The ability to enforce the provisions of the Loan Agreement, Contribution Agreements or any Obligation, including with respect to the 2015A Bonds, against any future University Entities which would be rendered insolvent thereby, may be subject to challenge.

Other Limitations. The effectiveness of the Loan Agreement, the Contribution Agreements and the security interests created thereunder to secure payments on the 2015A Bonds may be limited by a number of factors, including: the absence of an express provision permitting assignment of payments due the University under public payor programs and present or future prohibitions against assignment contained in any federal statutes or regulations, commingling of Gross Revenues with other moneys of a University Entity not so pledged; statutory liens; rights arising in favor of the United States of American or any agency thereof and the rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee.

Fraudulent Conveyance; Lack of Fair Consideration. Under the United States Bankruptcy Code and state fraudulent conveyance statutes, an obligation may be declared void and a transfer may be avoidable if (i) the obligation has been incurred or transfer effectuated (within one year of the filing of a petition under the Bankruptcy Code, or such longer period as specified in applicable state fraudulent conveyance statutes) without receipt of fair consideration or of reasonably equivalent value of the obligor; and (ii) the obligor was insolvent at the time the obligation was incurred or transfer was effectuated, or the incurrence of such obligation, or effectuation of such transfer renders the obligor insolvent, as defined in the Bankruptcy Code or in the applicable state fraudulent conveyance statue.

Charitable Trust. The assets of a not-for-profit entity, such as the initial University Entities, may be deemed to be subject to a charitable trust which prohibits payments relating to the 2015A Bonds, other Bonds and Parity Indebtedness issued by others. Among other reasons, such a determination may be made if, as a result of the payments, the University Entity making the payments has insufficient assets to carry out its own charitable functions or, under certain circumstances, if the parity obligations owed by such University Entity were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the University Entity was organized.

Enforceability of Remedies

The remedies available to the Trustee or Bondholders upon an Event of Default occurring under the Indenture, the Loan Agreement or the Contribution Agreements are in many respects dependent upon judicial action which is subject to discretion or delay. Under existing law and judicial decisions, including specifically Title 11 of the United States Bankruptcy Code (the "Bankruptcy Code"), the remedies (including, without limitation, specific performance) specified in the Indenture, the Loan Agreement and the Contribution Agreements may not be readily available to the Trustee or Bondholders or may be limited.

The various legal opinions to be delivered concurrently with the original delivery of the 2015A Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws or equitable principles affecting creditors' rights.

Potential Effects of Bankruptcy

Under existing law, if TJU or other University Entity were to file a petition for relief under the Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the applicable University Entity and its property. If the bankruptcy court so ordered, the University Entity's property, including its revenues, could be used for the benefit of the University Entity despite the claims of its creditors (including the Trustee).

In a bankruptcy proceeding, a University Entity could file a plan for the adjustment of its debts which modifies the rights of creditors generally or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interest of creditors, is feasible and has been accepted by each class of claims impaired thereunder.

Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In case of financial difficulties, the University may also commence state court receivership proceedings.

There can be no assurance that Bondholders or Beneficial Owners will receive all or any amount as payment with respect to the 2015A Bonds under any plan or court order resulting from the bankruptcy, receivership or other similar court action.

Continued Utilization of JUH's Facilities and Factors That Could Result in Increased Competition

A significant portion of the University's revenues are derived from the inpatient and outpatient treatment of patients at JUH's facilities by members of JUP and other medical staff members. Physicians on JUH's medical staff who have clinical privileges at other hospitals or health care facilities may admit or treat patients at other hospitals or health care facilities that are not affiliated with JUH, which could result in the decrease of the University's revenues.

If a significant number of JUH-affiliated physicians leave the practice of medicine due to lower reimbursement rates and high costs of obtaining adequate malpractice insurance, the revenues of the University could decrease if the patients previously treated by these physicians receive services at another health care facility or if they otherwise do not receive services at JUH.

The University currently faces and will likely continue to face increased competition from other acute care hospitals, specialty hospitals, rehabilitation and therapy centers, freestanding diagnostic imaging centers, physician group practices, and health care facilities that offer comparable health care services to the population which the University presently serves. The University could also face additional competition in the future due to the construction of new, or the renovation of existing, hospitals and health care facilities in the areas served by it. No assurance can be given that occupancy of JUH's facilities will not be adversely affected by the availability of other hospital and healthcare facilities in the service area of the University and elsewhere.

Expanded preventive medicine and outpatient treatment could also affect the University's ability to maintain its market share at current levels. Additionally, competition to the University could come from health care providers that offer lower priced services to the same population as the University. For example, recent proliferation in minute clinics, eye care centers, and urgent care centers nationwide and in the Philadelphia region has resulted in increased competition for hospital systems. The allure of consumers to these clinics and centers may be due to lower out-of-pocket expenses because the limited services available at these facilities are less costly. Further, unlike hospitals, these facilities do not have the level of overhead costs that hospitals do. The convenience of obtaining prescription medications subsequent to receiving care at urgent care centers or minute clinics located in retail pharmacies also contributes to their appeal. Indeed, services provided at these clinics and centers could be substituted for some of the revenue generating services offered by JUH.

Managed care companies and insurers are becoming increasingly selective in contracting with health care providers. The University also faces potential competition from alternative health care delivery arrangements, such as health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), ambulatory surgical centers ("ASCs"), freestanding diagnostic imaging centers, accountable care organizations ("ACOs") and unaffiliated physician group practices, many of which are designed to offer comparable services at lower prices. The federal government and private third-party payors, such as the Blue Cross programs, may increase their efforts to encourage the development and use of such arrangements. The revenues of the University could decrease significantly with the loss of certain third party payor contracts or if the mix of payor sources should change in materially adverse ways. The development of HMOs and other alternative health delivery programs could also result in decreased usage of inpatient hospital facilities and other facilities operated by the University.

Overall, the effects of such increased competition on the University's revenue, including pressures for increased discounts in contracts with alternative delivery systems, cannot be predicted.

Health Care Industry Factors Affecting the University

The health care industry is subject to various factors that may limit the University's ability to meet its obligations to make payment of debt service on the 2015A Bonds, a number of which are beyond the control of the University. Among other things, the University is subject to significant regulatory requirements of federal, state and local governmental agencies, independent professional organizations and accrediting bodies; technological advances and changes in treatment modes; various competitive factors; changes in third party reimbursement programs; and health care reform initiatives that serve to alter the financing of, payment for and delivery of hospital services.

Healthcare Reform. The Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act of 2010, collectively referred to as the "Healthcare Reform Act," were enacted in 2010. The changes to various aspects of the healthcare system in the Healthcare Reform Act are far reaching and include, among many others, substantial adjustments to Medicare reimbursement, establishment of individual mandates for healthcare coverage, extension of coverage to certain populations primarily through the expansion of Medicaid and private insurance, provision of incentives for employer-provided healthcare insurance and increased oversight provisions. The provisions of the Healthcare Reform Act which encourage or mandate healthcare coverage for individuals can be expected to reduce the amount of uncompensated care provided by the University; however, the revisions to the Medicare reimbursement program could reduce revenues.

The Healthcare Reform Act also reforms the sources and methods by which consumers will pay for healthcare for themselves and their families. One of the primary goals of the Healthcare Reform Act is to provide or make available, or subsidize the premium costs of, healthcare insurance for consumers who are currently uninsured (or underinsured) and who fall below certain income levels. To the extent all or any of those provisions produce the intended result, an increase in utilization of healthcare services by those who are currently avoiding or rationing their healthcare can be expected and bad debt expenses may be reduced.

The Healthcare Reform Act also includes programs that link Medicare payments for hospitals and physicians with quality outcomes and the development of new patient care models that stress primary care and community-based care. The objective of these programs is to manage chronic diseases better and to reduce inpatient admissions and other high cost care provided by hospitals.

Broadly speaking, the provisions of the Healthcare Reform Act that encourage or mandate health care coverage for individuals can be expected to increase demand for health care and reduce the amount of uncompensated care that JUH provides. However, reimbursement initiatives and changes could reduce revenues. Therefore, the impact of the Healthcare Reform Act cannot be currently ascertained, but it may have a material impact, either positive or negative, on the University's operations. In addition, the factors described below could have a material negative impact on the University's operations.

Overview of Medicare and Medicaid Program

Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act Amendments of 1965. The federal government, the largest health care purchaser in the country, uses reimbursement as a key tool to implement health care policies, to allocate health care resources and to control utilization, facility and provider development and expansion, and promote the use and development of health technology. These programs reflect the national policy that persons who are aged and persons who are poor should be entitled to receive medical care regardless of ability to pay. Medicare Part A covers inpatient hospital, home health, nursing home care and certain other services, and Medicare Part B covers certain physicians' services, medical supplies and durable medical equipment. Medicare Part C, the Medicare Advantage program, enables Medicare beneficiaries to choose to obtain their benefits through a variety of private, managed care, risk-based plans. Medicare Part D makes outpatient prescription drug benefits available to Medicare beneficiaries.

Medicaid is designed to pay providers for care given to the indigent and other persons who qualify based on certain conditions. Medicaid is funded by federal and state appropriations and is administered by the Department of Human Services in Pennsylvania ("DHS") (formerly the Department of Public Welfare).

Conditions of Participation. Hospitals must comply with standards called "Conditions of Participation" to be eligible for Medicare and Medicaid reimbursement. The Center for Medicare & Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("HHS"), is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under applicable Medicare rules, hospitals accredited by The Joint Commission are deemed to meet the Conditions of Participation. Failure to maintain such accreditation or to otherwise comply with the Conditions of Participation or other applicable state licensing requirements could have a material adverse effect on the revenues of the University. On December 1, 2012**,** JUH received a full three-year reaccreditation from The Joint Commission following its triennial accreditation survey. There can be no assurances that JUH will continue to receive such accreditation in the future.

Medicare Reimbursement

A substantial portion of the University's revenues is derived from the Medicare program. Medicare is a federal health benefits program administered by CMS and Medicare Administrative Contractors. Available to individuals age 65 or over, and certain other classes of individuals, the Medicare program provides health care benefits that cover, within prescribed limits, the major costs of most medically necessary care for such individuals, subject to certain deductibles and co-payments.

Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under the Medicare program, have been enacted and approved in recent years. It is impossible to predict what effect, if any, current and future legislative initiatives will ultimately have on the operations of the University.

Inpatient Operating Costs. Medicare payments for operating costs incurred in the delivery of inpatient hospital services are based on a prospective payment system ("PPS") which pays acute care hospitals a fixed amount for each Medicare inpatient discharge based upon the diagnosis and certain other factors used to classify each patient into a diagnosis related group ("DRG"). DRG rates are adjusted annually by the use of an "update factor" based on the projected increase in a market basket inflation index which measures changes in the costs of goods and services purchased by hospitals, but the adjustments historically have not kept pace with inflation. Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs are also paid on the basis of "reasonable cost."

As a general matter, payments are not adjusted for actual costs, variations in intensity of illness, or length of stay. If a hospital treats a patient and incurs less cost than the applicable DRG-based payment, the hospital is entitled to retain the difference. Conversely, if a hospital's cost for treating the patient exceeds the DRG-based payment, the hospital generally will not be entitled to any additional payment. If, however, a case is unusually complex or expensive, it may qualify for an "outlier" payment, which is added to the DRG-adjusted base rate payment.

Medicare and Medicaid currently make additional payments to hospitals that serve a disproportionate share ("DSH") of low-income patients. Beginning in 2014, the Healthcare Reform Act began decreasing the Medicare and Medicaid DSH payments by $36 billion over a ten year period, based on an assumption that the Healthcare Reform Act's new coverage and access provisions will substantially reduce uncompensated care provided by hospitals.

The PPS amount and adjustments described above are calculated using formulae established by CMS that are revised periodically pursuant to federal budgetary policy. There can be no assurance that payments received by JUH will be sufficient to cover all actual costs of providing inpatient hospital services to Medicare patients.

Hospitals are required to report certain quality measures under the Hospital Inpatient Quality Initiative. Hospitals that report these measures receive the full DRG inflation update - known as the "hospital market basket," while non-participating hospitals suffer a 2% reduction from the market basket update. The market basket update for federal fiscal year 2015 is 2.9%. JUH participates in CMS's Hospital Quality Initiative. There is no assurance that future updates in DRG payments will keep pace with the increased costs in providing inpatient hospital services.

Joint Operating Agreements and Joint Ventures. JUH has entered into joint operating agreements, joint ventures or related management agreements with previously unrelated, tax-exempt health systems or corporations to develop regionally-based health care delivery systems or networks. These joint operating agreements and joint ventures provide for corporations to operate hospitals and other related health care assets, subject to reserve powers vested in the corporate or sponsoring organizations. The joint operating agreements and joint ventures are intended to promote the development and operation of regional tax-exempt health care provider networks. The parties to these joint operating agreements and joint ventures remain separate corporations and retain title to their assets. Each joint operating agreement and joint venture may provide for the annual sharing of net income and imposes certain operating and organizational restrictions and conditions upon the parties thereto. Management of JUH does not believe that participation in any such presently existing joint agreements and joint ventures will have a material adverse effect on JUH's tax-exempt status or financial condition.

JUH also participates in ancillary joint ventures with tax-exempt or for-profit entities. Participation in joint ventures, particularly joint ventures with for-profit entities, that do not meet requirements of the Code, potentially may (i) result in a finding of inurement or undue private benefit which could result in loss of tax-exempt status, (ii) result in a finding of an excess benefit transaction which could result in the imposition of an excise tax on the insider involved in the transaction or on JUH or JUH's management that knowingly approved the transaction, or both, or (iii) result in a finding that the activity is unrelated to the exempt purpose of JUH and a determination that certain income received by the tax-exempt organization from the joint-venture with the for-profit entity is taxable. See "TAX MATTERS." Management of JUH does not believe that participation in any such presently existing ancillary joint venture will have a material adverse effect on JUH's tax-exempt status or financial condition.

Quality-Based Initiatives. CMS periodically promulgates regulations to implement various quality improvement and patient safety programs. Two recently enacted programs, the Medicare Hospital Value-Based Purchasing ("VBP") Program and the Hospital Readmissions Reduction ("HRR") Program, focus on and reward value of care over volume of care.

Under the VBP program, CMS withholds a certain percentage of all qualifying hospitals' DRG payments and puts the withheld amounts into a fund. The withheld percentage varies until fiscal year 2017 when it will be 2%. CMS then redistributes the amounts withheld based on how well a particular hospital scores in comparison to its peers based on the hospital's clinical performance and patient satisfaction. There can be no assurance that JUH's future scores will be enough to recoup the full percentage payment withholding or to qualify for a bonus under the VBP program.

As of 2014, CMS began reducing Medicare reimbursement by as much as 2% for hospitals experiencing excess readmissions for certain conditions under the HRR program. The HHR rate reduction or "readmission penalty" increases to 3% in 2015 where it is expected to be capped. There can be no guarantee that JUH will be able to avoid penalties under the HRR program for excess readmissions.

Serious, Preventable Events. Since 2008, Medicare has not reimbursed hospitals for the increased costs associated with treating a Medicare beneficiary who acquires certain hospital-acquired conditions ("HAC") during an inpatient stay. Hospitals are further prohibited from billing Medicare beneficiaries for any charges associated with the HAC. The list of HACs has expanded from 8 to 14 since 2007. While JUH currently has a program in place to monitor and prevent HACs, it is likely that JUH, like almost all hospitals, will face reduced reimbursement at some point for costs associated with treating HACs.

Outpatient Services. Medicare payments for hospital outpatient services, including hospital operating and capital costs, also are established through a PPS methodology ("OPPS"). Under OPPS, procedures, evaluations, management services, drugs and devices in outpatient departments are classified into ambulatory payment classification ("APC") groups. Services provided within an APC are similar clinically and in terms of the resources they require. Using hospital outpatient claims data from the most recently available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group.

OPPS includes additional adjustments for transitional pass-through payments and outlier payments. Transitional pass-through payments are costs associated with new technology items (drugs, biologicals and medical devices) that were not reflected in the data that CMS used to calculate OPPS payment rates, and are intended to allow for adequate payment of new and innovative technology until there is enough data to incorporate the costs for these items into the base APC group.

Under OPPS, a hospital with costs exceeding the applicable payment rate would incur losses on such services provided to Medicare beneficiaries. There can be no assurance that the hospital OPPS rate, which bases payment on APC groups rather than individual services, will be sufficient to cover all of JUH's actual costs of providing hospital outpatient services to Medicare patients.

Physician Payments. Payment for physician services is provided by Medicare Part B. Under Part B, physician services are reimbursed in an amount equal to the lesser of actual charges or the amount determined under a national fee schedule known as the resource-based relative value scale, which sets a relative value for each physician service that is then multiplied by a geographic adjustment factor and a nationally-uniform conversion factor to determine the amount Medicare will pay for each service.

The nationally-uniform conversion factor is calculated utilizing the sustainable growth rate ("SGR") system. The SGR is linked to changes in the United States Gross Domestic Product over a ten-year period. The SGR system was intended to keep spending growth consistent with the national economy; however, because over the last decade federal health care expenditures have continuously exceeded their targets, the SGR has become less useful in calculating the actual costs of physician services. As a result, Congress has repeatedly enacted legislation to override projected reductions and to at least maintain physician reimbursement rates. The current Congressional override expires on April 1, 2015. There can be no assurances that reimbursement levels will remain at the present level after that date, potentially negatively impacting the reimbursement amounts received by the University for the cost of providing physician services.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Payment for capital related costs for all hospitals are determined based on a multiplying the standardized amount (referred to as the federal rate), by the DRG weight for each discharge and by a geographical adjustment factor. The payments are subject to further adjustment by a DSH factor that contemplates the increased capital costs associated with providing care to low-income patients, and an indirect medical education ("IME") factor that contemplates the increased capital costs associated with medical education programs. As noted above, the Healthcare Reform Act includes reductions over time to the DSH payments.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of JUH allocable to Medicare patient stays or to provide adequate flexibility in meeting JUH's future capital needs.

Medical Education Costs. Under PPS, teaching hospitals receive additional payments from Medicare for certain direct and indirect costs related to their graduate medical education ("GME") programs. Direct GME payments compensate teaching hospitals for the cost directly related to educating residents such as the residents' stipends and benefits, the salaries and benefits of supervising faculty, and allocated overhead costs. IME payments compensate teaching hospitals for the higher patient care costs they incur relative to nonteaching hospitals. Those IME payments are issued as a percentage adjustment to the PPS payments.

The calculation for both the direct part and the indirect part of Medicare payments for GME include certain limitations on the number and classification of full-time equivalent residents reimbursed by Medicare. PPS hospitals with residents in an approved GME program receive an additional payment for each Medicare discharge to reflect the higher patient care costs incurred by teaching hospitals relative to non-teaching hospitals.

The formulae used to determine payments for medical education do not necessarily reflect the actual costs of such education, and the federal government will continue to evaluate its policy on graduate medical education and teaching hospital payments. There can be no assurance that payments to JUH under the Medicare program will be adequate to cover their direct and indirect costs of providing medical education to interns, residents, fellows and allied health professionals.

Inpatient Psychiatric Unit Reimbursement. Inpatient psychiatric units such as the unit at JUH are paid according to the inpatient psychiatric facility prospective payment system ("IPF PPS"). Patients who are treated for psychiatric conditions in specialty facilities are covered for 90 days of care per illness with a 60-day lifetime reserve and for 190 days of care in freestanding psychiatric hospitals.

Under the IPF PPS, federal per diem rates include inpatient operating and capital-related costs (including routine and ancillary services) and are determined based on geographic factors, patient characteristics, and facility characteristics. Under the Healthcare Reform Act, IPFs must report quality data and will be subject to a 2% reduction to the applicable rate for failure to do so. There is no guarantee that the Medicare per diem, as they may change from time to time, will be adequate to cover the actual cost of providing psychiatric services to Medicare patients.

Audits and Withholds. Medicare-participating hospitals are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare, Medicaid and commercial programs on an on-going basis. Although management of JUH believes its reserves are adequate, such adjustments could be substantial and could exceed reserves maintained therefore by JUH. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholds could have a material adverse effect on the financial condition of the University. Management of JUH is not aware of any situation whereby a material Medicare payment is being withheld. See "BONDHOLDERS' RISKS - Fraud and Abuse Laws" for exposure to audits and withholds.

Medicare-participating hospitals are also subject to Recovery Audit Contractor ("RAC") audits. RAC auditors are authorized to look back three years from the date the claim was paid, and to review the appropriateness of each claim by applying the same standards and guidance as would a Medicare contractor. From September 2012 through August 2015, Pennsylvania has been part of a CMS demonstration project involving prepayment audits of certain DRGs. Between April 2011 and October 2014, JUH received over 9,000 requests for charts in connection with RAC audits, and there is no guarantee that JUH will not be subject to a RAC recovery in the future.

New Models for Care Under the Healthcare Reform Act. Among various other programs, the Healthcare Reform Act directed HHS to establish and implement various ACO programs, including the Medicare shared savings program, which promote accountability for the care of Medicare beneficiaries and encourage coordination of care and other efficiencies through ACOs. If an ACO realizes savings in Medicare expenditures above an expenditure benchmark established by CMS for the group, and meets or exceeds quality performance standards established by HHS, it will be paid a share of Medicare's savings. Going forward, CMS has made it clear that ACOs will be expected to share in both the savings and loses generated. TJUH System is a member of the Accountable Care Organization of Pennsylvania, LLC d/b/a Delaware Valley ACO ("ACO-PA"), which was formed in January 2011. See APPENDIX A - "HEALTHCARE ACTIVITIES –*Delaware Valley ACO*".

Medicare Advantage. Most individuals who are entitled to Medicare Part A benefits and enrolled in Medicare Part B may elect coverage under either the traditional Medicare fee-for-service program (Parts A and B) or a Medicare Advantage ("MA") Plan. A MA plan may be offered by a coordinated care plan (such as an HMO or a PPO), a provider sponsored organization ("PSO") (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical saving account ("MSA") and contributions to a MA plan. Each MA plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A MA plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers, such as JUH and JUP, must contract with MA plans to treat MA enrollees at agreed upon rates or they may form a PSO to contract directly with HHS as a MA plan. JUH and JUP contract with various MA plans.

The shift of Medicare eligible beneficiaries from traditional fee-for-service to MA programs was intended to increase competitive pressure to improve benefits, reduce premiums and generate cost reductions. However, because the cost of the MA programs was on average 114% higher than traditional fee-for-service, the Healthcare Reform Act amended some of the MA payment methodologies.

Reductions and increased recoupment efforts in the MA program may have an impact on reimbursement from these insurance plans, which in turn may have a material negative impact upon the revenue of the University.

Medicaid Reimbursement

Medicaid is a partially-funded state program of medical care for the poor. States obtain federal matching funds for their Medicaid programs by obtaining the approval of CMS of a "state plan" which conforms to Title XIX of the Social Security Act and its implementing regulations. Under broad federal guidelines, each state establishes and administers its own Medicaid program, which includes determining its own eligibility standards, determining the types, amount, duration, and scope of services, and setting the rate of payment for services. After a state plan is approved, the federal government provides federal matching funds for Medicaid expenditures.

While the Healthcare Reform Act required each state to expand Medicaid coverage to include individuals with household income up to 133% of the FPL, beginning in January 2014, the United States Supreme Court rejected that mandate. As a result, each state has the option to expand Medicaid eligibility. The federal government funds a substantial portion of the coverage expansion costs. Under Governor Corbett, Pennsylvania adopted a modified form of Medicaid expansion approved by CMS, the "Healthy Pennsylvania" plan, beginning in January 2015, that expanded coverage to include adults earning below 133% of the FPL subject to numerous eligibility and program requirements. New Pennsylvania Governor Wolf has indicated that he will continue the expanded Medicaid program but in a simplified and traditional form of coverage.

There can be no guarantee that Medicaid will continue to be funded at its current rate. Budgetary and financial constraints in Pennsylvania, as well as severe limitations on the method of acquiring increased federal financial participation through the use of provider taxes and donations have called into question the ability of DHS to make adequate and timely payments to providers. Further, while expanded Medicaid coverage will likely result in fewer uninsured patients, there is no guarantee that, rates paid for Medicaid patients will cover the costs of their care.

Inpatient Services. Payment for inpatient services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines. In addition to direct payments, JUH and JUP also receive reimbursement for services to Medicaid patients from certain HMOs that have contractual arrangements with DHS to provide coverage for such patients. Providers participating in Medicaid must accept Medicaid payment rates as payment in full.

Since 1984, Medicaid payment for operating and capital-related costs of acute care services has been based on a PPS similar to the federal Medicare DRG-based PPS. In 2010, when the State Plan was amended, Medicaid payment for inpatient hospital services was modernized by establishing a uniform base rate for all hospitals using the most current cost information, and making adjustments for differences in regional labor costs, teaching programs, and Medical Assistance volume. At the same time, hospital payments through the state's Medicaid managed care program were enhanced, and additional matching Medicaid funds were obtained through the establishment of the Quality Care Assessment, a tax on hospital net inpatient revenues that allows the state to access additional federal dollars.

In addition, states must make DSH payments to qualified hospitals that provide services to a disproportionately large number of Medicaid, low income and/or uninsured patients. Often DSH payments are insufficient to cover a hospital's costs in providing care to such patients, and in light of the DSH payment reduction, there can be no assurance that any future DSH payments will cover JUH's costs. There can be no assurance that future Medicaid inpatient reimbursement rates will remain at current levels, or that such rates will cover JUH's costs of providing inpatient care to Medicaid patients.

Serious, Preventable Events. The Healthcare Reform Act required CMS to incorporate non-payment policies for certain HACs into the Medicaid regulations, including non-payment polices for provider preventable conditions. States have discretion to add additional HACs and provider preventable conditions to their non-payment policies. JUH currently has a program in place to monitor and prevent HACs, PPCs and OPPCs. Even with these programs in place, it is likely that JUH, like almost all hospitals, will face reduced reimbursement at some point for costs associated with treating HACs and provider preventable conditions.

Outpatient Services. Medicaid provides payment for hospital outpatient services rendered based on the lower of the usual charge to the general public for the same service or the Medicaid maximum allowable fee.

Physician Payments. Under the Healthcare Reform Act, Medicaid reimbursement rates for primary care physicians were increased to Medicare levels in 2013 and 2014. However, that increase expired beginning January 2015. Thus, it appears that JUP will face reduced reimbursement for its Medicaid population. There is no guarantee that the reimbursement to physicians for treating the expanded Medicaid population will cover the costs of treating these patients.

Medicaid Managed Care. In Pennsylvania, most Medicaid beneficiaries, including those in the University's service area, are required to enroll in managed care plans known as "Health Choices," that provide services on a prepaid basis. The HealthChoices program has generally resulted in stricter utilization review of Medicaid-reimbursed hospital services and reduced lengths of stay and/or reimbursement compared with the previous fee-for-service system. There can be no assurance that the prepaid rates will cover expenses incurred by JUH and JUP in providing care to the Medicaid recipients.

Third Party Payers

In addition to government payors, JUH and JUP also receive reimbursement for services from commercial insurance companies and Blue Cross organizations under group and individual insured plans as well as self-funded employer group plans administered by the insurance companies.

Commercial Insurance (Indemnity). Most commercial insurance companies contract with hospitals on an "exclusive" or a "preferred" provider basis and pay for covered services based on prospectively established charges or negotiated rates, subject to various limitations, coinsurance provisions and deductibles depending on the coverage or plan involved. Certain agreements contain retrospective audit clauses allowing the payor to review and adjust claims subsequent to initial payment**.**

Managed Care Plans: HMO, PPO, EPO and High Deductible Plans. Most private insurers have introduced managed care plans, including PPOs, exclusive provider organizations (EPOs) and high deductible plans (HDP) for employees and individuals enrolling for coverage through their employer or from an exchange established under the Health Care Reform Act. Under these plans, there may be financial incentives for subscribers to use those hospitals which contract with those insurers ("network" providers).

Under an EPO, the payors limit coverage to those services provided by network hospitals and physicians, other than for emergency care. These types of plans may direct patients away from non-network hospitals by denying coverage for services provided by them.

High-deductible plans reimburse for preventive care without cost-sharing but all other medical expenses are the responsibility of the subscriber until a high dollar threshold is reached.

Exchange Plan Coverage. The Health Care Reform Act requires states to either establish and operate a health insurance exchange or participate in a multi-state or federal exchange. Pennsylvania and New Jersey opted not to establish their own exchanges and beginning in January 2014, federally facilitated exchanges became available for individuals in each state to buy coverage through the exchange. The health care plans offered on the federal exchange are operated by commercial payors and include various levels of coverage and provider access. The plans include traditional indemnity and managed care plans such as PPOs, EPOs, and high deductibles.

For individuals living in households with earned income of less than 400% of the FPL, subsidies are available to pay the premiums and copayment of exchange plans. The availability of the subsidized coverage on the exchanges has resulted in a reduction in uninsured patients in the Commonwealth. However, continued access to subsidized coverage for individuals enrolled in federal exchange plans is currently under review by the U.S. Supreme Court and a decision is expected by late June 2015. If the Court should determine that the subsidies are not available for plans offered on federal exchanges, the cost of those plans may increase greatly and enrollment may decrease substantially. In addition, employers subject to the large employer coverage mandate for fulltime employees, which became effective in 2015, will no longer be subject to penalties because they are tied to the number of employees receiving subsidies for exchange coverage.

Commercial Coverage Reimbursement. Most insurers and HMOs currently negotiate contracts that provide for reimbursement to hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. Some services are reimbursed on an "episode of care" or "capitation" payment methodology under which a hospital is paid a predetermined rate for a particular episode of care for a patient or a periodic rate for each enrollee who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such enrollees. These contracts generally are enforceable for a stated term regardless of provider losses. The Health Care Reform Act delivery reforms in the Medicare and Medicaid programs described above, including VBP, ACOs and population health management, are also beginning to be incorporated into the reimbursement methodologies of some commercial payors.

Blue Cross. The dominant third party payors in the JUH and JUP market are the Blue Cross entities, which pay for patient care pursuant to contractual arrangements and various formulas. JUH is currently reimbursed by Independence Blue Cross based on a per diem and per case arrangement for inpatient services and a fee schedule and percentage of charges for outpatient services (depending on the service). The current contract also includes a performance incentive plan. There can be no assurance that the payment rates and methodology employed under this contract will reimburse JUH and JUP at adequate levels.

Failure to maintain contracts with Independence Blue Cross and other substantial insurance carriers could have the effect of reducing JUH's or JUP's patient base and/or revenues. Conversely, participation may maintain or increase the patient base, but may result in reduced payment and lower net income from operations.

Management of JUH expects these managed care plans to continue to account for a significant percentage of JUH's patients under contracts requiring discounted charges**.** In certain years, one such plan has accounted for up to 24% of JUH net patient revenues. The high proportion of revenues from a single payer presents a significant risk in the event that services provided under the contract fail to yield the revenue anticipated at the time the contract was negotiated. No assurance can be given as to whether commercial insurance or other third party revenues received by JUH or JUP under existing or future contractual arrangements will be sufficient to cover patient care costs in the future. Similarly, no assurance can be made that retrospective audits conducted by commercial insurers or other third party payers will not result in the recoupment of payments already made.

Physician Contracting and Relations. JUH contracts with physician organizations ("POs") (e.g., independent physician practices or associations, physician-hospital organizations, faculty practice plans, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the POs.

The success of JUH will partially depend upon its ability to contract with POs to participate in the network, and upon the POs, including their employed physicians' abilities to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that JUH will be able to contract with and retain the requisite number of POs, or that such POs will deliver high quality health care services. Without contracting with a sufficient number and type of POs, JUH could fail to be competitive, fail to keep or attract payor contracts, or be prohibited from operating until it has arranged for physician services necessary to provide adequate access for patients. Such occurrences could have a material adverse effect on the business or operations of JUH and JUP.

Health Plan Financial Pressure and Insolvency. In cases where a managed care organization is a major purchaser of services from a particular hospital, contract rate reduction, contract cancellation, inability to pay, business failure or bankruptcy of the HMO may have a substantial negative effect on that hospital's financial condition. It is not possible at this time to predict the future financial viability of the managed care industry in general or to predict what impact the insolvency and general financial state of such organizations might have on hospitals.

The Fraud and Abuse Laws

The Federal Anti-Kickback Act. The federal Anti-Kickback Law ("AKS") is a criminal statute that prohibits the knowing and willful offer, payment or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for the provision of goods or services that may be reimbursed under any federal health care program. The scope of the AKS is very broad, and it potentially implicates many practices and arrangements common in the health care industry. Violation of the AKS is a felony, subject to a maximum fine of $25,000 for each criminal act, imprisonment for up to five years, both a fine and imprisonment, civil monetary penalties of up to $50,000 per violation or damages equal to three times the amount of the prohibited remuneration, as well as exclusion from the federal health care programs. The Healthcare Reform Act relaxed the intent requirement to provide that a person need not have actual knowledge of the AKS or specific intent to commit a kickback violation to violate the statute. The result of this change is that the government will have less of a burden to prove a violation under the AKS.

HHS has issued regulations from time to time setting forth safe harbors that protect limited types of arrangements from prosecution under the statute. Arrangements that do not comply with the strict requirements of the safe harbors, while not necessarily illegal, face an ongoing risk of investigation or prosecution due to the broad language of the statute. The safe harbors described in the regulations are narrow and do not cover many common economic relationships between and among hospitals, including JUH, physicians and other health care providers. JUH has entered into arrangements with other health care providers that may not meet all of the requirements of the "safe harbor" regulations. Because of the narrowness of the safe harbor regulations and the scarcity of the case law interpreting the AKS, there can be no assurances that JUH will not be found to have violated the AKS, and if such a violation were found, that any sanctions imposed would not have a material adverse effect upon the operations and financial conditions of the University.

Physician Payment Sunshine Act. To increase transparency regarding the financial relationships between hospitals, doctors, and healthcare manufacturing companies, the Physician Payment Sunshine Act requires that manufacturers of drugs, medical devices and biologicals that participate in U.S. federal health care programs must report certain payments and items of value given to physicians and teaching hospitals, such as JUH. As of August 2014 this information is publicly available on the CMS website. The largest category of payment disclosures posted in 2014 for JUH related to research. It is impossible to predict the future impact of this reporting on JUH and JUP.

Federal False Claims Act. The federal criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The federal civil False Claims Act ("civil FCA"), one of the government's primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency through actions taken by the U.S. Attorney's Office or the Department of Justice. The civil FCA also permits individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government.

Under the civil FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims or failing to refund known overpayments. Civil FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that false claims have been submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil FCA. In 2009, the scope of the civil FCA was expanded to include so-called "reverse false claims," where a provider that knowingly retains a government overpayment is subject to FCA liability. The Healthcare Reform Act further requires that any overpayment be reported and repaid within 60 days after the date on which overpayment was identified. Failure to do so will be considered a per se false claim under the civil FCA. The Healthcare Reform Act also modified the FCA by extending the FCA to any AKS violation.

Violations of the civil FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties ranging from $5,500 to $11,000 per claim. Private individuals may also bring suit under the qui tam provisions of the civil FCA and may be eligible for incentive payments for providing information that leads to recoveries or sanctions that arise in a variety of contexts in which health care providers operate. The Healthcare Reform Act also eased the requirements for private individuals to bring suit under the civil FCA. In recent years there has been a significant increase in the number of whistleblower allegations filed under the civil FCA.

While JUH and JUP are not aware of any violations of the criminal FCA or civil FCA, these statutes pose significant risks to all health care organizations. There can be no assurances that JUH or JUP will not be charged with, or found to have violated, the criminal FCA or civil FCA and, if so, that any fines or other penalties would not have a material adverse effect on its operations.

Civil Monetary Penalties Law. The Civil Monetary Penalties Law under the Social Security Act ("CMP Law") provides for the imposition of civil monetary penalties against any person who submits a claim to Medicare, Medicaid or any other federal health care program that the person knows or should know is for items or services not provided as claimed; is false or fraudulent; is for services provided by an unlicensed or uncertified physician or by an excluded person; represents a pattern of claims that are based on a billing code higher than the level of service provided; or is for services that are not medically necessary. Penalties under the CMP Law include up to $50,000 for each item or service claimed, and damages of up to three times the amount claimed for each item or service, and exclusion from participation in the federal health care programs.

Health care providers may be found liable under the CMP Law even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. The imposition of civil monetary penalties could have a material adverse impact on the University's financial condition.

Self-Disclosures. Both CMS and DHS have protocols for providers to self-disclose possible overpayments. JUH made a disclosure to DHS in May 2014 in which it identified approximately 205 claims subject to repayment. JUH and DHS are in the process of determining the amount of overpayment.

Stark Self-Referral and Payment Prohibitions. The federal Ethics in Patient Referrals Act (known as the "Stark Law") prohibits the referral of Medicare and Medicaid patients for certain "designated health services" (which include inpatient and outpatient hospital services) to entities with which the referring physician (or an immediate family member of such physician) has a financial relationship unless an exception applies. The statute also prohibits the entity furnishing the "designated health services" from billing the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The law requires voluntary self-reporting of violations discovered by a health care provider.

Violations of the Stark Law can result in refunds of the amounts collected for services rendered pursuant to a prohibited referral, civil monetary penalties of up to $15,000 for each claim arising out of such referral, plus up to three times the reimbursement claimed, and exclusion from the Medicare and Medicaid programs. The Stark Law also provides for a civil penalty of up to $100,000 for entering into an arrangement with the intent of circumventing its provisions. In certain circumstances, knowing violations may also create liability under the FCA.

Due to the complexity of the Stark Law and related regulatory guidance, however, there can be no assurance that JUH or JUP will not be found to have violated the Stark Law and if so, whether any sanction imposed would have a material adverse effect on the operations and/or financial condition of the University.

Exposure to Liability

Due to the nature of its business, JUH and JUP from time to time become involved as a defendant in medical malpractice lawsuits, and is subject to the attendant risk of substantial damage awards. The most significant source of potential liability in this regard is the negligence of physicians employed or contracted by the University. To the extent such physicians are employed by JUH or regarded as agents of JUH in the practice of medicine, JUH could be held liable for their negligence. In addition, JUH could be found in certain instances to have been negligent in performing its management services under contractual arrangements even if no agency relationship with the physicians were found to exist. JUH's contracts with third party payors generally require JUH to indemnify such other parties for losses resulting from the negligence of physicians who were employed or managed by or affiliated with JUH. JUH maintains professional and general liability insurance on a claims-made basis in amounts deemed appropriate by management, based upon statutory requirements, historical claims and the nature and risks of its business.

There can be no assurance, however, that any insurer will remain solvent and able to meet its obligations to provide coverage for any such claim or claims, or that such coverage will continue to be available or available with sufficient limits and at a reasonable cost to adequately and economically insure JUH's operations in the future. A judgment against JUH in excess of such coverage could have a material adverse effect on the University.

Medical Professional Liability Insurance Market

Professional liability costs for Pennsylvania's physicians and other health care providers have been among the highest in the nation. Rapidly deteriorating underwriting results have in recent years generated substantial premium increases and coverage reductions in the medical professional liability insurance marketplace. A dramatic and sustained rise in claim severity nationwide coupled with lower investment returns available to insurers due to the economic slowdown have caused substantial reductions in medical professional liability insurance capacity. Health care entities that have self-funded programs are also experiencing similar difficulties with respect to reinsurance on their captive insurance companies and/or with respect to insurance placements in excess of the primary coverage layers.

The Pennsylvania General Assembly has enacted laws to address these issues, including the Medical Care Availability and Reduction of Error ("MCARE") and the Fair Share Act. MCARE brought reform to the area of professional liability and created the MCARE fund which, in exchange for premiums from physicians, serves as a source of recovery for claims in excess of the provider's base insurance limits. The Fair Share Act provides that, with some exceptions, a defendant will only be responsible to pay a portion of any judgment equal to the percentage of liability found against that defendant. See "BONDHOLDERS' RISKS - Other Legislative and Regulatory Actions" herein.

The effect of these developments has been to increase the operating costs of hospitals, including those of JUH. In addition, the increase in the cost of professional liability insurance may cause established physicians to leave the most heavily affected geographical regions, including Pennsylvania, and prevent new physicians from establishing their practices in JUH's region. See APPENDIX A – "PROFESSIONAL LIABILITY INSURANCE." There can be no assurance that the unpredictability of jury awards and claims payouts, the reduction of coverage availability, and/or the rising cost of professional liability insurance coverage will not ultimately adversely affect the operations or financial condition of the University.

Charity Care

Hospitals are permitted to have tax-exempt status under the Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, and when charitable donations were required to fund the health care provided to the sick and disabled. Some have posited that, with the onset of employer-sponsored health insurance and government reimbursement programs, there is no longer any justification for special tax treatment for the not-for-profit health care sector, and the availability of tax-exempt status should be eliminated. Management of JUH cannot predict the likelihood for such a dramatic change in the law, and the cost of charity care provided by JUH over the past several years has been significant. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits. The Healthcare Reform Act requires hospitals to conduct a community needs assessment every three years in order to maintain its tax-exempt status. JUH conducted this assessment in 2012.

Although the Healthcare Reform Act is designed to reduce uncompensated care by expanding health care coverage to a larger portion of the population, improvements to coverage and access will not be available immediately. As a result, JUH may be required to continue provide services for which it receives payment below cost, or for which it may receive no payment, from the patient or third party payors. While JUH attempts to provide care to the poor and indigent in a prudent manner, the continuation or expansion of such policy, or the inability to properly document its indigent care, could have an adverse financial effect on the University.

See also the discussion of other provisions of the Code under "Tax Exemption for Nonprofit Corporations" below.

Other Legislative and Regulatory Actions

The University and its operations are subject to regulation and certification by various federal, state and local government agencies and by certain non-governmental agencies such as The Joint Commission. Various health and safety laws and regulations enforced by state and local agencies apply to the University. Violations of certain of these standards could result in closure of JUH or portions thereof, or requirements that compliance with such standards be immediately achieved. Such standards are subject to change, and there can be no assurances that in the future, JUH's facilities will meet any changed standards or that JUH will not be required to expend significant sums to comply with changed standards. No assurance can be given as to the effect on JUH's future operations of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Other possible federal or state legislation which could have an adverse effect on the University would include: (i) limitations on the amount of charitable contributions which are deductible for income tax purposes; (ii) limitations on the amount or availability of tax-exempt financing for Section 501(c)(3) corporations; and (iii) regulatory limitations affecting the University's ability to undertake capital projects or develop new services.

Other regulatory programs which may significantly affect the University are changes in governmental requirements regarding patient treatment. These regulations are embodied in patients' bills of rights and similar programs being promulgated with greater frequency and changes in licensure requirements. All of these could increase the cost of doing business and consequently adversely affect the financial condition of the University.

Emergency Medical Treatment and Active Labor Act

In response to concerns regarding inappropriate hospital transfers of emergency room patients due to a patient's inability to pay for services, Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA") or the "anti-dumping" statute. This law imposes certain requirements on hospitals prior to discharging an emergency patient or transferring such a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as civil penalties. The failure of JUH to meet its responsibilities under EMTALA could adversely affect the financial condition of the University.

EMTALA and its implementing regulations are complex, and JUH's compliance is dependent, in part, upon the compliance of independent medical staff members. Accordingly, there can be no assurance that no violation of EMTALA will be found or, if found, that any sanction imposed would not have a material adverse effect on the operations or financial conditions of the University.

Health Insurance Portability and Accountability Act

Providers of health care, such as JUH and JUP, have been impacted by certain health information requirements contained in the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations ("HIPAA"), as amended in 2009 by the Health Information Technology for Economic and Clinical Health Act ("HITECH"). HIPAA mandates the adoption of detailed standards for maintaining the privacy and security of protected health information ("PHI"). HITECH made significant modifications to HIPAA including subjecting business associates to direct regulation and enforcement by the Office of Civil Rights of HHS ("OCR"), instituting a breach notification requirement for breaches of unsecured PHI, including a breach of PHI held by a business associate, and strengthening the enforcement tools available to OCR.

The financial costs of continuing compliance with HIPAA regulations are substantial and will increase as a result of HITECH, increased enforcement, and well-publicized breaches. University Entities are actively engaged in continuing compliance efforts with HIPAA and HITECH. There are also costs and risks associated with business associates as it is possible that JUH or JUP could be responsible for HIPAA violations or breaches of their business associates. To date, the University has reported a number of breaches to HHS, including misdirects, missing/disappearing records and unauthorized access. No guarantee can be made that the University will remain HIPAA/HITECH Act compliant in the future, or that OCR will not do an audit in connection with a reported breach.

Electronic Health Record Incentive Program. HITECH provided funding for various activities intended to promote the adoption and meaningful use of certified electronic health record ("EHR") technology. Eligible Medicare and Medicaid providers, including acute care hospitals and other health care professionals may be eligible to receive EHR payment incentives if they demonstrate the meaningful use of certified EHR technology and meet other program requirements. Starting in 2015, an eligible provider who does not successfully demonstrate meaningful use of certified EHR technology will be subject to reduced physician fee schedule payments. If less than 75% of eligible providers are using certified EHR technology after 2018, then the payment adjustment will decrease by an additional 1% each year until the payment adjustment reaches 95%. CMS has begun an audit program to assure the veracity of certifications.

As confirmed by CMS on December 28, 2014, JUH participates in the EHR Incentive Programs for Medicare and Medicaid as a "meaningful user," and it received an incentive payment from CMS in 2014. There can be no guarantee that JUH will continue to be able to successfully demonstrate its meaningful use of EHR technology, and if JUH is not able to demonstrate meaningful use at that time, then it will be subject to reduced Medicare and/or

Medicaid payments. See APPENDIX A – "MANAGEMENT'S DISCUSSION AND ANALYSIS – Electronic Health Records".

Corporate Compliance

The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing Guidelines (the "Guidelines"), which permit the imposition of extremely large fines in many instances. The Guidelines permit the fine to be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program and/or accepts responsibility for its actions. As a result of the current environment of increased enforcement against health care fraud and abuse, JUH has established compliance programs to prevent or detect violations of federal law.

JUH has a fulltime compliance officer who oversees its compliance programs, including the JUP physician billing activities, and who has a direct reporting relationship to the Audit Committee of TJU. The University believes that its compliance program is in overall compliance with the OIG Compliance Guidance for Hospitals.

Increased Enforcement Affecting Academic Research

The conduct of research at TJU and its clinical affiliates is subject to increasing federal regulation. The Department of Health and Human Services Office of Human Research Protection, the Food and Drug Administration and National Institutes of Health have increased their enforcement efforts in relation to their oversight of federally funded research, including research on human subjects. These laws regulate both the methods and requirements for submitting transfers for reimbursements of costs associated with performing the research and claims for services rendered to human subjects. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and repayment for errors in billing of the Medicare Program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement. These enforcement activities could subject TJU and JUP to sanctions as well as repayment obligations, which could have a material and adverse effect on the financial condition and operations of the University.

Fluctuations in Market Value of Investments

General. Earnings on investments have historically provided TJU, most significantly, and other University Entities, to a lesser extent, an important source of cash flow and capital appreciation to support their programs and services, to finance capital expenditure investments and to build cash reserves. Historically the value of both debt and equity securities has fluctuated and, in some instances, the fluctuations have been quite significant. Diversification of securities holdings may diminish the impact of these fluctuations. However, no assurances can be given that the market value of the investments of TJU or other University Entities will grow, or even remain at current levels and there is no assurance that such market value will not decline. Further, no assurances can be given that there will not be a significant decrease in the value of the University's investments caused by market or other external factors. See APPENDIX A – "INVESTMENTS" for a discussion of the University's investments.

Pension Funding Impact. Changes in market interest rates and debt and equity market fluctuations also have an impact on the pension fund liabilities of the University Entities and the requirements for funding their related pension expenses. Like other entities with pension fund liabilities, the University Entities find that increases or decreases in interest rates have an impact on the assumed earnings rates on pension assets needed to match pension fund liabilities, which accordingly affects the levels of actuarial pension investment assets required to meet future pension obligations. Consequently, any substantial and sustained decline in long-term interest rates could have the effect of increasing the current pension funding requirements of the University Entities. No assurance can be given that the University Entities will not be required to make increased pension funding payments in this or other circumstances.

Interest Rate Swaps. There are a number of risks associated with interest rate swaps that could affect the value of the University's swaps, the ability of the University to accomplish its objectives in entering into the swaps and the ability of the University to meet its obligations under the swaps. These risks include, among others, the following: counterparty risk – the failure of the counterparty to make required payments; credit risk – the occurrence of an event modifying the credit rating of the University or its counterparty; termination risk – the need to terminate the transaction in a market that dictates a termination payment by the University; tax risk – the risk created by potential tax events that could affect swap payments; and basis risk – the mismatch between actual variable rate debt service and variable rate indices used to determine swap payments. The University actively monitors the degree of risk and exposure associated with the swaps to which it is a party but can offer no assurances that it will not suffer adverse financial consequences as a result of these transactions.

Other Risk Factors Relating to the Finances and Operations of the University

In the future, the following factors, among others, may adversely affect the operations of the University to an extent that cannot be determined at this time.

1. Increases in the costs and decreases in the availability of public liability insurance. See APPENDIX A – "PROFESSIONAL LIABILITY INSURANCE."

2. Changes in the demand for higher education in general or for programs offered by TJU in particular.

3. Cost and availability of energy.

4. Future interest rates, which could strain cash flow given the University's variable rate debt or prevent borrowing for needed capital expenditures.

5. A decrease in student loan funds or other aid that provides many students with the opportunity to pursue higher education. See APPENDIX A – "JEFFERSON EDUCATIONAL AND RESEARCH ACTIVITIES – Financial Aid."

6. An increase in the costs of health care benefits, retirement plan, or other benefit packages offered by the University to its employees and retirees. See APPENDIX A – "PENSION PLANS" for a discussion of the costs of TJU and JUH's pension plans.

7. Unknown litigation, regulatory actions or other similar claims regarding the University or any of its affiliates. See “LITIGATION – The University” herein.

8. A reduction in charitable pledges and other fundraising support of the University. See APPENDIX A – “FUNDRAISING” for a description of fundraising activities at the University.

9. Strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts and other risks that may flow from various relationships involving students, faculty, employees, physicians and/or patients.

10. The ability of the University to offer certain sophisticated and costly equipment for diagnosis and treatment.

11. Reduced demand for the health care services of the University that might result from decreases in population in its service area.

12. Increased unemployment or other adverse economic conditions in the service areas of the University which would increase the proportion of patients who are unable to pay fully for the cost of their care or reduce the proportion of patients who have insurance coverage for health care services.

13. Limitations on availability of, and increased compensation necessary to secure and retain, faculty, physicians, nursing, technical, executive and other professional personnel.

14. Any increase in the quantity or cost of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the University Entities.

15. Epidemics or other public health issues that may strain the University’s resources or disrupt its normal operations.

TAX MATTERS

General

In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the 2015A Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the 2015A Bonds, assuming the accuracy of the certifications of the Authority and TJU, TJUH System, JUH and JUP and continuing compliance by the Authority and TJU, TJUH System, JUH and JUP with the requirements of the Internal Revenue Code of 1986 (the “Code”). Interest on the 2015A Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on 2015A Bonds held by a corporation (other than an S Corporation, regulated investment company, or real estate investment trust) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Bond Counsel expresses no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the 2015A Bonds.

Certain of the 2015A Bonds were offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a 2015A Bond through reductions in the holder's tax basis for the 2015A Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Holders should consult their tax advisors for an explanation of the amortization rules.

Certain of the 2015A Bonds were offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. For federal income tax purposes, original issue discount on a 2015A Bond accrues periodically over the term of the 2015A Bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in the 2015A Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders should consult their tax advisers for an explanation of the accrual rules.

Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the 2015A Bonds, interest on the 2015A Bonds is exempt from Pennsylvania personal income tax and corporate net income tax, and the 2015A Bonds are exempt from personal property taxes in Pennsylvania.

Changes In Federal and State Tax Law

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the 2015A Bonds or otherwise prevent holders of the 2015A Bonds from realizing the full benefit of the tax exemption of interest on the 2015A Bonds. Further, such proposals may impact the marketability or market value of the 2015A Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the 2015A Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the 2015A Bonds would be impacted thereby.

Purchasers of the 2015A Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the 2015A Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

LEGAL MATTERS

Legal matters incident to the authorization, issuance, and sale of the 2015A Bonds will be passed upon by Ballard Spahr LLP, Philadelphia, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Hartman Underhill & Brubaker, LLC, Lancaster, Pennsylvania and for the Underwriters by their counsel, Cozen O'Connor, Philadelphia, Pennsylvania. Certain legal matters will be passed upon for the University by the office of the University Counsel and Ballard Spahr LLP, Philadelphia, Pennsylvania, in its capacity as counsel to the University.

INDEPENDENT ACCOUNTANTS

The Consolidated Balance Sheet of Thomas Jefferson University as of June 30, 2014 (Post-merger), the Consolidated Financial Statements of Thomas Jefferson University and Affiliates as of June 30, 2014, 2013 and 2012 (Pre-merger) and the Consolidated Financial Statements of TJUH System and its Subsidiaries as of June 30, 2014, 2013 and 2012 (Pre-merger), included in Appendices B-1, B-2 and B-3, respectively to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their reports appearing therein.

UNDERWRITING

The 2015A Bonds are being purchased by the Underwriters. The Underwriters have agreed to purchase the 2015A Bonds from the Authority at a purchase price of $327,236,375.68 (representing the aggregate principal amount of the 2015A Bonds, plus a net original issue premium in the amount of $27,513,991.45 and less an underwriters' discount of 2,082,615.77). The Underwriters will be obligated to purchase all 2015A Bonds if any are purchased. The initial public offering prices of the 2015A Bonds set forth on the inside front cover page of this Official Statement may be changed from time to time by the Underwriters without any requirement of prior notice. The Underwriters reserve the right to join with other dealers in offering the 2015A Bonds to the public. The 2015A Bonds may be offered and sold to other dealers (including 2015A Bonds for deposit into investment trusts, certain of which may be sponsored or managed by the Underwriters) at prices other than the public offering prices stated on the inside front cover page of this Official Statement.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriters and their affiliates may, from time to time, perform various investment banking services for the Authority or the University, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the 2015A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase 2015A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2015A Bonds that such firm sells.

TJU intends to use a portion of the proceeds from the offering of the 2015 Bonds to refund the Notes and the 2008 Bonds. To the extent an Underwriter or any affiliate thereof is an owner of the Notes, or the 2008 Bonds, the Underwriter, or its affiliate, as applicable, would receive a portion of the proceeds from the issuance of the 2015 Bonds contemplated herein in connection with such transactions.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") has assigned the 2015A Bonds a rating of "A" (Outlook: Stable) and Moody's Investors Service, Inc. ("Moody's") has assigned the 2015A Bonds a rating of "A1" (Outlook: Negative). Such ratings reflect only the view of Standard & Poor's and Moody's at the time the ratings were given, and neither the Authority, University nor the Underwriters make any representation as to the appropriateness of such ratings. Any explanation of such ratings may be obtained only from such rating agencies. Generally, rating agencies base their ratings on information and materials provided to them and their own investigations, studies and assumptions. No assurance is given that either rating will be maintained for any period of time or that it may not be lowered or withdrawn entirely if in the judgment of such rating agency circumstances so warrant. Any downward change, suspension or withdrawal of either rating may have an adverse effect on the market price of the 2015A Bonds.

LITIGATION

The Authority

There is no litigation of any nature pending or, to the Authority's knowledge, threatened against the Authority at the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the 2015A Bonds, or in any way contesting or affecting the validity of the 2015A Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or the security provided for the payment of the 2015A Bonds or the existence or powers of the Authority.

The University

There are various claims, legal actions and audits pending against the University, which have arisen in the ordinary course of the University's business, some of which include demands for punitive damages as well as other types of damages, which are outside the scope of insurance coverage or for which the University would itself be responsible, if its liability would be established. In the opinion of management of the University, none of such pending claims, legal actions or audits would materially adversely affect the business, financial condition or properties of the University.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the requirements of Rule 15c2-12, as amended, promulgated under the Securities Exchange Act of 1934, as amended, TJU, on behalf of the University Entities, will covenant, in a Continuing Disclosure Agreement to be dated as of the date of the issuance of the 2015A Bonds, with the Trustee (the "Continuing Disclosure Agreement") to file with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access ("EMMA") system (http://www.emma.msrb.com) within 180 days after the end of each fiscal year commencing with the fiscal year ending June 30, 2015 certain annual information, consisting of the consolidated audited annual financial statements for TJU (and for any other University Entity to the extent not consolidated with TJU) and updates of certain other financial and operating data of the University set forth in APPENDIX A hereto and to disclose the occurrence, if any, of certain enumerated events in a timely manner, not in excess of ten business days after the occurrence of the event, subject to TJU's determination of the materiality of certain of such events. TJU will also covenant to provide its consolidated unaudited quarterly balance sheet and statement of activities and quarterly updates of certain operating data. The Continuing Disclosure Agreement will constitute a written undertaking for the benefit of the holders and beneficial owners from time to time of the 2015A Bonds. See APPENDIX E hereto.

During the past five years, in connection with TJU's continuing disclosure undertakings executed in connection with certain prior bond issues, TJU failed to file event notices with respect to one underlying bond rating downgrade, the withdrawal of an insured rating for one series of bonds, and bond rating downgrades for two series of bonds related to the rating downgrade of a letter of credit bank. In connection with TJU becoming the sole corporate member of TJUH System on June 30, 2014, TJU filed an event notice with EMMA on July 28, 2014 which was more than the required 10 business days after the underlying event. TJU does not believe any of the foregoing instances of non-compliance with its continuing disclosure undertakings were material. TJU has subsequently filed event notices for the above-described rating changes and currently is in compliance in all material respects with its previous undertakings with regard to continuing disclosure for prior obligations issued. Further, TJU plans to adopt before issuance of the 2015 Bonds, and is currently preparing and reviewing, its disclosure policies and procedures to ensure that the University will be in compliance with continuing disclosure undertakings in the future.

FINANCIAL ADVISOR

In connection with the authorization, sale and issuance of the 2015A Bonds, TJU has retained Echo Financial Products, LLC, King of Prussia, Pennsylvania, as its financial advisor (the "Financial Advisor"). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness, of the information contained in this Official Statement and the Appendices hereto. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTAIN RELATIONSHIPS

Three attorneys of Cozen O'Connor, which is acting as the Underwriters' counsel in connection with the purchase of the 2015A Bonds, serve on the Board of Trustees of TJU. One retired attorney of Ballard Spahr LLP, which is acting as Bond Counsel and counsel to the University, serves on the Board of Trustees of TJU as an Emeritus Trustee. See APPENDIX A – "GOVERNANCE AND MANAGEMENT – Trustees". Ballard Spahr LLP and Cozen O'Connor also represent TJU and various affiliates from time to time in certain matters unrelated to this transaction. Pursuant to the proposal of the Representative of the Underwriters, TJU has agreed to the Representative's selection of Cozen O'Connor to serve as Underwriters' counsel in connection with the purchase of the 2015 Bonds.

Bank of America, N.A., an affiliate of the Representative, was the initial purchaser of the Notes, which will be redeemed in connection with the issuance of the 2015A Bonds. Bank of America, N.A. is a counterparty with respect to certain Existing Swaps that may be restructured in connection with the University's plan of finance. Banc of America Public Capital Corp. an affiliate of the Representative, is a Direct Purchaser of the Direct Placement Bonds. J.P. Morgan Chase Bank, N.A., an affiliate of one of the Underwriters, is a party to certain Continuing Covenant Agreements as the bondholder representative for certain of the Direct Placement Bonds.

MISCELLANEOUS

All of the summaries of the provisions of the Act, the Indenture, the Loan Agreement, the Contribution Agreements and the 2015A Bonds set forth herein are only brief outlines of certain provisions thereof and are made subject to all of the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or all such provisions of such document.

Information concerning the University and the anticipated use of the proceeds of the 2015A Bonds has been provided by TJU. All estimates, projections, and assumptions herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates, projections, or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The Authority and TJU have authorized the execution and distribution of this Official Statement. The Authority has not assisted in the preparation of this Official Statement, except for the statements under the sections captioned "THE AUTHORITY" and "LITIGATION - The Authority" herein and, except for those sections, the Authority is not responsible for any statements made in this Official Statement.

PENNSYLVANIA HIGHER EDUCATIONAL FACILITIES AUTHORITY

By: /s/ Robert Baccon
Robert Baccon, Executive Director

Approved:
THOMAS JEFFERSON UNIVERSITY, as Representative of the University Entities

By: /s/ Alfred C. Salvato
Alfred C. Salvato, Senior Vice President, Corporate Finance & Chief Investment Officer

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APPENDIX A

DESCRIPTION OF THOMAS JEFFERSON UNIVERSITY AND AFFILIATES

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APPENDIX A
DESCRIPTION OF THOMAS JEFFERSON UNIVERSITY AND AFFILIATES

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OVERVIEW

Thomas Jefferson University ("TJU") is a nonprofit corporation formed exclusively for charitable, scientific and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"). TJU's mission is to establish, foster and support innovation, collaboration, value, and quality in academic medical teaching, learning, discovery, application, patient care, and healing by: (i) educating current and future physicians, nurses, pharmacists, biomedical scientists, and other health professionals; (ii) expanding understanding of human beings and their environment, especially their health and diseases, through basic, clinical and translational research; (iii) providing for, facilitating and enabling patient access to quality health care in an evolving healthcare delivery system; and (iv) integrating care delivery and payment systems to provide comprehensive solutions to patients and the communities served by the University (as defined below). TJU and its affiliates and subsidiaries, including TJUH System, Thomas Jefferson University Hospitals, Inc., and Jefferson University Physicians (each described below), are together referred to in this Appendix A as the "University" or "Jefferson".

Education; Research. The University's educational activities are conducted through six academic divisions: the Sidney Kimmel Medical College ("SKMC"), one of the oldest and largest private medical schools in the United States; Jefferson Graduate School of Biomedical Sciences ("JGSBS"), formerly known as Jefferson College of Graduate Studies; Jefferson School of Health Professions ("JSHP"); Jefferson School of Nursing ("JSN"); Jefferson School of Pharmacy ("JSP"); and Jefferson School of Population Health ("JSPH"). JSHP, JSN, JSP and JSPH together are sometimes referred to as the "Jefferson Schools". The academic divisions have a total enrollment of 2,971 (full-time equivalent) students in the 2014-15 academic year ("Academic Year" or "AY"), including 1,072 students enrolled in SKMC.

The University's identity and character are established by its mission of educating physicians, nurses, pharmacists, biomedical scientists and other health professionals; expanding new scientific knowledge through basic, translational and clinical research; and providing quality patient-focused patient care as a basis for clinical education. The University's academic activities are supported by endowments, tuition and fee revenues, gifts, and appropriations from the State of Delaware. As a major scientific and medical research center, the University also receives revenues from research and other grants and contracts with federal, state and local governments, and private industry.

Healthcare. TJU is the sole corporate member of TJUH System through which the University conducts its clinical activities. TJUH System is the sole corporate member of Thomas Jefferson University Hospitals, Inc. ("JUH"), which owns and operates Thomas Jefferson University Hospital ("TJUH"), Jefferson Hospital for Neuroscience ("JHN") and Methodist Hospital Division ("Methodist Division"), which hospitals (collectively, "Jefferson University Hospitals") together comprise 951 licensed beds. TJUH System is also the sole corporate member of Jefferson University Physicians ("JUP"). TJUH System and its operating subsidiaries, JUH and JUP, as well as other companies and ventures operated by TJUH System, are referred to herein collectively as "Jefferson Healthcare". Jefferson Healthcare is an integrated academic medical system.

Jefferson Healthcare provides comprehensive primary, secondary, tertiary and quaternary inpatient and outpatient care to patients in the Philadelphia metropolitan area. Across its locations, Jefferson University Hospitals provided care to patients in connection with over 45,131 inpatient admissions and 471,286 outpatient visits in the fiscal year ("Fiscal Year" or "FY") ended June 30, 2014. As a regional referral center and teaching institution, Jefferson University Hospitals provides diagnostic and therapeutic radiology and clinical laboratory services. Jefferson University Hospitals has a Level I Regional

Resource Trauma Center designation and have been designated by the National Institute of Handicapped Research as a Regional Spinal Cord Injury Center. Other programs at Jefferson University Hospitals includes surgical and non-surgical treatment of joint and musculoskeletal disorders, breast cancer diagnosis and treatment, cardiac surgery, cardiac angioplasty, medical genetics, hip and knee replacement, and treatment of skin and colorectal cancers. Jefferson offers 74 independent academic programs that train over 840 residents and fellows at Jefferson University Hospitals.

TJUH, established in 1825, is the University's flagship hospital located on its campus in Center City Philadelphia. TJUH is a teaching hospital licensed for 682 acute care beds and is nationally recognized for its programs in Orthopedics, Cancer, Otolaryngology/ear, nose and throat, Urology, Gastroenterology and GI Surgery, Neurology, Neurosurgery, Nephrology, and Gynecology. TJUH provided care to patients over the course of 32,817 inpatient admissions and 347,412 outpatient visits in the Fiscal Year ended June 30, 2014.

JHN, with 87 licensed beds, is also located on the University's main campus. JHN delivers comprehensive neurosurgical services to patients, including brain and spinal surgery, as well as treatment and research in the areas of stroke, Alzheimer's disease, dementia and Parkinson's disease. JHN provided care to patients over the course of 3,896 inpatient admissions and 24,125 outpatient visits in the Fiscal Year ended June 30, 2014.

The Jefferson Methodist Division was acquired by Jefferson in 1996 and is operated as a division of JUH. The facility, which is located in South Philadelphia, approximately 5 miles south of the Jefferson Center City campus, offers a continuum of community centered care, including inpatient acute care services, a broad range of ancillary services and ambulatory care programs. The Methodist Division is licensed for 182 acute care beds. The Methodist Division provided care to patients over the course of 8,418 inpatient admissions and 99,749 outpatient visits in the Fiscal Year ended June 30, 2014.

JUP is a non-profit corporation described within the meaning of Section 501(c)(3) of the Code, and is a multi-specialty physician practice comprised of the University's salaried faculty members. JUP was formed for the purposes of engaging in patient care, education and research exclusively in support of the charitable, scientific and educational purposes of the University; in conjunction with JUH, organizing, developing and supervising an integrated, non-profit health care delivery system promoting community health and well-being through clinical and statistical research, and disease prevention and treatment; participating in the education and training of medical students, medical post-graduate students, practicing physicians and other health care providers through relationships with the University and other academic institutions and teaching hospitals; developing, through experimentation and study, more efficient and cost-effective systems and procedures for the delivery of health care services to the community, especially to medically-underserved populations, and engaging in related activities consistent with the provisions of Section 501(c)(3) of the Code.

Doctors and clinical psychologists who are salaried faculty members of the University and who actively engage in patient care are eligible to be employee participants ("Participants") of JUP. As of June 30, 2014, approximately 647 University faculty doctors and clinical psychologists were employed as Participants of JUP.

TJU and JUP are parties to an Affiliation Agreement dated July 1, 1995, as amended (the "JUP Affiliation Agreement"). Pursuant to the Affiliation Agreement, TJU has recognized JUP as the principal entity with responsibility for patient care services. JUP recognizes TJU as the entity with primary responsibility for the conduct of educational activities in medical and related fields, as well as the conduct of research, and TJU affords to clinical faculty members of JUP access to appropriate office, laboratory, administrative, diagnostic, library, and related facilities of TJU, including the benefits of faculty status, teaching opportunities, medical research programs and projects, and other scholarly activities. TJU provides JUP with certain administrative support services and with certain ambulatory care facilities, equipment and supplies, and the costs of doing so are reimbursed by JUP.

FACULTY, STAFF AND EMPLOYEES

Faculty. As of October 2014, there were approximately 2,811 members of the SKMC/JGSBS faculty. 824 are full-time, salaried faculty members, 75 are part-time and the remaining 1,912 are non-salaried appointed faculty. Of the 824 full-time, salaried faculty, approximately 27% are professors, 20% associate professors, 39% assistant professors and the remaining 15% instructors.

All full-time, salaried faculty members who are engaged in clinical activities are members of JUP. The volunteer faculty is primarily in clinical departments and participates in the clinical instruction of medical students and residents at Jefferson University Hospitals and other hospitals. Medical staff at hospitals participating in student and resident education must meet the same criteria for faculty status as the full-time faculty and must hold an appointment in SKMC. Approximately 91 members of the 824 full-time, salaried faculty hold tenure.

As of June 30, 2014, there were approximately 601 faculty members of the Jefferson Schools (JSHP, JSN, JSP and JSPH), of which 135 were full-time and 466 were part-time/adjuncts. The Jefferson Schools do not have any tenured faculty.

Staff and Employees. Jefferson is one of the largest employers in the Philadelphia metropolitan area. As of June 30, 2014, Jefferson had approximately 14,200 employees. Of these employees, approximately 11,200 are full time and approximately 3,000 are part time. Approximately 1,138 employees are represented by unions and are under collectively bargained contracts.

- 101 of the TJU maintenance workers are represented by Local 830 of the Teamsters pursuant to a contract that extends through January 31, 2018.

- 117 TJU security personnel are represented by Local 511 of International Union, Security, Police, Fire Professionals of America pursuant to a contract that extends through June 30, 2019.

- 99 TJU and 821 JUH employees are represented by AFSCME, District 1199C pursuant to a contract that extends through June 30, 2018.

None of the nurses at JUH are represented in a collective bargaining arrangement. Management of Jefferson considers its relations with employees of Jefferson to be good.

GOVERNANCE AND MANAGEMENT

The business and affairs of the University are managed or controlled by the Board of Trustees of TJU (the “Board”), which has all of the powers, authority, responsibilities, and obligations given the board of directors of a nonprofit corporation under the laws of the Commonwealth of Pennsylvania. TJU’s bylaws specify that the number of trustees (other than Trustees Emeriti) may be no fewer than 25 and no greater than 66, such number to be determined at each annual meeting and from time to time by resolution of the Board. Trustees Emeriti are not limited in number. See “MANAGEMENT’S DISCUSSION AND ANALYSIS – Abington Health Definitive Agreement” herein for a description of planned changes to the TJU Board.

The Board has various standing committees. The Executive Committee has general charge of the affairs of the University and broad powers, including the power to carry out any directions or resolutions of the Board, to transact any business that is committed to it by the Board, as well as other business which may require action between meetings of the Board, and to authorize the borrowing of money. The Executive Committee consists of up to 18 Trustees and includes (i) the Chair of the Board and (ii) the chair of each of the following standing committees: Finance, Audit, Compliance and Risk, Governance, Academic Affairs, Clinical Affairs, Institutional Advancement, and Innovation. The Chair of the Board may nominate additional members of the Executive Committee, such nominees to be approved by the Board, provided that the total number of members of the Executive Committee does not exceed 18.

Trustees. The current membership of the Board of Trustees is as follows:

[*] Member of the Executive Committee
[1] Chairman of the Innovation Committee
[2] Chairman of the Institutional Advancement Committee

H. Richard Haverstick, Jr.[*, 3], *Blue Bell, Pennsylvania*	Managing Partner, Retired, Ernst & Young LLP
Michael J. Heller, Esq., *Villanova, Pennsylvania*	President & Chief Executive Officer, Cozen O'Conner**
Richard W. Hevner[*, 4], *Malvern, Pennsylvania*	Managing Director, Wells Fargo Advisors
Joannes B. Hoek, *Philadelphia, Pennsylvania*	Professor, PhD, Thomas Jefferson University
Harold A. Honickman, *Philadelphia, Pennsylvania*	Chairman, Pepsi Cola & National Brand Beverages, Ltd.
Hyman R. Kahn, MD, *Jupiter, Florida*	Senior Medical Director - Retired, U.S. Healthcare
Stephen K. Klasko, MD, MBA,[*] *Philadelphia, Pennsylvania*	President and CEO, Thomas Jefferson University & TJUH System
Christopher J. Kneizys[*, 5], *Newtown Square, Pennsylvania*	President, Micro-Coax
Charles G. Kopp, Esq., *Philadelphia, Pennsylvania*	Senior Counsel, Cozen O'Connor**
Leonard I. Korman, *Fort Washington, Pennsylvania*	Chairman & Chief Executive Officer, Korman Commercial Properties, Inc.
James E. Ksansnak, *Jupiter, Florida*	Vice Chairman, Retired, ARAMARK Corporation
William A. Landman[*], *Haverford, Pennsylvania*	MainLine Investment Partners
Douglas J. MacMaster, Jr., Esq., *Ambler, Pennsylvania*	Senior Vice President, Retired, Merck & Co., Inc.
Josephine C. Mandeville, *Philadelphia, Pennsylvania*	President, The Connelly Foundation
Paula Mandle, *Philadelphia, Pennsylvania*	The Swarthmore Group, Inc.
Dan W. Matthias, *Honey Brook, Pennsylvania*	Co-Founder - Retired, Destination Maternity
Joseph J. McLaughlin, *Gladwyne, Pennsylvania*	President and CEO - Retired, Beneficial Bank
David P. McQuaid, RPh, MBA, FACHE, *Malvern, Pennsylvania*	EVP, Clinical Affairs, and President and CEO, Thomas Jefferson University Hospitals, Inc.
Thomas B. Morris, Jr., Esq., *Philadelphia, Pennsylvania*	Director, Berwind Corporation
Britton H. Murdoch[*, 6], *Newtown Square, Pennsylvania*	Managing Director, Strattech Partners
Ronald J. Naples[*, 7], *Wynnewood, Pennsylvania*	Chairman Emeritus, Quaker Chemical Corporation
Jeffrey P. Orleans, *Philadelphia, Pennsylvania*	CEO, J.P. Orleans Development, LLC

[3] Chairman of the Audit, Risk and Compliance Committee
[4] Chair of the Jefferson Board
[*] Member of the Executive Committee
[5] Chairman of the Academic Affairs Committee
[6] Chairman of the Finance Committee
[7] Chairman of the Facilities Sub-Committee

[*]Member of the Executive Committee

[**]Peter M. Mattoon, Esq., an emeritus member of the Board of Trustees, is the former chair of Ballard Spahr LLP, which is acting as bond counsel in connection with the issuance of the 2015 Bonds and also is rendering certain opinions as counsel to Jefferson in connection with the 2015 Bonds. Mark L. Alderman, Michael J. Heller and Charles G. Kopp, members of the Board of Trustees, are attorneys with Cozen O'Connor, underwriters' counsel for the 2015 Bonds.

[8] Chairman of the Governance and Nomination Committee

[9] Chairman of the Investment Sub-Committee

Officers. The chief executive officer of Jefferson is elected by and serves at the pleasure of the Board. The day-to-day governance of the University is delegated to the President and, through the President, to his assisting officers and the provost, deans and faculty in each of the schools and colleges. The President nominates for approval by the Board all executive vice presidents, senior vice presidents, and the secretary of the University, along with all faculty members who are recommended for tenure. Listed below are the senior administrative officers of the University. Brief biographies of certain officers appear after the list of officers.

Name	**Position**	**Since**
Stephen K. Klasko, MD, MBA	President & CEO	2013
John C. Ekarius	Sr. EVP & COO	2013
Kathleen Gallagher	Sr. EVP & CAO	2013
Mark L. Tykocinski, MD	EVP for Academic Affairs & Provost, Thomas Jefferson University and Dean of SKMC	2008
Praveen Chopra	EVP & Chief Information Officer	2014
Elizabeth A. Dale, Ed.D	EVP for Institutional Advancement	2014
Kirk E. Gorman	EVP for Financial Affairs & CFO	2014
David P. McQuaid, RPh, MBA, FACHE	EVP Clinical Affairs, and President & CEO, Thomas Jefferson University Hospitals, Inc.	2007
Pamela Teufel	EVP & Chief HR Officer	2012
Michael J. Vergare, MD	EVP of Partnerships & Affiliations, Daniel Lieberman Professor & Chair of the Department of Psychiatry & Human Behavior	1998
Cristina G. Cavalieri, Esquire	Sr. VP, Chief Legal & Governance Officer, TJU General Counsel and Secretary, JUP Secretary	2005
Neil G. Lubarsky	Sr. VP, Finance & CFO, TJUH System	1998
Stacey Meadows, Esquire	Sr. VP & General Counsel and Secretary, TJUH System	1998
Alfred C. Salvato	Sr. VP, Corporate Finance & Chief Investment Officer	2011
Anne Boland Docimo, MD, MBA	Chief Medical Officer	2015

Biographies of Senior Administrative Officers

Name	**Title**	**Professional Background**
Stephen K. Klasko, MD, MBA	President and CEO	President and CEO of Jefferson (2013-present); CEO, USF Health (University of South Florida) and Dean, Morsani College of Medicine (2004-2013); Dean, College of Medicine and CEO of Drexel University Physicians (2000-2004); Corporate Director, Teleflex, Inc. (2008-present); Board Co-Chair, Delaware Valley–ACO (2013-present); Board Chair, Jefferson University Physicians (2013-present); Trustee, Friedrich’s Ataxia Research Alliance (2009-present); Trustee, Lehigh Valley Health Network (2009-2013), Trustee, Resurrection Health System (2007-2011); Trustee, Certification Commission for Healthcare Information Technology (2009-2013); Board Chair, Health Professions Conferencing Corporation (2006-2013); Moffitt Cancer Center (2005-2013); Dean Liaison, AAMC Group On Institutional Affairs (2009-2013); Trustee, Tampa General Hospital (2004-2007); Health Care Consultant, Governance

Biographies of Senior Administrative Officers

Name	Title	Professional Background
		Institute (1997-present); Principal, Health Visions LLC (2007-present); Founding President, Spirit of Women Inc. (1994); Principal, North Group, Inc. (1997-2005).
John C. Ekarius	Sr. EVP and Chief Operating Officer	Senior Executive Vice President and Chief Operating Officer (2013-present); Chief Operating Officer at USF Health and the Morsani College of Medicine (2005 to present).
Kathleen P. Gallagher, MSN, BS	Sr. EVP and Chief Administrative Officer	Senior Executive Vice President and Chief Administrative Officer, (2013-present); Managing Director, Huron Consulting Group, Inc. (2007-2013).
Mark L. Tykocinski, MD	EVP for Academic Affairs & Provost, Thomas Jefferson University and Dean of SKMC	Executive Vice President for Academic Affairs & Provost, Thomas Jefferson University and Dean of SKMC (2008-present); Past president of the Association of Pathology Chairs and the American Society for Investigative Pathology.
Praveen Chopra	EVP & Chief Information Officer	Executive Vice President and Chief Information Officer (2014-present); Senior Vice President Information Technology and Supply Chain at Children's Healthcare of Atlanta (2006-2014).
Elizabeth A. Dale, Ed.D.	EVP for Institutional Advancement	Executive Vice President for Institutional Advancement, Thomas Jefferson University (2014-present); Senior Vice Present for Institutional Advancement, Drexel University (2006-2014).
Kirk E. Gorman, MBA	EVP for Financial Affairs & Chief Financial Officer	Executive Vice President and Chief Financial Officer (2014-present); Executive Vice President and Chief Financial Officer of Jefferson Health System (2003-2014). Mr. Gorman is a member of the Boards of BioTelemetry, Inc. and IASIS Healthcare. Mr. Gorman has served on the Boards of Physician's Dialysis, Inc., HCF Guernsey, Ltd., VIASYS Healthcare, Inc. and Care Investment Trust.
David P. McQuaid, RPh, MBA, FACHE	EVP Clinical Affairs, and President and CEO, Thomas Jefferson University Hospitals, Inc.	EVP Clinical Affairs, Jefferson Healthcare and President & CEO, Thomas Jefferson University Hospitals, Inc. (2014-Present); President, Thomas Jefferson University Hospitals, Inc. (2012-2014); EVP and Chief Operating Officer, Thomas Jefferson University Hospitals, Inc. Philadelphia, PA (2007-2012).

Biographies of Senior Administrative Officers

Name	Title	Professional Background
Pamela Teufel	EVP and Chief Human Resources Officer	EVP and Chief Human Resources Officer ("CHRO") of Jefferson (2012–Present); Vice-President and CHRO of Temple University Health System (2010–2012); Senior Administrator, HR Operations, Scripps Health (2008–2010).
Michael J. Vergare, M.D.	EVP of Partnerships and Affiliations and Daniel Lieberman Professor and Chair of the Department of Psychiatry and Human Behavior, TJU	Executive Vice President of Partnerships and Affiliations (2013-present); Daniel Lieberman Professor and Chair of the Department of Psychiatry and Human Behavior (1998-present); Senior Vice President, Academic Affairs (2008-2013).
Cristina G. Cavalieri, Esquire	Sr. VP, Chief Legal & Governance Officer, TJU General Counsel and Secretary, JUP Secretary	Senior Vice President, Chief Legal Officer, Secretary TJU (2012-present); Vice President for Institutional and External Affairs, Assistant Secretary and General Counsel for Thomas Jefferson University (2005-2012); General Counsel and Secretary, JUP (2005-present); Senior Partner and Chairperson of Health Care Department, the law firm of Pelino and Lentz (which merged with Archer & Greiner, P.C. (1989-2005). Ms. Cavalieri is a board member of the Pennsylvania State Transportation Commission, the governing board of the Pennsylvania Department of Transportation and is a board member, member of the Executive Committee and Chair of the Finance Committee of the Committee of Seventy.
Neil G. Lubarsky	Sr. VP for Finance and CFO, TJUH System	Senior Vice President for Finance and CFO for Thomas Jefferson University Hospitals, Inc. and TJUH System (1998 – present). Mr. Lubarsky is a board member and finance committee chair of Healthshare Exchange of Southeastern Pennsylvania, The Hill at Whitemarsh and Philadelphia International Medicine. He is also a member of the Campaign Cabinet for the United Way of Greater Philadelphia and Southern New Jersey.
Stacey Meadows, Esquire	Sr. VP and General Counsel and Secretary, TJUH System	Senior Vice President and General Counsel and Secretary, TJUH System (1998-present).
Alfred C. Salvato	Sr. VP, Corporate Finance & Chief Investment Officer	Senior Vice President for Corporate Finance & Chief Investment Officer (2011-present);Vice President Finance & Chief Investment Officer (2002-2011). Mr. Salvato serves as the Chairman of the Board of Turner Investment Partner Mutual Funds and has served as a member of the Investment Committee of the Philadelphia Museum of Art, and as a Trustee of the District 1199C National Union of Hospital & Health Care Employees Pension Fund. He

Biographies of Senior Administrative Officers

Name	Title	Professional Background
		also sits on the Client Advisory Boards of BNY Mellon, TIAA/CREF and JP Morgan and participates on the valuation committees of several private capital limited partnerships.
Anne Boland Docimo, M.D., MBA	Chief Medical Officer	Chief Medical Officer (2015-present). Previously served as Chief Medical Officer, University of Pittsburgh Medical Center ("UPMC") Health Plan and as Senior Medical Director for the Hospital Division of UPMC.

EDUCATIONAL AND RESEARCH ACTIVITIES

The University offers educational degree programs through its college and schools. They include:

The Sidney Kimmel Medical College ("SKMC"), founded in 1824 as Jefferson Medical College, offers a four-year educational program leading to a degree of doctor of medicine and is also engaged in biomedical, health services and educational research, as well as patient care related to its programs. It is one of the oldest and largest private medical schools in the United States. SKMC, in coordination with Jefferson Healthcare, provides a wide variety of consulting and educational services to health care professionals in the Delaware Valley region. SKMC has awarded more than 31,000 medical degrees and has more living graduates than any other private medical school in the nation, and has approximately 13,000 members in its Alumni Association.

The Jefferson Graduate School of Biomedical Sciences ("JGSBS"), founded in 1949 as the Board for the Regulation of Graduate Studies, offers PhD programs, Masters of Science programs, a post-baccalaureate pre-professional program for candidates interested in completing their prerequisite course work for medical and professional schools. In conjunction with SKMC, JGSBS also offers a combined MD/PhD program. The PhD degree programs offer leading edge interdisciplinary education and research training under the mentorship of nationally and internationally recognized faculty. The PhD programs include biochemistry and molecular pharmacology, genetics, cell and developmental biology, immunology and microbial pathogenesis and neuroscience. Masters of Science programs are offered in biomedical science, cell and developmental biology, microbiology and pharmacology.

Jefferson School of Nursing ("JSN"), founded in 1891 as the Jefferson Hospital Training School for Nurses, offers a continuum of fully-accredited nursing degree programs, from baccalaureate through doctoral levels for licensed registered nurses and pre-licensure students, as well as a post-master's certificate program.

Jefferson School of Health Professions ("JSHP"), founded in 1967 as the School of Allied Health Sciences, provides the undergraduate programs leading to a baccalaureate degree and/or a post-baccalaureate certificate in the disciplines of bioscience technologies (biotechnology, cytotechnology and medical lab science), and radiologic sciences (radiography, radiation therapy, cardiac and general sonography, invasive cardiovascular technology, magnetic resonance imaging, medical dosimetry, computed tomography, nuclear medicine technology, and vascular technology). The Department of Radiologic Sciences also offers a certificate program in PET/CT. The Department of General Studies offers a Bachelor of Science degree program with majors in health services management and health services management information systems, as well as associate degrees in arts and sciences. The associate in science degree program includes majors in business, information systems, medical practice management, and emergency medical services. At the graduate level, JSHP offers master's degree programs in bioscience technologies, couple and family therapy, occupational therapy, physician assistant studies and radiologic sciences, and clinical doctorate degree programs in occupational therapy and physical therapy.

Jefferson School of Pharmacy ("JSP"), founded in 2008, prepares students for careers in the profession of pharmacy. Students earn a Doctor of Pharmacy degree. The PharmD program is structured to provide an understanding of the basic sciences, clinical information, pharmaceutical sciences, administrative and social sciences, and the importance of each component of pharmacy practice. In addition, students have the opportunity to apply the skills learned in the classrooms and labs across a variety of pharmacy practice settings during the experiential portions of the program – working side by side with practicing pharmacists and caring for patients.

Jefferson School of Population Health ("JSPH"), founded in 2008, is the first designated School of Population Health in the country. JSPH offers a certificate and Master of Science programs in health policy, healthcare quality and safety, applied health economics and outcomes research and public health. At the doctoral level, JSPH offers a PhD in population health sciences. Together with the Widener University School of Law, JSPH offers two joint degrees – Juris Doctor/Master of Public Health (JD/MPH) and Master of Jurisprudence/Master of Public Health (MJ/MPH).

Approximately 96% of the most recent graduating class (AY 2014) of the Jefferson Schools (JSN, JSHP, JSP and JSPH) either found employment in their fields or went on to professional or graduate school. Over the last five years, the range of placement rates for the Jefferson Schools is between 94% and 97%.

Jefferson Distance Learning/Online Courses. A number of TJU's academic divisions have incorporated the online education model into their programs. A complete list of TJU's hybrid and online programs is provided below (all courses can be taken online except for any clinical experiential requirements).

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Thomas Jefferson University Distance Learning/Online Courses

School	Program Description	Concentration	Degree/Certification
JSHP	Radiologic Sciences (AP Computed Tomography)		BSRS
JSHP	Radiologic Sciences PET/CT Cert		Certification
JSHP	Occupational Therapy		Doctor of Occupational Therapy
JSN	Post Master's Nursing Cert	Nurse Practitioner	Certification
JSN	Post Master's Nursing Cert	Nursing Informatics	Certification
JSN	Post Master's Nursing Cert	Nursing Education	Certification
JSN	DNP – Nursing		Doctor of Nursing Practice
JSN	MSN -Nursing	Adult-Gerontology: Acute Care Nurse Practitioner	MSN
JSN	MSN -Nursing	Adult-Gerontology: Primary Care Nurse Practitioner	MSN
JSN	MSN -Nursing	Adult Gerontology - Clinical Nurse Specialist	MSN
JSN	MSN -Nursing	Community Systems Administration	MSN
JSN	MSN -Nursing	Community Systems Administration - Family/Individual Across the Lifespan Nurse Practitioner	MSN
JSN	MSN -Nursing	Community Systems Administration - Nursing Informatics (CSA/NI)	MSN
JSN	MSN -Nursing	Family/Individual Across the Lifespan Nurse Practitioner	MSN
JSN	MSN -Nursing	Neonatal Nurse Practitioner (NNP)	MSN
JSN	MSN -Nursing	Nursing Informatics	MSN
JSN	MSN -Nursing	Pediatric Primary Care Nurse Practitioner	MSN
JSN	MSN -Nursing	Women's Health - Gender Related Nurse Practitioner	MSN
JSPH	Certificate Chronic Care Management		Certificate Chronic Care Management
JSPH	Certificate Health Policy		Certificate Health Policy
JSPH	Certificate Healthcare Quality & Safety		Certificate Healthcare Quality & Safety
JSPH	Certificate Population Health		Certificate Population Health
JSPH	Applied Health Economics & Outcomes Research		MS in Applied Health Economics & Outcomes Research

Thomas Jefferson University Distance Learning/Online Courses

School	Program Description	Concentration	Degree/Certification
JSPH	Chronic Care Management		MS in Chronic Care Management
JSPH	Health Policy		MS in Health Policy
JSPH	Healthcare Quality & Safety		MS in Healthcare Quality & Safety
JSPH	Healthcare Quality & Safety Management		MS in Healthcare Quality & Safety Management

As noted in the table above, JSPH offers nine fully online Master's Degree programs to working healthcare professionals across the country, and the JSN's Doctoral Degree and RN-BSN programs are fully online. The Master Degree programs in the JSN are hybrid/blended between online and in-person sessions. The JSHP Doctorate in Occupational Therapy (OTD) program is also fully online. However, the OTD program will conduct simultaneously online and in-person sessions at the beginning and end of the Fall and Spring semesters.

Varied design of weekly lesson plans includes discussion, software demonstrations, group work, lectures (live and pre-recorded), practice exercises, and readings and written assignments. Application oriented assignments and practical capstone projects characterize the applied focus of the professional programs and aim to take advantage of the "embedded" workplace reality of students.

Enrollment. The University's six academic divisions – SKMC, JGSBS, JSHP, JSN, JSP and JSPH – have a total enrollment of 2,971 full-time equivalent students for the 2014-2015 Academic Year. The following table shows the aggregate number of students enrolled at the University in its principal schools and college in the current and the previous four academic years (fall term enrollment):

	FTE Enrollment				
	2014-15	**2013-14**	**2012-13**	**2011-12**	**2010-11**
Sidney Kimmel Medical College[1]	1,072	1,061	1,053	1,054	1,035
Jefferson Graduate School of Biomedical Sciences [2]	200	213	195	191	184
Jefferson School of Health Professions [2]	684	676	626	609	606
Jefferson School of Nursing [2]	646	605	703	744	754
Jefferson School of Pharmacy [1]	281	290	291	313	213
Jefferson School of Population Health [2]	88	78	91	85	71
TOTAL FTE Enrollment	2,971	2,923	2,959	2,996	2,863

(1) Represents total number of students enrolled, all of whom are full-time.
(2) Represents full-time equivalent ("FTE") students.

The following tables provide information on applications, acceptances and matriculations for first year students at the indicated Jefferson colleges/schools for the current and the previous four academic years.

Sidney Kimmel Medical College

Academic Year	Total National Applications	SKMC Applications	SKMC Applications as % of All Applications	Acceptances Offered	SKMC Acceptances as % of Applications	First Year Matriculants	First Year Matriculants as % of Acceptances	Total Enrollment at SKMC
2014-15	49,372	10,204	20.7%	423	4.1%	259	61.5%	1,072
2013-14	47,855	10,118	21.1%	452	4.5%	260	57.5%	1,061
2012-13	45,169	10,018	22.2%	469	4.7%	260	55.4%	1,053
2011-12	43,775	9,912	22.6%	461	4.7%	260	56.4%	1,054
2010-11	42,629	9,761	22.9%	487	5.0%	260	53.4%	1,035

Source: National application statistics provided by the American Association of Medical Colleges.

Jefferson Graduate School of Biomedical Sciences

Academic Year	Applications	Acceptances Offered	Acceptances as % of Applications	First Year Matriculants	First Year Matriculants as % of Acceptances	Total Enrollment
2014-15	300	134	44.6%	98	64.9%	272
2013-14	619	154	24.8%	112	72.7%	290
2012-13	640	114	17.8%	98	85.9%	289
2011-12	567	139	24.5%	104	74.8%	279
2010-11	522	126	24.1%	109	86.5%	268

Jefferson’s management considers the decline in applications to JGSBS to be due to the slow-down in the pharmaceutical industry resulting in declines in overall employment levels in the industry and employer-reimbursed educational benefits for employees.

Jefferson Schools -- Undergraduate

Academic Year	Applications	Acceptances Offered	Acceptances as % of Applications	First Year Matriculants	First Year Matriculants as % of Acceptances	Total Enrollment
2014-15	1,308	675	51.6%	575	85.2%	928
2013-14	1,381	585	42.3%	568	97.0%	947
2012-13	1,515	593	39.1%	452	76.2%	902
2011-12	1,903	635	33.3%	485	76.4%	1,015
2010-11	1,960	653	33.3%	490	75.0%	1,025

Jefferson Schools -- Graduate

Academic Year	Applications	Acceptances Offered	Acceptances as % of Applications	First Year Matriculants	First Year Matriculants as % of Acceptances	Total Enrollment
2014-15*	6,333	866	13.7%	632	71.3%	1,651
2013-14	3,484	691	19.8%	589	85.2%	1,643
2012-13	3,520	742	21.1%	625	84.2%	1,711
2011-12	5,310	1,493	28.1%	618	41.4%	1,382
2010-11	3,064	824	26.9%	499	60.6%	1,181

*AY 2014-15 was the first year for the Physician Assistant Program. The program received approximately 1,300 application for 30 positions which were filled.

Tuition and Fees. The following table provides tuition and fee information for the various Jefferson academic divisions by program for the 5-year Fiscal Year period ending June 30, 2015.

JEFFERSON ACADEMIC DIVISIONS
TUITION AND FEES BY PROGRAM - FULL TIME PROGRAMS

Program	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
Sidney Kimmel Medical College					
Doctor of Medicine Program	$52,994	$51,955	$50,936	$48,733	$46,628
Jefferson School of Health Professions					
Physical Therapy: Doctor of Physical	34,333	33,620	32,726	31,613	30,399
Bioscience Technologies: Professional Masters	38,610	37,870	36,965	34,736	33,352
Occupational Therapy: Entry-Level Masters Year 1	36,113	35,411	34,623	31,021	29,830
Radiologic Sciences: Executive Masters	35,658	35,302	34,518	32,889	31,915
Physician Assistant: Masters Year 1	38,878	—	—	—	—
Master's of Family Therapy	29,272	29,258	28,602	26,730	25,813
Bioscience Technologies: Undergraduate/Bachelor's	31,027	30,426	29,728	28,535	27,389
Bachelor of Science in Radiologic	31,108	30,801	29,978	28,585	27,489
Jefferson School of Nursing					
Nurse Anesthetist (CRNA)	43,329	42,443	41,622	39,480	37,325
FACT Program	43,681	43,648	42,806	40,609	37,824
BS in Nursing (Prelicensure)	35,676	34,975	34,296	32,524	30,824
Jefferson School of Pharmacy					
Doctor of Pharmacy (PharmD) (years 1-	35,904	35,208	34,201	32,435	30,906
Jefferson Graduate School of Biomedical					
PhD Programs	28,526	28,512	28,498	28,458	28,423
Post Baccalaureate Pre-Professional	29,456	28,872	28,288	—	—
Jefferson School of Population Health					
MPH Program	27,620	27,066	26,539	25,986	25,365

The following tables provide tuition and fees information for various Jefferson programs for FY 2014 together with comparable information for selected competitor schools.

JEFFERSON ACADEMIC DIVISIONS
TUITION AND FEES COMPARISON TO LOCAL COMPETITORS – FY 2014

Sidney Kimmel Medical College

School	FY 2014 Tuition & Fees
Temple University	$54,268
Pennsylvania State University	52,718
University of Pennsylvania	52,478
Jefferson	**51,955**
Drexel University	51,452
University of Pittsburgh	48,921

Jefferson Graduate School - PhD

School	FY 2014 Tuition & Fees
Johns Hopkins University	$45,750
Columbia University	39,902
George Washington University	34,639
University of Pennsylvania	32,342
Jefferson	**28,512**
Pittsburgh University	27,737
Temple University	25,659
Drexel University	24,828
New York University	22,260
Rutgers University	17,354

Jefferson Graduate School - Post Baccalaureate

School	FY 2014 Tuition & Fees
Columbia University	$66,451
New York University	62,581
Johns Hopkins University	40,104
University of Pennsylvania	39,267
Goucher	32,300
Temple University	31,113
Jefferson	**28,872**
Bryn Mawr College	28,730
Drexel University	27,300
Rutgers University	27,033
Pennsylvania State University	26,813
Rider University	25,705

Jefferson School of Pharmacy

School	FY 2014 Tuition & Fees
University of Sciences	$36,352
University of Maryland	35,397
Jefferson	**35,208**
Temple University	34,444
Duquesne University	34,350
Farleigh Dickinson University	34,170
Wilkes College	33,232
Albany College of Pharm.	30,900
University of Pittsburgh	30,870
Rutgers University	29,832

Jefferson School of Nursing - FACT

School	FY 2014 Tuition & Fees
University of Pennsylvania	$103,000*
Johns Hopkins University	67,344
Jefferson	**43,648**
Drexel University	43,135
Villanova University	40,000

*The University of Pennsylvania program is five semesters. Jefferson and the other institutions have two semester programs.

Jefferson School of Health Prof - Masters OT	
School	FY 2014 Tuition & Fees
Duquesne University	$45,967
University of Pittsburgh	44,898
Jefferson	**35,411**
Temple University	34,695

Jefferson School of Health Prof - Doctor of PT	
School	FY 2014 Tuition & Fees
UMDNJ	$50,517
Drexel University	48,143
Temple University	46,485
Arcadia University	42,900
University of Delaware	42,330
University of Maryland	42,253
Jefferson	**33,620**

Financial Aid. Jefferson's admissions and financial aid policies are designed to assist the most qualified students to attend the University, regardless of their financial circumstances. Approximately 64% of Jefferson's total student population receives some form of financial aid. Financial aid is received through a combination of grants and loans from governmental, private and institutional sources. JGSBS students receive approximately 36% of their financial aid through governmental sources and 64% from institutional sources. SKMC students receive approximately 81% of their financial aid through governmental sources and 15% from institutional sources. Within the Jefferson Schools, students received 69% of their financial aid through governmental sources and 9% from institutional sources.

The following table sets forth the amounts of student financial aid provided from governmental, private and institutional sources during the past five academic years.

	SKMC		JGSBS		Jefferson Schools	
Year	**Grants**	**Loans**	**Grants**	**Loans**	**Grants**	**Loans**
2013-14	$8,585,230	$35,089,028	$3,449,900	$1,653,663	$5,639,666	$45,296,906
2012-13	$7,952,189	$35,876,378	$3,677,151	$1,354,980	$5,402,509	$46,011,911
2011-12	$7,655,319	$36,392,081	$3,642,848	$1,163,447	$4,564,643	$45,924,262
2010-11	$6,725,039	$36,204,532	$3,595,088	$1,075,688	$4,868,114	$40,440,057
2009-10	$6,601,296	$36,448,796	$3,093,922	$ 539,289	$5,087,429	$34,854,569

In accordance with generally accepted accounting principles, financial aid awarded to a student directly by a third-party source, including certain federal and state grants, certain loan programs including federal Direct Stafford and PLUS Loans, and third party scholarships, is considered to be a pass-through from TJU's perspective and is not included in the statement of activities. Aid awarded by TJU, including institutional aid and campus-based federal aid (i.e., Federal, SEOG, Federal Perkins Loan, and Federal Work Study), is included in net tuition revenue.

Accreditation. TJU is fully accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools. The Middle States Commission on Higher Education acted to reaffirm TJU's accreditation in June 2014 for 10 years.

SKMC is fully accredited by all appropriate accrediting bodies. The Liaison Committee on Medical Education of the Council on Medical Education of the American Medical Association and the Executive Council of the Association of American Medical Colleges recently granted the SKMC a full accreditation through the 2014-15 academic year.

Programs for the education of residents are all fully accredited by the various specialty boards under the aegis of the Accreditation Council on Graduate Medical Education.

Jefferson's professional programs are approved by the following accrediting agencies:

- Commission on Accreditation of Allied Health Education Programs
- Cytotechnology Programs Review Committee, American Society of Cytopathology
- Joint Review Committee on Education in Diagnostic Medical Sonography
- National Accrediting Agency for Clinical Laboratory Sciences
- Joint Review Committee on Education in Radiologic Technology
- Commission on Collegiate Nursing Education
- Council on Accreditation of Nurse Anesthesia Educational Programs
- Accreditation Council for Occupational Therapy Education
- Commission on Accreditation of Physical Therapy Education (American Physical Therapy Association)

The Master's Program in Public Health is accredited by the Council for Education in Public Health.

Research Activities. Jefferson's Blueprint for Strategic Action (the "BSA," discussed later in this Appendix A) has shifted Jefferson's research efforts from individual investments across multiple research areas to focused investment in areas of high impact science and programmatic initiatives. Jefferson's management believes that investment in the recruitment of strategically funded faculty members, as well as promising junior faculty members, has enhanced Jefferson's ability to stabilize and promote growth within those areas targeted under the BSA.

The Kimmel Cancer Center, established in 1991, is a National Cancer Institute Designated Cancer Center. The Kimmel Cancer Center has over 270 active projects, and generates over $30 million in annual total research revenue. The Jefferson Hospital for Neurosciences ("JHN") and the Farber Institute for the Neurosciences ("FIN"), house Jefferson's neuroscience clinical, translational, and basic research community. FIN, which is within JHN, fosters high impact translational research by linking FIN-affiliated investigators (41 faculty members campus-wide), to JHN clinician investigators and industrial/pharmaceutical partners. There are currently over 80 funded clinical trials in the neurosciences, five of which are supported by the National Institute for Health ("NIH"). In addition, 22 basic neuroscience investigators are currently generating over $6 million in total research revenue.

Basic and translational research in multiple organ systems and their diseases is performed in the Department of Medicine's Center for Translational Medicine ("CTM"). Cardiovascular research is focused in four areas: heart failure, hypertension, vascular biology and thrombosis, and metabolic vascular disease (*e.g.*, diabetes and chronic kidney disease). Pulmonary research focuses on asthma, chronic obstructive pulmonary disease, and pulmonary fibrosis. Bone and cartilage diseases, as well the effect of aging on multiple diseases, are also important areas of investigation. For Jefferson's fiscal year ending June 30, 2015, over $3 million of extramural funding from various agencies including the NIH, the American Heart Association, the American Diabetes Association, the American Lung Association, and industry support these research efforts. Over the last 5 years, more than 150 peer-reviewed papers have been published by the CTM faculty. A critical role of the CTM involves promoting the development of collaborative research projects within Jefferson. Ongoing collaborations of note include those with MitoCare (recently formed center for mitochondrial biology research), the Rosenbloom Fibrosis Center, the Kimmel Cancer Center, and a large collaborative effect among CTM, the Department of Biochemistry and Molecular Biology, and the School of Pharmacology which is funded by a program project grant from the National Heart Lung and Blood Institute.

Jefferson's management considers the research space, equipment, core facilities, and intramural support for research to be adequate for the research mission of Jefferson's faculty, and the graduate student pool to be appropriate for the size and scope of the educational programs of Jefferson's faculty. The University has approximately 248,000 net square feet of research and research-related space. Basic research is conducted in five buildings on campus. Recent laboratory renovations in Jefferson Alumni Hall (approximately 30,000 square feet) enhance synergies and collaborations with departments to achieve strategic initiatives (Pathology, Pharmacology, OB/GYN, and the divisions of Translational Medicine and Hematology within the department of Medicine).

Jefferson receives revenues from grants and contracts awarded to support costs of organized research and certain other efforts. Revenues are provided by both federal and non-federal sponsors and generally consist of two components: direct costs (including salary and benefits of faculty members and other employees, supplies and expenses related to research efforts); and indirect costs (representing the allocation of overhead costs such as physical plant maintenance, utilities, administrative expenses and depreciation and interest on equipment and facilities related to research efforts). Indirect cost recovery is based on a negotiated indirect cost recovery rate for organized research which is applied to direct costs. For federal purposes, Jefferson generally negotiates an indirect cost recovery rate that is applied to all of its federal awards. Recovery rates for non-federal awards vary by award.

The following table sets forth the operating revenues (in thousands) from grants and contracts for the past five fiscal years:

	FY2014	FY2013	FY2012	FY2011	FY2010
Organized Research:					
Federal Direct	$ 35,261	$ 38,237	$ 46,589	$ 54,446	$ 52,771
Federal Indirect	17,462	18,157	22,523	25,603	25,082
Non-federal Direct	15,375	17,737	18,840	17,013	18,158
Non-federal Indirect	3,588	2,827	2,824	3,335	3,182
Total Organized Research	$ 71,686	$ 76,958	$ 90,776	$ 100,397	$ 99,193
Teaching, Training, Multipurpose	19,508	23,172	22,696	21,966	25,817
Meaningful Use/Electronic Health Record	4,327	2,476	3,735	-	-
Subtotal	95,521	102,606	117,207	122,363	125,010
Less: Amounts Reflected as Tuition Revenue	(2,026)	(2,113)	(1,422)	(2,360)	(2,176)
Total Operating Revenues from Grants and Contracts	$ 93,495	$ 100,493	$ 115,785	$ 120,003	$ 122,834

The significant portion (approximately $23 million) of the total reduction (approximately $30 million) in grants and contracts funding between FY 2010 and FY 2014 can be attributed to several factors: the expiration of all grants associated with the National Institute of Health's ("NIH") American Recovery and Reinvestment Act of 2009 ("ARRA") stimulus funding (TJU received approximately $13 million of ARRA funding, including approximately $8 million, at the peak of such funding in FY 2011); the elimination of certain faculty based on a productivity assessment and the associated loss of residual funding (approximately $7 million); faculty departures (approximately $4 million); and the conclusion of certain programs for which funding was no longer available (approximately $4 million). Due to the proactive management of faculty investigator levels and the assessment of faculty productivity, the academic investigator faculty count on campus has dropped from approximately 165 in FY 2010 to approximately 135 in FY 2014.

Given the highly competitive nature of grant awards and on-going governmental budget constraints, the University's management expects that levels of grants and contracts revenues will continue to be under pressure due to the competitive environment created by reduced funding levels from the NIH. The University's management expects to continue to diligently monitor faculty funded status and will use the Blueprint for Strategic Action (as discussed further below under "MANAGEMENT'S DISCUSSION AND ANALYSIS – Jefferson's Blueprint"), to identify opportunities that will maintain and grow the University's grant portfolio via linkages to existing clinical programs, recruitment of well-funded faculty, and increased collaborations with regional and multi-disciplinary institutes and centers.

HEALTHCARE ACTIVITIES

Jefferson owns an integrated academic medical system ("Jefferson Healthcare") committed to caring for its patients and their families, educating healthcare professionals for the future, pursuing discovery research and clinical innovation, and serving its community. Jefferson Healthcare's strategic vision is to be recognized as a leading academic healthcare system differentiated by discovery, innovation, and compassionate, patient-focused care.

Jefferson Healthcare is comprised of Thomas Jefferson University Hospitals, Inc. ("JUH") and Jefferson University Physicians ("JUP"), which are operating subsidiaries of TJUH System, as well as other companies and ventures operated by TJUH System, related to among other activities, physician practices, emergency transport, home infusion and biomedical engineering. TJUH System (itself a subsidiary of TJU) is the sole corporate member of JUH which owns and operates TJUH, JHN and Methodist Division. TJUH System is also the sole corporate member of JUP, which is a multi-specialty physician practice comprised of the University's salaried faculty members.

JUH ranks among the top facilities in the Philadelphia metro area (2nd) and Pennsylvania (4th) according to *U.S. News & World Report*. *U.S. News & World Report* ranks Jefferson Orthopedics as the number eight program in the country; 2014 was the third consecutive year in which Jefferson's orthopedics program was named to the top ten orthopedics programs in the country. Seven additional Jefferson specialty programs were also recognized as among the nation's best: Cancer (27th); Otolaryngology/ear, nose and throat (30th); Urology (31st); Gastroenterology and GI Surgery (32nd); Neurology and Neurosurgery (33rd); Nephrology (42nd); and Gynecology (47th).

Jefferson Healthcare currently provides health care services at five locations: Thomas Jefferson University Hospital and Jefferson Hospital for Neuroscience on the University's main campus in Center City, Philadelphia; Methodist Hospital Division in South Philadelphia; Jefferson at the Philadelphia Navy Yard; and Jefferson at Voorhees, in southern New Jersey. Outpatient and community-based services are also delivered through an extensive network of owned and affiliated physician practices, satellite medical and surgical centers, outpatient laboratories and radiology centers and retail pharmacies. Jefferson at the Philadelphia Navy Yard and Jefferson at Voorhees provide multi-specialty outpatient and community-based services.

JUH has 951 licensed acute care beds and provides the full range of clinical care delivery—from primary through complex quaternary—both in inpatient and ambulatory settings and in all specialties and subspecialties. In Fiscal Year 2014, JUH provided more than $128.1 million in community benefit.

JUH has received *Joint Commission Certification* in Joint Replacement — hip, knee and spine surgery, and *Advanced Certification* in:

- Stroke (Primary Stroke Center)
- Ventricular Assist Device (VAD)

- Palliative Care

JUH has been designated as an *Aetna Institute of Excellence*® Transplant Facility for adult bone marrow, liver and kidney transplants, and an *Aetna Institutes of Quality*® facility for spine surgery. JUH received a *Blue Distinction Center* designation from Independence Blue Cross for cardiac care, as part of the Blue Distinction Centers for Specialty Care® program.

JUH is also a *Blue Distinction Center* for:

- Knee and hip replacement
- Complex and rare cancers
- Spine surgery
- Transplants

JUH's inpatient rehabilitation program and stroke specialty program of the Comprehensive Acute Rehabilitation Unit of the Department of Rehabilitation Medicine is accredited by *The Commission on Accreditation of Rehabilitation Facilities (CARF) International* and The Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program (MBSAQIP) has certified JUH as an Accredited Center.

Selected Operating Data. The following tables provide selected operating data for JUH and JUP for FY 2010 through FY 2014.

JEFFERSON UNIVERSITY HOSPITALS - SELECTED OPERATING DATA

THOMAS JEFFERSON UNIVERSITY HOSPITALS, INC.
SELECTED OPERATING DATA

	FY2014	FY2013	FY2012	FY2011	FY2010
Bed Capacity:					
Licensed Beds	951	969	957	957	957
Available Beds	917	928	902	883	841
Total Patient Days	242,386	247,982	256,689	260,180	240,549
Ocupancy Rate	72.4%	73.2%	77.8%	80.7%	78.4%
Total Admissions	45,131	46,386	47,872	46,321	45,503
Average Length of Stay (Days)	5.36	5.37	5.36	5.6	5.3
Operating Room Procedures	33,561	33,973	34,995	35,187	35,662
Emergency Room Visits	114,970	118,590	120,423	112,962	108,435
Total Outpatient Visits	471,286	475,031	485,356	472,851	450,244

JEFFERSON UNIVERSITY PHYSICIANS - SELECTED OPERATING DATA

	FY2014	FY2013	FY2012	FY2011	FY2010
Faculty Headcount	647	622	604	575	541
Charges[(1)]	$ 700,297,971	$ 669,425,830	$ 645,967,310	$577,765,628	$ 555,554,022
Collections	$ 272,540,467	$ 259,188,818	$ 247,777,524	$230,603,966	$ 218,576,722
New Patients to JUP[(2)]	45,357	45,960	44,386	43,212	44,614
Outpatient Office Visits	538,112	519,461	502,943	487,588	471,052
Outpatient Office Procedures	93,544	89,705	86,037	81,855	80,557

[(1)] Represents gross charges unadjusted for any payor discounts.
[(2)] Represents initial visits by patients during the Fiscal Year.

Set forth below is a listing of admitting physicians to JUH for Fiscal Year 2014 shown by the physician's area of specialty.

Physicians by Specialty

Admitting Physicians by Dept.	FY 2014 Number
Anesthesiology	65
Dermatology	15
Emergency	43
Family Medicine	87
Medicine*	272
Medical Oncology	38
Neurology	31
Neurosurgery	19
OB/GYN	35
Ophthalmology	111
Oral Surgery/Dentistry	25
Orthopedics/Orthopedic Surgery	81
Otolaryngology/Head and Neck Surgery	32
Pathology	23
Pediatrics	79
Psychiatry	38
Radiation/Oncology	16
Radiology	57
Rehabilitation Medicine	21
Surgery	63
Urology	19
Total	1,170

*Includes Cardiology.

Payor Mix. Patient revenues are received by Jefferson Healthcare from patients, various insuring organizations (including self-insured employers), and federal and state governments under Medicare, Medicaid and other programs. Jefferson Healthcare's total net patient revenues for fiscal years 2014 and 2013 were approximately $1.74 billion and $1.70 billion, respectively. The approximate percentages of net patient revenues derived from various payment sources for fiscal years 2014 and 2013 are as follows:

Jefferson Healthcare
Jefferson Healthcare – Net Patient Revenue Payer Mix
For the Twelve Month Period Ended June 30, 2014

	FY 2014			FY2013
	JUH	**JUP**	**Total**	**Total**
Medicare	22.36%	17.48%	21.50%	20.22%
Medicare Managed Care	8.99%	5.56%	8.38%	9.45%
Blue Cross (Indemnity)	1.00%	7.25%	2.10%	2.28%
Medicaid	3.12%	0.97%	2.74%	2.65%
M/A Managed Care	6.80%	6.46%	6.74%	7.30%
Managed Care	52.42%	46.42%	51.36%	51.35%
Self Pay & Other	5.31%	15.86%	7.18%	6.75%
Total	100.00%	100.00%	100.00%	100.00%

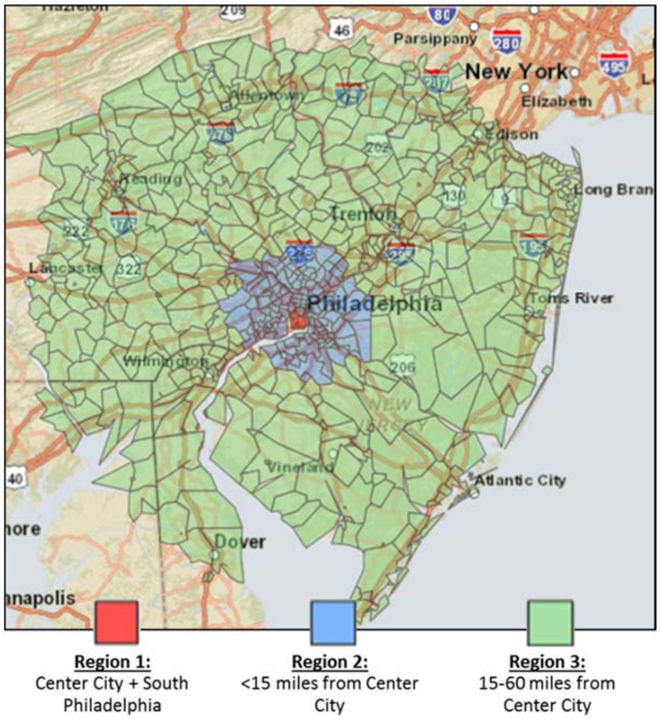
Healthcare Service Area. JUH's Primary Service Area (PSA), referred to as Region 1 and Region 2, is defined by the contiguous 5-digit zip codes within an approximate 15 mile radius from JUH's Center City, Philadelphia, PA location. Region 1 encompasses 24 zip codes within Center City and South Philadelphia; Region 2, is comprised of 152 zip codes within a 15 miles radius from JUH's Center City facility, excluding those in Region 1. Slightly more than one-third (54) of the zip codes in Region 2 are located in New Jersey.

JUH's Secondary Service Area (SSA), known as Region 3, covers the area, and zip codes, located within the radius greater than 15 miles but less than 60 miles from JUH's Center City facility. Region 3 includes more than 800 zip codes throughout 26 counties in Pennsylvania, New Jersey and Delaware.

JUH's PSA, Regions 1 and 2, is a 7-county area with a population in 2014 of approximately 3.1 million and is projected to increase slightly (1.4%) to 3.2 million by 2019 according to Claritas (based on 2010 Census data). JUH's SSA, or Region 3, is a 26-county region covering portions of Pennsylvania, New Jersey and Delaware with a reported 2014 population of approximately 7.5 million. This region's population is anticipated to grow by 1.7%, to 7.65 million, between 2014 and 2019 according to Claritas.

According to Truven Health Analytics ("Truven") data, between 2008 and 2012, Region 3's patient volume decreased by 5.9%. JUH's patient volume from Region 3 increased by 3.6% during the same period of time (from 11,069 to 11,464 discharges), underscoring a growing willingness for patients to travel, particularly for tertiary and surgical care. In 2012, 29% of JUH's discharges were from patients originating in Region 3 and beyond (total of 13,787 JUH's discharges).

A map of Regions 1, 2 and 3 is set forth below.



Patient Origins. The following table reports the percentage of Jefferson Healthcare discharges by patient origin in both the PSA and SSA for the calendar year ("CY") 2012. The PSA is divided into six sub-regions: Center City Philadelphia ("CC"), South Philadelphia, Northern Philadelphia, West & Southwest ("SW") Philadelphia, New Jersey within 15 miles of Center City, and Pennsylvania within 15 miles of Center City. These sub-regions have distinct population and socioeconomic characteristics. The SSA is also divided geographically into three sub-regions extending beyond the PSA.

Jefferson Healthcare PSA: Patient Origin of Inpatient Discharges

PSA Region (Regions 1 & 2)	% of CY 2012 Discharges
PSA Region 1a: Center City Philadelphia	3.4%
PSA Region 1b: South Philadelphia	24.1%
PSA Region 2a: Northern Philadelphia	21.9%
PSA Region 2b: West & SW Philadelphia	6.3%
PSA Region 2c: NJ within 15mi of CC	8.4%
PSA Region 2d: PA within 15mi of CC	7.3%
PSA Total (Regions 1 & 2)	**71.5%**

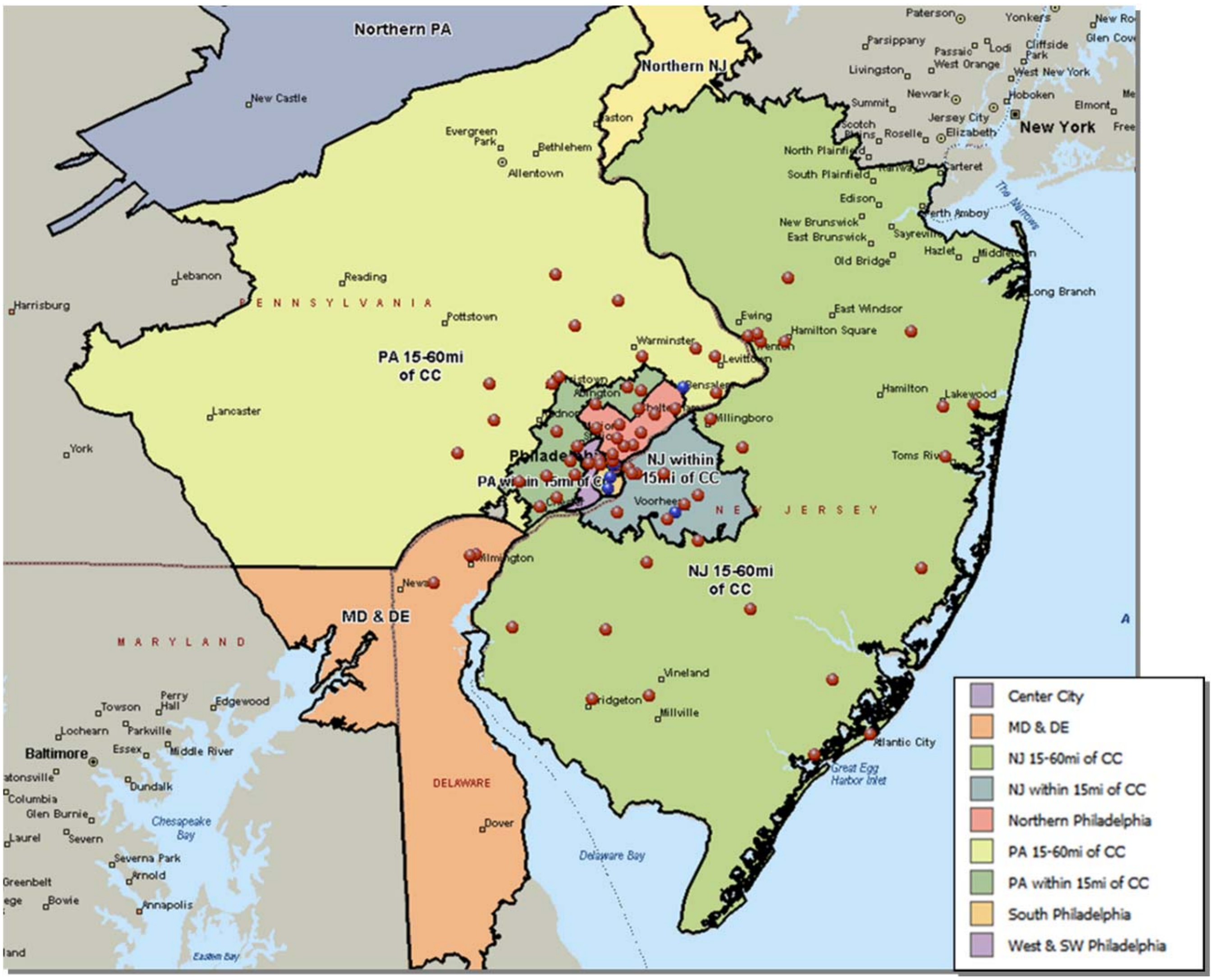
Jefferson Healthcare SSA: Patient Origin of Inpatient Discharges

SSA Region (Region 3)	% of CY 2012 Discharges
SSA Region 3a: NJ 15-60mi of CC	9.7%
SSA Region 3b: PA 15-60mi of CC	12.7%
SSA Region 3c: MD & DE	1.3%
SSA Total (Region 3)	**23.8%**

Source: Truven Health Analytics Market Expert, CY 2012. Totals may not add due to rounding.

Competitors. The Jefferson Healthcare PSA is home to 39 adult acute care hospitals, 37 of which belong to one of 17 different integrated healthcare systems. As of 2012, Jefferson Healthcare had a 7.3% share of the Jefferson Healthcare PSA market (Regions 1 & 2), based on the average of state-wide charges by Diagnosis-Related Groups ("DRGs"), resulting in a ranking of 4th according to Truven. For the aggregated PSA and SSA markets, Jefferson Healthcare is ranked 2nd with a 2.9% share of patients according to Truven. Nearly 29% of Jefferson Healthcare's inpatient discharges originate from outside the Jefferson Healthcare PSA according to Truven. Jefferson's primary competitors in many major services are other academic medical centers, including The Hospital of the University of Pennsylvania, Temple University Health System and Cooper University Medical Center.

Jefferson Healthcare's PSA and SSA (Regions 1, 2 & 3): Competitor Locations



The following table sets forth admissions and other indicators for Fiscal Year 2014 for selected healthcare systems located in the Philadelphia area.

Healthcare System	Available Beds	Occupancy Percentage	Admissions	Average Length of Stay	Emergency Room Visits	Births
Jefferson University Hospitals	917	72.40%	45,131	5.36	114,970	1,907
Abington Health[1]	657	63.14	33,770	4.48	124,119	4,637
Main Line Health System[2]	1,219	60.66	57,420	4.70	166,706	7,969
University of Pennsylvania Health System	1,745	75.92	83,115	5.82	179,054	11,239
Hahnemann University Hospital	510	52.48	18,440	5.30	48,975	1,854
Temple Health System	798	69.34	33,398	6.05	135,564	2,998
Einstein Health System	828	68.33	38,814	5.32	153,381	4,878

Source: Delaware Valley Healthcare Council.
[1]Jefferson has entered into an agreement to merge with Abington Health. See "MANAGEMENT'S DISCUSSION AND ANALYSIS – Abington Health Definitive Agreement."
[2]Jefferson has an academic affiliation agreement with Main Line Health System.

Delaware Valley ACO. TJUH System maintains a 40% interest in Accountable Care Organization of Pennsylvania, LLC d/b/a Delaware Valley ACO ("DV-ACO"), a Pennsylvania limited liability company that operates a Medicare Accountable Care Organization. The Centers for Medicare & Medicaid Services ("CMS") defines accountable care organizations as groups of doctors, hospitals and other health care providers who come together voluntarily to give coordinated high quality care to their Medicare patients. The remaining ownership interests of DV-ACO are held by Main Line Health (40%), Holy Redeemer Health System (9%), Doylestown Hospital (9%) and Magee Rehabilitation Hospital (2%). DV-ACO was formed on December 22, 2010. DV-ACO's programs are coordinated and aligned closely with its members' local programs, both hospital and clinically integrated network-based. The DV-ACO seeks to be a convener and accelerator of capabilities needed to move into value-based payment models, and offer a differentiated care model to the regional market.

DV-ACO participates in the Medicare Shared Savings Program ("MSSP") pursuant to a participation agreement dated November 22, 2013. The MSSP offers financial incentives for coordinating beneficiary care, investing in new care management programs, and redesigning care processes to improve the quality, efficiency, and effectiveness of care delivered to Medicare beneficiaries. DV-ACO is a track 1 ACO (upside risk only) and each year from 2014-2016 will share in a portion of any savings for the Medicare program associated with its activities. For the initial term of DV-ACO's MSSP agreement which expires on December 31, 2016, DV-ACO is not required to repay CMS for any losses associated with its activities.

DV-ACO includes approximately 450 participating primary care physicians covering over 65,000 Medicare beneficiaries in 2015, as compared to 225 primary care physicians and 32,000 Medicare beneficiaries in 2014, making it by far the largest such organization in the Greater Philadelphia region and one of the largest in the nation. Pursuant to the participant agreements between DV-ACO and each of the participating providers, any shared savings received from CMS will be separated into three pools with forty percent of the shared savings allocated to the physician performance pool, thirty percent allocated to the hospital performance pool and thirty percent dedicated to the capital/operating pool of DV-ACO.

In addition to participating in the MSSP, DV-ACO contracts with several commercial payors on behalf of its participating providers with respect to certain quality incentive/pay for performance and population health programs, with a robust pipeline of additional commercial contracts. Effective January 1, 2015, the University and Main Line Health included health insurance options for their respective employees developed by DV-ACO and their respective Human Resources departments which are anticipated to reduce the rate of increase in employee health expenses over time.

FINANCIAL INFORMATION AND HISTORY

In 1995, TJU spun-off what are now TJUH System and JUH into an unrelated company. Nonetheless, TJU continued to maintain a very close business affiliation with TJUH System and JUH after this legal separation. JUP remained part of TJU after the separation. Effective June 30, 2014, TJUH System, JUH and their respective affiliates became controlled affiliates of TJU through a transaction that was accounted for as a merger.

Subsequent to the merger, on June 30, 2014, the consolidated balance sheet of TJU includes the accounts and subsidiaries of TJU including TJUH System, JUH and JUP. The audited consolidated statement of activities of TJU for the year ended June 30, 2014 does not include the activities of TJUH System and JUH because the operations of TJU were not combined with TJUH System and JUH until June 30, 2014. Consequently TJU does not have an audited consolidated statement of activities and changes in net assets that includes TJUH System and JUH for the fiscal year ended June 30, 2014. For the Fiscal Year ending June 30, 2015 and future fiscal years, TJU's audited consolidated financial statements will include TJUH System and JUH.

The pro forma consolidated balance sheet as of June 30, 2013 and June 20, 2012 and the pro forma consolidated statement of activities for the years ended June 30, 2014, 2013 and 2012 are presented as if the merger (for accounting purposes) of TJU and TJUH System had occurred as of the beginning of such FY. The pro forma consolidating balance sheet and pro forma consolidating statement of activities are presented in Appendix B-4.

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***Consolidated Balance Sheet**.* The following table lists Jefferson's consolidated balance sheet as of June 30 for the FYs indicated ($000s). Information as of June 30, 2013 and June 30, 2012 is presented as though the merger of TJU and TJUH System had occurred at the start of such FY and is unaudited.

Assets	Audited June 30, 2014	Pro Forma Unaudited June 30, 2013	Pro Forma Unaudited June 30, 2012
Current assets:			
Cash and cash equivalents	$ 97,761	$ 89,136	$ 77,454
Short-term investments	291,036	333,135	304,510
Accounts receivable, less allowance for doubtful accounts of $40,417 in 2014, $40,255 in 2013 and $32,459 in 2012	294,423	262,729	275,365
Inventory	31,510	27,555	27,766
Pledge receivables	16,757	5,822	3,764
Assets whose use is limited, current	40,583	19,258	21,494
Other current assets	17,648	13,829	18,353
Total current assets	$ 789,718	$ 751,464	$ 728,706
Long-term investments	809,774	673,188	627,286
Assets whose use is limited, noncurrent	111,254	90,826	50,260
Assets held by affiliated foundation	8,561	7,787	7,199
Pledge receivables	75,887	6,086	2,121
Goodwill, net	11,418	11,418	11,418
Insurance recoverable	118,044	122,760	141,251
Loans receivable from students, net	26,480	26,486	28,335
Land, buildings and equipment, net	912,585	868,705	844,585
Other noncurrent assets	13,790	14,072	13,606
Total assets	$ 2,877,511	$ 2,572,792	$ 2,454,767
Liabilities and Net Assets			
Current liabilities:			
Current portion of:			
Long-term obligations	$ 10,142	$ 9,682	$ 9,203
Due to Jefferson Health System	-	5,824	4,940
Accrued Pension Liability	-	-	16,789
Accrued professional liability claims	24,230	21,933	21,933
Accrued workers' compensation claims	7,484	6,798	8,521
Deferred revenues	10,636	9,292	6,708
Accounts payable and accrued expenses	181,893	171,814	181,608
Accrued payroll and related costs	124,554	109,387	104,924
Grant and contract advances	15,563	17,189	18,715
Notes payable	352,805	-	-
Other liabilities	7,029	3,710	9,085
Total current liabilities	$ 734,336	$ 355,629	$ 382,426
Long-term obligations	262,831	269,382	257,410
Due to Jefferson Health System	-	305,497	292,006
Accrued pension liability	132,715	107,176	138,878
Federal student loan advances	18,114	18,109	18,061
Deferred revenues	8,873	9,523	6,575
Accrued professional liability claims	287,840	282,989	305,746
Accrued workers' compensation claims	12,974	10,608	11,872
Interest rate swap contracts	28,574	28,536	43,488
Other noncurrent liabilities	4,881	4,740	6,061
Total liabilities	$ 1,491,139	$ 1,392,190	$ 1,462,523
Net assets:			
Unrestricted	959,233	858,205	693,636
Unrestriced net assets related to noncontrolling interests	3,855	2,193	2,153
Temporarily restricted	219,950	156,231	143,323
Permanently restricted	203,334	163,973	153,132
Total net assets	1,386,372	1,180,602	992,244
Total liabilities and net assets	$ 2,877,511	$ 2,572,792	$ 2,454,767

Consolidated Statement of Activities. The following table lists Jefferson's pro forma consolidated statement of activities for the FYs indicated ($000s). The information is presented as though the merger of TJU and TJUH System had occurred on the first day of such FY and is unaudited.

	Pro Forma Unaudited 2014	Pro Forma Unaudited 2013	Pro Forma Unaudited 2012
Unrestricted revenues, gains and other support:			
Patient service revenue, net of contractual allowance	$1,819,156	$1,776,063	$1,735,851
Provision for bad debts	(82,369)	(80,642)	(59,608)
Net patient service revenue less provision for bad debts	1,736,787	1,695,421	1,676,243
Grants and contracts	93,495	100,494	115,795
Tuition and fees, net	110,124	107,183	104,273
Sales and services of auxiliary activities	17,186	15,893	14,104
Investment income	16,773	23,212	16,871
Contributions	2,422	3,122	4,940
Other revenue clinical operations	73,699	79,242	64,459
Other	15,932	14,346	16,595
Net assets released from restrictions	24,885	22,498	21,897
Total unrestricted revenues, gains and other support	2,091,303	2,061,411	2,035,177
Expenses:			
Clinical operations	1,695,354	1,634,942	1,632,903
Instruction	134,014	134,089	134,908
Research and other sponsored programs	89,800	95,057	105,557
Auxiliary activities	23,063	22,037	23,389
Student services	9,731	8,674	8,556
Institutional support	33,956	30,946	31,033
Operations and maintenance	18,357	20,622	19,269
Academic support	26,690	24,716	22,219
Other	2,945	2,878	2,999
Total expenses[1]	2,033,910	1,973,961	1,980,833
Income from operations before extinguishment of debt	57,393	87,450	54,344
Extinguishment of debt	(26,119)	-	(470)
Income from operations	31,274	87,450	53,874
Nonoperating changes in unrestricted net assets, net:			
Gain on investments and swaps, net	41,090	39,729	(35,017)
Investment income, net of amounts classified as operating revenue	(11,824)	(11,267)	(9,687)
Reclassification of net assets	(400)	(1,317)	(1,321)
Government grants for capital projects	2,173	4,473	6,933
Donated capital received	2,634	-	4,763
Change in noncontrolling interest in joint venture	1,663	40	1,087
Net assets released from restriction for capital expenditures	251	399	1,798
Transfers from JHS	73,272	-	-
Defined benefit plan, net actuarial (loss) gain	(37,442)	45,102	(60,054)
Increase (decrease) in unrestricted net assets from nonoperating items	71,417	77,159	(91,498)
Increase (decrease) in unrestricted net assets	$102,691	$164,609	($37,624)

[1]Expenses include interest expense of $21,227; $20,177; and $18,913 for FYs 2014, 2013 and 2012, respectively; and depreciation expense of $96,544; $98,147; and $87,613 for FYs 2014, 2013 and 2012, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements. Information included in this "MANAGEMENT'S DISCUSSION AND ANALYSIS" and elsewhere within this Appendix A includes forward-looking statements about the future that are necessarily subject to various risks and uncertainties (the "Forward-Looking Statements"). These Forward-Looking Statements are (i) based on the beliefs and assumptions of management of the University and on information currently available to such management; and (ii) generally identifiable by words such as "estimates," "expects," "expected,", "plans," "believes" and similar expressions.

Events that could cause future results to differ materially from those expressed in or implied by Forward-Looking Statements or historical experience include the impact or outcome of many factors that are described throughout this Appendix A and the rest of this Official Statement. Although the ultimate impact of such factors is uncertain, they may cause future performance to differ materially from results or outcomes that are currently sought or expected by the University.

Background. TJU was founded as a medical college in 1824 and opened its first free-standing hospital, called Thomas Jefferson University Hospital, in 1887. Between 1887 and 1995, Thomas Jefferson University Hospital was an unincorporated division of TJU and its budgets, staffing, capital plans and other activities were developed and implemented as part of TJU.

In 1995, a new, separate non-profit corporation called "Thomas Jefferson University Hospitals, Inc." was established as a controlled affiliate of Jefferson Health System, a regional non-profit healthcare system that was not affiliated with TJU and that had other controlled hospitals and health care affiliates in southeastern Pennsylvania. The following year, TJU transferred its hospital-related assets to Thomas Jefferson University Hospitals, Inc. for an amount sufficient to enable TJU to pay off all of its debt allocable to hospital facilities.

Thereafter, TJU and Thomas Jefferson University Hospitals, Inc. operated as separate entities, as the hospital's budgeting, finance, staffing and other transactions were undertaken under the auspices of Jefferson Health System, while TJU continued to own and operate its educational facilities, research facilities and clinical practice activities.

Despite not being corporate affiliates or similarly related, TJU and Thomas Jefferson University Hospitals, Inc. maintained close working relationships, with common facilities and shared services. TJU provided certain management and other services to Thomas Jefferson University Hospitals, Inc. However, by 2013 both parties concluded that it would be advantageous to re-examine the nature and scope of their relationships and consider working together as a single entity.

By then, Thomas Jefferson University Hospitals, Inc. owned and operated three separate hospital divisions – Thomas Jefferson University Hospital, Jefferson Hospital of Neuroscience and Methodist Hospital Division – and had become a controlled affiliate of TJUH System, a nonprofit corporation controlled by Jefferson Health System.

The first step in the re-examination process was the appointment of one person, Dr. Stephen Klasko, to serve as president and CEO of both TJU and its controlled affiliates and TJUH System and its controlled affiliates.

Integrated Jefferson. In mid-2013, TJU, Jefferson Health System, TJUH System and their respective affiliates agreed to change their corporate relationship. Effective June 30, 2014, TJUH System and its affiliates became controlled affiliates of TJU, and their relationship with Jefferson Health System was terminated. At that time, TJU and TJUH System and its affiliates provided for the payment to Jefferson Health System of an amount sufficient to defease all Jefferson Health System debt allocated to TJUH System and TJUH System became a controlled affiliated of TJU. In September 2014, Jefferson Health System was disbanded.

Consequently, effective June 30, 2014, the education, research, clinical practice and hospital/healthcare components of Jefferson were united in a single structure.

FY 2015 Operating Budget. Due to the reunification of former TJUH System as a controlled affiliate of TJU effective June 30, 2014, Jefferson management developed a consolidated FY 2015 operating budget that fully integrates the budgets of the Academic Division and Clinical Divisions of the University. The development of a consolidated budget promoted the ability to identify various business practice efficiency opportunities (*e.g.*, the elimination of corporate function redundancies) and cost reduction and revenue improvement opportunities that were incorporated into the FY 2015 budget. The consolidated FY 2015 operating budget projects total operating revenues of approximately $2.12 billion, total operating expenses of approximately $2.09 billion and income from operations of approximately $30.76 million.

FY 2015 Operating Performance through December 31, 2014. Provided below is a summary of the Jefferson unaudited Consolidated Unrestricted Statement of Activities for the six month period ended December 31, 2014 with the pro forma consolidated Statement of Activities for the six month period ended December 31, 2013. Total revenue for the six months ended December 31, 2014 was $1.08 billion, resulting in income from operations of $19.9 million, compared to the prior year's income from operations of $35.2 million, which included a $21.5 million dividend distribution from the former JHS owned captive insurance company.

For the six-month period ended December 31, 2014, the Academic Division's total revenues were $216.0 million, resulting in income from operations of $4.8 million.

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For the six-month period ended December 31, 2014, the Clinical Division's revenues were $948.1 million, resulting in income from operations of $15.4 million. Net patient revenues include those generated by JUP. Prior to FY 2015, those revenues would have been included under net patient services revenue under the Academic Division.

Thomas Jefferson University
Unaudited Consolidated Statement of Activities
For the Six Month Periods Ended December 31, 2014 and 2013 (Pro Forma)
(in thousands)

	Clinical December 2014	Academic December 2014	Eliminations & Reclassifications		Consolidated December 2014	Pro Forma Consolidated December 2013
Unrestricted revenues, gains and other support:						
Patient service revenue, net of contractual allowance	$942,170	$30	$0		$942,200	$910,932
Provision for bad debts	(41,043)	-	-		(41,043)	(43,561)
Net patient service revenue less provision for bad debts	901,127	30	-		901,157	867,371
Grants and contracts	-	41,934	(115)	a	41,819	43,474
Tuition and fees, net	-	55,426	-		55,426	53,920
Sales and services of auxiliary activities	-	74,761	(65,154)	a	9,607	9,811
TJUH reimbursement for physician services	-	17,398	(17,398)	a	-	-
Investment income	4,122	5,228	1,561	e	10,911	10,012
Contributions	-	1,000	581	e	1,581	1,253
Other revenue clinical operations	41,549	-	(8,048)	a	33,501	33,436
Other	-	10,904	-		10,904	9,601
Net assets released from restrictions	1,363	9,305	-		10,668	11,513
Total unrestricted revenues, gains and other support	948,161	215,986	(88,573)		1,075,574	1,040,391
Expenses:						
Clinical operations	932,724	-	(37,729)	a,e	894,995	849,041
Instruction	-	54,722	-		54,722	53,476
Research and other sponsored programs	-	36,495	(115)	a	36,380	36,902
Auxiliary activities	-	60,164	(50,438)	a	9,726	9,352
Student services	-	15,585	-		15,585	14,613
Institutional support	-	18,151	-		18,151	14,726
Operations and maintenance	-	8,591	-		8,591	8,630
Academic support	-	16,398	-		16,398	16,724
Other	-	1,101	-		1,101	1,638
Total expenses	932,724	211,207	(88,282)		1,055,649	1,005,101
Income from operations	15,437	4,779	(291)		19,925	35,290
Nonoperating items and other change in net assets	(2,119)	(1,647)	291		(3,475)	20,565
Increase in unrestricted net assets	$13,318	$3,132	$0		$16,450	$55,855

a - To eliminate inter-company revenue expense between TJU and TJUH System.
e - To reclassify certain items to the TJU presentation.

Jefferson's management views year-to-date operating results to be ahead of budget and expects the full-year operating results to end up ahead of budget.

The Academic Division's performance benefited from:

- Tuition revenue trending positively due to the impact of 64 FTE additional students over the budgeted number.
- Sponsored program direct and indirect revenue performing on target.
- Grant submission and awards having increased due to new faculty productivity standards established in FY 2014 and the establishment of the centralized Research Administration Center of Excellence (RACE), which supports all aspects of sponsored program administration/oversight.
- The Academic Division having reduced overhead costs by $28 million over the past two fiscal years through a cost containment initiative.

The Clinical Division's performance benefited from:

- Inpatient admissions, that were 1.8% above plan (while inpatient surgeries were below plan by 1.5%, outpatient surgeries were 5.8% over plan).
- JUP net revenue, which was favorable as a result of increased procedural volume and quality pay-for-performance activity, despite office visits being 1.6% below plan.
- Stability in payor mix.
- The accomplishment of labor and supply costs reduction initiatives executed in advance of the Jefferson Operational Excellence initiative, from which additional expense reductions and revenue enhancements are expected to be realized during the balance of the Fiscal Year.

While reported results for income from operations for the six months ended December 31, 2014 were $15.4 million, normalized results were $13.6 million, mainly due to a $4.9 million benefit from the sale and unrealized appreciation of stock in the Premier Group purchasing organization (reflected as a reduction in supply costs), offset by $5.7 million of Huron Consulting expense in connection with Jefferson's performance improvement projects (reflected in other expenses).

Provided below are key performance indicators for the Clinical Division for the period ended December 31, 2014.

KEY PERFORMANCE INDICATORS
FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2014

	Year-to-date				
	Budget	**Actual**	**Var %**	**Prior Yr**	**Var %**
Hospital Volume Indicators					
Admissions	22,036	22,442	1.8%	22,498	-0.2%
30 day readmissions	3,198	2,986	6.6%	3,198	6.6%
30 day readmissions %	14.51%	13.31%	8.3%	14.21%	6.4%
Patient days	118,119	119,169	-0.9%	120,571	1.2%
Average daily census	643.49	647.66	0.6%	655.28	-1.2%
Average length-of-stay	5.36	5.25	2.1%	5.32	1.3%
Occupancy %	72.5%	73.6%	1.5%	74.6%	-1.3%
Inpatient surgeries	8,362	8,237	-1.5%	8,629	-4.5%
Outpatient visits	234,663	236,989	1.0%	236,573	0.2%
Outpatient surgeries	8,247	8,723	5.8%	8,097	7.7%
Emergency Department visits	57,301	57,861	1.0%	57,980	-0.2%
Births	1,073	1,014	-5.5%	975	4.0%
Observation unit cases	2,071	1,953	-5.7%	2,048	-4.6%
Hospital Admissions Payer Mix					
Medicare	31.68%	30.35%	-3.7%	30.92%	-1.3%
Medicare Managed Care	12.58%	12.75%	1.3%	12.21%	4.4%
Managed Care	32.68%	33.64%	2.9%	33.32%	1.0%
M/A Managed Care	13.07%	14.43%	10.5%	14.15%	2.0%
Medicaid	6.43%	5.10%	-20.7%	4.63%	10.2%
Commercial	0.64%	0.69%	8.2%	0.66%	4.0%
Other	2.91%	2.88%	-1.0%	4.11%	-30.0%
Total	**100.00%**	**100.00%**		**100.00%**	
Hospital Case Mix Index					
All payers	1.76	1.76	-0.1%	1.75	1.0%
Medicare	1.89	1.84	-2.7%	1.88	-2.3%

Strategic Planning. Since September 2013, TJU's President, with senior management and representatives of all of the components of the reorganized Jefferson entities, have worked together to develop a cohesive, coordinated set of strategic corporate goals and to establish an organizational structure designed to best reach those goals.

The organizational structure for the collective Jefferson enterprise envisions four "pillars", each with its own leader.

- *Academic Pillar*, the locus for all education and research on campus, comprising SKMC and the other five schools, is under the direction of Mark L. Tykocinski, MD, EVP, Academic Affairs & Provost, TJU and Dean of Sidney Kimmel Medical College.

- *Clinical Pillar*, comprising the owned hospitals, other ambulatory clinical entities, and the physician enterprise, including JUP, is under the direction of David P. McQuaid, RPh, MBA, FACHE, EVP for Clinical Affairs, and President & CEO, JUH.

- *Innovation Pillar*, charged with driving innovation across the enterprise and fostering translation of intellectual property, is under the direction of John C. Ekarius, EVP and Chief Operating Officer.

- *Institutional Advancement Pillar*, augmenting the Jefferson Foundation, and responsible for philanthropic development, under the direction of Elizabeth Dale, Ed.D, Executive Vice President for Institutional Advancement.

This pillar architecture permits Jefferson to coordinate the continuum of education, research, and patient care, along with innovation/commercialization and philanthropy – within each of these domains and among them – and thereby provide the agility and flexibility to adapt rapidly to environmental change.

- The provost/dean model within the Academic Pillar now enables optimal campus-wide coordination of the education and research domains, with attendant operational efficiencies and synergies.

- Integrating the core elements of clinical care delivery within the Clinical Pillar now positions Jefferson to embrace a new healthcare landscape in which coordination across the full health delivery continuum (inpatient and outpatient; hospitals and physician practices) is essential.

To ensure coordination across the pillars, the pillar leaders meet on a weekly basis in several different forums – among themselves, with Jefferson's President, and with other senior leadership.

Jefferson's Blueprint. In addition, TJU, as the new parent and integrating entity, developed and adopted a Blueprint for Strategic Action (the "Blueprint") to implement its mission and vision as "One Jefferson". The Blueprint provides the basis for responding to the dynamic challenges facing the education, research, clinical, innovation, and philanthropic missions.

The Blueprint is a focused, strategic framework setting out how Jefferson intends to move forward through the next ten years, to emerge as an academic medical center poised to lead a new era of healthcare. On January 8, 2014, over 90 senior leaders, the academic and clinical leadership including the deans of Jefferson's six schools and college, department chairs, hospital senior management and other key administrators came together in a retreat and reviewed and further refined the draft Blueprint. From this retreat came the first draft of the Blueprint, including mission and vision statements, six program areas known as “vectors”, and four foundation “enablers”. Following the January 2014 retreat, the Blueprint draft was presented at the Faculty Senate, in department meetings across Jefferson, and brought before student and alumni focus groups. After input from more than 1,800 constituents across the campus, the final Blueprint draft was presented to the Strategic Planning Committee of the Board of Trustees in March 2014. That committee approved the blueprint, and presented it to the full Board of Trustees, which approved it on April 23, 2014.

Management then developed 44 strategic programs that will drive success towards these goals. Business cases, including the required financial and human resources that will be required to implement the programs are under development. Following final review, the selected programs will move forward.
The Blueprint’s six key program areas, or vectors, are set forth below and described in greater detail in the chart:

- **Patients and Families First** – focuses on reimagining care delivery and access
- **One Jefferson** –creates a culture of inclusion, empowerment and respect across all business units (hospitals, university and physician practices)
- **Seamless Clinical Enterprise** – examines operational efficiencies, improved quality and systems integration
- **High Impact Science** – opportunities and creative strategies to grow research portfolio in areas of current strength
- **Programs of Global Distinction** – incubator for innovative ideas and new initiatives that cut across the clinical, academic and research missions
- **Forward Thinking Education** – defines educational opportunities and programs for the future healthcare workforce, including how content will be delivered.

Underpinning the vectors are four enablers entitled Partnerships, Technology, Diversity and Philanthropy. The enablers form the foundation of the Blueprint thereby reinforcing the philosophy underpinning the Blueprint and its vectors which rely on investment in those four critical aspects.

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Our Blueprint for Strategic Action

Jefferson.

Patients and Families First

We will improve the health of our patients, families, and community through comprehensive, personalized, cost-effective, quality care.

- Promoting health and well being
- Providing patient-focused "Care with Caring"
- Displaying a passion for delivering a great "Patient Experience"
- Achieving top-decile quality and outcomes
- Facilitating a culture of safety
- Creating patient/provider-friendly facilities
- Developing innovative patient engagement processes and technologies
- Achieving exceptional community health status

One Jefferson

We will align clinical, educational, and research missions to accelerate innovation.

- Fostering a culture of diversity and inclusion
- Offering the best place to work, practice, and learn
- Leveraging and promoting synergy among missions with cross-institution accountability
- Encouraging "The Jefferson Experience" where "Everyone Matters!"

Seamless Clinical Enterprise

We will define the future of medical care.

- Creating an entrepreneurial academic clinical enterprise
- Developing extended specialty and primary care networks with regional satellite facilities
- Offering a menu of physician relationship models to attract the best and brightest to Jefferson
- Aligning our budgetary model and incentives
- Collaborating with local, regional, and national partners
- Initiating innovative "Systems of Care"/ population health models

High-Impact Science

We will develop a research infrastructure and culture that incubates ideas and creates value.

- Focusing on a programmatic approach across basic, translational and clinical health services research
- Empowering our researchers by deploying state-of-the-art shared resources and knowledge domains
- Collaborating with entrepreneurial start ups to create a value-based approach to intellectual property
- Engaging with external capital and philanthropic partners
- Developing a robust clinical trials infrastructure

Programs of Global Distinction

We will integrate our tripartite missions (education, patient care, and research) to distinguish ourselves in selected areas of focus.

- Focusing our efforts and resources on areas of greatest impact
- Creating exceptional clinical destination programs
- Developing programmatic research themes and multidisciplinary institutes
- Designing interdisciplinary degrees and certificates
- Creating a destination campus with an expanded center city footprint

Forward-Thinking Education

We will reinvent health sciences education to meet the needs of future delivery models.

- Retaining and hiring professionals with unique value-driven competencies
- Creating an interprofessional center for health learning
- Offering health profession education programs that address the emerging needs of an evolving healthcare market
- Advancing the integration of new learning models
- Encouraging life-long/continuous learning opportunities

Foundational Enablers: Partnerships. Diversity. Technology. Philanthropy.

These four enablers support the six vectors of the Blueprint for Strategic Action, allowing the "new" Jefferson to achieve our mission and vision – facilitating and fueling our capacity to achieve our strategic initiatives.

Future Plans and Projects. As part of its ongoing strategic planning process, from time to time, Jefferson considers and will consider potential joint ventures, affiliations, acquisitions, divestitures and similar transactions. Such transactions may result in additional entities becoming part of the University or its affiliates in the future; moreover, in certain cases, existing facilities no longer may be part of Jefferson. There can be no assurance as to the impact that any such transaction would have on the financial results of the University. TJU is, and expects to engage, in discussions with other parties regarding such potential transactions, including the planned combination with Abington Health described below.

Abington Health Definitive Agreement. TJU entered into an Enterprise Formation Agreement (the "EFA") with Abington Health, a Pennsylvania nonprofit corporation ("Abington"), dated as of January 29, 2015 (the "Execution Date"), pursuant to which the TJU Board will be reconstituted in order to create a new enterprise comprising a national health sciences university, an academic medical center and a clinically integrated multi-provider delivery system (the "Transaction").

Abington and its controlled affiliates own and operate a major teaching hospital, a community hospital and other healthcare facilities in Montgomery County and Bucks County, Pennsylvania, approximately 12 miles from TJU's main campus. Abington also owns a foundation for its investments and employs approximately 230 physicians, most of whom are primary care physicians.

The Transaction will:

- combine the respective health care systems of Abington (the "Abington System") and Jefferson Healthcare into one unified healthcare system (the "System") with the goal of creating the System in Pennsylvania, Delaware and New Jersey utilizing a "Hub-and-Hub" model;

- promote and enhance academic excellence at TJU and within the TJU educational programs to maintain TJU as a first class educational institution, training leaders in the health sciences fields through its constituent schools and academic programs; and

- cause, over time, the integration of TJU's educational, teaching and research missions into the clinical operations of the System.

Under a "Hub-and-Hub" Model, each of Abington System and Jefferson Healthcare will operate as the Hub within its respective geographic location and provide a broad range of health care services to individuals in its area. As described in the EFA, TJU and Abington, and any future appointed Hub, will benefit from their Hub designations in that each will be a designated location of existing and new programs and each will be the beneficiary of investment in its area's community based programs and services.

The Transaction will be consummated (the "Closing") on a date (the "Closing Date") on which all conditions precedent set forth in the EFA have been satisfied, including receipt of certain government and accrediting agency approvals and upon giving appropriate federal and state statutorily required notices (e.g., notices to the Attorney General of the Commonwealth of Pennsylvania and pursuant to the Hart-Scott-Rodino Act). No assurance can be given that all such necessary approvals will be received. Notwithstanding the foregoing, the EFA may be terminated upon the occurrence of certain events, including, by the mutual written consent of both parties and if the Closing does not occur on or before December 31, 2015.

On the Closing Date, TJU will become the sole corporate member and parent of Abington, and the TJU Board will be reconstituted to consist of 25 Trustees: 11 Trustees appointed by Abington, 11 Trustees appointed by TJU (all appointed by their respective boards prior to Closing), two Trustees with no affiliation to either TJU or Abington to be nominated by the Nominating Committee of the new Board of Trustees and elected by the new Board of Trustees, and the Chief Executive Officer of TJU, serving as an ex officio Trustee. The Trustees initially will be appointed for staggered terms and terms thereafter will be three years in duration. On June 30, 2016, the total number of Trustees will be reduced to 23, with one Abington Trustee position and one TJU Trustee position to be eliminated. As further described in the EFA, a Nominating Committee will nominate individuals to fill vacancies and each Trustee, except for the ex officio member, is subject to a nine year term limit.

After the Closing, Stephen K. Klasko, M.D., MBA, will continue to serve as the Chief Executive Officer of TJU; Laurence M. Merlis, current President of Abington, will serve as Abington CEO and the initial Senior Executive Vice President and Chief Operating Officer of TJU and the System; and John J. Kelly, M.D., will serve as Abington's Chief of Staff and Senior Executive Vice President and Chief Clinical Officer of the System. Additional management positions will be determined as provided in the EFA.

Subject to the limitations set forth in the EFA, the powers of the TJU Board will include, înter alia, the establishment and approval of the annual and capital operating budgets for the System; review and approval of audited financial statements; executive team selection, management and removal; issuance of debt and pledge of assets as collateral; and appointment and removal of trustees. From the Closing Date to June 30, 2018, certain actions will require the affirmative vote of 75% of the trustees of the TJU Board when the only Hubs in the System are Abington and TJU, and 75% of the TJU-appointed Trustees and Abington-appointed Trustees, voting together, if one or more Hubs have been added to the System. These actions include, among others, the addition of a health system, any closure or material reduction in the scope of services of an existing TJU or Abington entity, or any change in the bylaws or other organizational documents of TJU or any affiliate of TJU or Abington.

Each party to the EFA has agreed, from the Execution Date until the Closing Date, to act or refrain from taking certain actions, without first providing the other party at least 30 days' prior written notice. One such prohibition is entering into a debt transaction or creating any new lien or encumbrance that is valued in excess of $10 million or has covenants that are additional to or more restrictive than those associated with any outstanding debt of the applicable party. Excluded from this restriction are certain permitted encumbrances and transactions specifically identified in the EFA, including the issuance of the 2015 Bonds and the Direct Placement Bonds (as defined in the front portion of the Official Statement).

Following the Closing, any existing assets (including ownership interests in joint ventures and foundation held assets), liabilities, indebtedness or other obligations of TJU and Abington and each of their affiliates will remain with such entity and will not be transferred, assigned or assumed by any other party to the Transaction. As such, all parties will continue to comply with the terms of their existing financing documents.

However, as soon as reasonably practicable after the Closing Date, TJU and Abington will assess a consolidation plan, which could result in a plan under which the existing financing structures by which all outstanding debt and related swaps would be consolidated under a single unified credit obligation. Any such plan would require the approval of the TJU Board. To effectuate such a consolidation, one or more of TJU and the other University Entities may become members of the Obligated Group established under a Master Trust Indenture dated as of September 1, 2002 among Abington Memorial Hospital, Abington Health Foundation and Lansdale Hospital (the "Obligated Group") and the Master Trustee thereunder; and/or one or more members of the Obligated Group may be designated as a University Entity pursuant to the Loan Agreement and will execute a Contribution Agreement; or some combination of these may occur.

Jefferson management believes that the proposed affiliation will further several goals, including the establishment of a broader provider network capable of entering into more comprehensive value-based and other population health management arrangements, the enhancement of Jefferson Healthcare as a cost-effective quaternary provider, and the differentiation of the TJU educational model as forward thinking supporting value based care and wellness. At the same time, management anticipates that there are significant opportunities of performance improvement through the integration of the certain operations of Abington Health and Jefferson.

Available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") website is an official statement dated July 26, 2012 relating to certain debt issued on behalf of Abington and annual financial and operating data and quarterly financial information related to Abington. According to the information provided by Abington to EMMA, for the FY ended June 30, 2014, Abington had approximately $773.9 million in total revenue, $17.5 million of excess revenues over expenses, $676.3 million of cash and investments, $326.4 million of long-term debt and $846.3 million of total net assets. Abington's underlying long-term bond ratings were affirmed at "A" (Outlook: Stable) by Standard & Poor's Ratings Services as of October 10, 2014, and at "A" (Outlook: Stable) by Fitch Ratings as of June 26, 2014.[*] **None of the information related to Abington posted to EMMA or referenced in this paragraph has been verified by the University or the Underwriters and neither the University nor the Underwriters make any representation as to the accuracy or completeness of any such information.**

Jefferson Operational Excellence. The purpose of the Jefferson Operational Excellence ("JOE") initiative is to address the demands of the new era in health care, by finding ways to improve Jefferson's operations so that Jefferson can take what it does well and do it even better. The goal is to implement best practices, create greater efficiencies throughout the organization and reduce waste.

Jefferson launched Phase 1 of JOE in May 2014 to evaluate TJU and Jefferson Healthcare efficiency and operational effectiveness. Working with Huron Consulting, Jefferson assessed its clinical operations, JUP practice plan, revenue cycle, clinical documentation, labor productivity, human resources and non-labor expenses. Through this phase, a low, mid and high range for bottom line improvement was identified. Senior management reviewed the opportunities presented and identified initiatives that it would move forward. An engagement target of $135 million of bottom line improvement was determined to be achievable at the mid-point. This amount includes $16 million of one-time cash benefits and $119 million of recurring benefit. The one-time benefits are expected to be realized by early in FY 2016 and the recurring benefit is expected to be achieved by the end of FY 2016.

In October of 2014, Phase 2 (implementation) of the engagement commenced. During this phase, delivery teams from Jefferson and Huron Consulting began working side-by-side to identify and implement ways to leverage Jefferson's strengths and proactively transform Jefferson's operations to increase revenues, minimize waste, reduce costs and create value for Jefferson's students and patients.

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[*] Neither the University nor the Underwriters make any representation as to the appropriateness of such ratings. Any explanation of such ratings may be obtained only from such rating agencies. Generally, rating agencies base their ratings on information and materials provided to them and their own investigations, studies and assumptions. No assurance is given that either rating will be maintained for any period of time or that it may not be lowered or withdrawn entirely if in the judgment of such rating agency circumstances so warrant.

All aspects currently are on schedule with projects launched to date on $70 million of the targeted $135 million total benefit. It is anticipated that by the end of FY 2015 approximately $42 million of recurring and one-time benefit will be realized.

Electronic Health Records. An electronic health records ("EHR") selection process began in FY 2013 with a significant amount of due diligence on each of the leading products within the field. In September 2014, the Board of Trustees approved the acquisition of the EPIC integrated software product which spans clinical and revenue functions for both the inpatient and out-patient health records. The seven year total cost of ownership will be approximately $250 million, which includes capital costs (capital, staffing, consulting) and all ongoing operating costs. Of that amount, $115 million will be capitalized and $135 million will be treated as operating costs. It will take approximately two years to implement the full capabilities of the system across the campus. The efforts described above in the JOE initiative take into consideration the capabilities that the new EHR will make available.

Physician Compensation. A significant effort is under way to better align the financial incentives of Jefferson's Academic and Clinical Divisions. This effort includes the redesign of the existing funds flow model with the goal of providing greater clarity with regard to the Clinical Division's support to the Academic Division. Management intends to use the new model during the development of the FY 2016 operating budget.

In addition, as part of the JOE initiative, management has been working with Huron to develop a new physician compensation structure for the JUP physicians. The intent of the new structure will be to better align the financial incentives of the physicians with those of the Clinical Division as a whole. There also will be a focus on clinical versus non-clinical effort to ensure that compensation fairly represents the effort spent on such endeavors. A physician's performance will be measured against established benchmarks and performance expectations built into his or her contract. During the second half of FY 2015, physicians are being informed as to the structure for the new model, its elements and how it will affect their personal performance expectations for FY 2016. Due to the significant cultural shift the new model represents, physicians will be given one year (FY 2016) to adjust to their new expectation targets, before there is any effect to their current compensation base.

FUNDRAISING

In FY 2014, Jefferson's contribution revenue totaled $98.8 million, net of present value discounts. This was the largest fundraising total in the University's 190-year history. Of that total, $80.3 million represents the GAAP[*] accounting value assigned to the $110.0 million pledge from the Sidney Kimmel Foundation made in FY 2014 to endow and fund activities within the medical college. This was the fifth largest gift to any American medical school. The Kimmel gift is expected to make an important impression on potential benefactors in the near term, and it provides a substantial start for an upcoming capital campaign that the University is currently evaluating.

[*] Accounting principles generally accepted in the United States of America.

The total contribution revenue for Jefferson for the last five fiscal years (in thousands) was as follows:

	Pro Forma Contributions				
	FY 2014	**FY 2013**	**FY 2012**	**FY 2011**	**FY 2010**
Unrestricted	$2,422	$3,122	$4,940	$2,609	$5,068
Restricted for operations or capital	61,824	15,003	8,661	10,438	7,823
Restricted for endowment	34,552	7,324	4,530	2,736	4,921
Total	$98,798	$25,449	$18,131	$15,783	$17,812

INVESTMENTS

As of June 30, 2014, the market value of Jefferson's invested assets was approximately $1.26 billion, of which $478.5 million was endowment. Of the total investments of $1.26 billion at June 30, 2014, $636.7 million was held in pooled funds and $464 million was in non-pooled investments. The non-pooled investments (referred to as "non-LTP") are mainly comprised of domestic fixed income securities, investment in captive insurance subsidiaries under the equity method and beneficial interests in perpetual trusts, which are administered by independent trustees and assets held under split-interest agreements with donors.

A summary of the asset allocation of the portion of investments held in pooled funds (referred to as the "Long-term Pool or LTP") at June 30, 2014 is set forth below.

Asset Class	**June 30, 2014 (in thousands)**	**Actual Allocation**	**Allocation Policy**
Cash Equivalents	$12,491	2.0%	2.0%
Fixed income securities	123,840	19.5%	20.0%
Limited partnerships and similar interests	219,122	34.4%	35.0%
Equity securities	254,639	40.0%	38.0%
Real estate funds	26,597	4.1%	5.0%
Total	$636,689	100.0%	100.0%

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The annualized performance of the LTP is reflected in the following table, which compares the performance of the LTP over various periods during the past ten years to its investment policy index.

Annualized Returns
Over Various Periods Ended June 30, 2014 LTP Return
Relative to Policy Index

	LTP Return	Investment Policy Index Return[1]
1 year	13.83%	13.68%
3 years	8.42%	7.84%
5 years	10.93%	10.19%
10 years	5.97%	5.80%

[1] Policy Index currently represents 47.3% MAC Plus Composite/20% Barclays Aggregate/8.3% Cambridge PE Index (1Q Arrears)/20% HFRI Fund of Funds Composite Index/0.5% (CPI + 5%)/3.9% NFI ODCE Cap Wtd. The Multi-Asset Core (MAC) Plus Composite Index is comprised of 75% Russell World Cap 50% Hedged Net Index/6% Dow Jones UBS Commodity Index/6% FTSEEPRA/NAREIT Developed Real Estate Index Net/5% BofA ML Global High Yield 2% Constrained index TR USDH/5% JP Morgan EMBI Global Diversified Index/3%Barclays US 1-3 month Treasury Bill Index.

Investment returns for non-LTP assets have historically been consistent with the overall short-term and fixed income investment returns of the broader markets and Jefferson's management considers such returns to have substantially met the objectives and needs described below.

Objectives for investing Jefferson controlled non-LTP assets are based on balancing the needs for liquidity, capital preservation, and maximizing total return to build reserves. Fixed income instruments are the principal investment vehicle for such assets. Set forth below are certain of Jefferson's current policies related to the investment of non-LTP assets:

- The value to cover immediate liquidity needs, to be available at all times, will be reset periodically based on cash forecasting model outcomes. The Chief Investment Officer (CIO) will effect changes to this threshold level as circumstances arise. The CIO will notify the Investment Committee of such modification.
- Assets will be invested in an actively managed fixed income portfolio with investment-grade bond-like risk (i.e., credit and volatility) within the risk parameters consistent with the established guidelines.
- Liability modeling is used to determine the quality, maturity and duration profile of a non-LTP investment portfolio.
- The objective for minimum average portfolio credit quality is A (S&P), A2 (Moody's), or A (Fitch).
- The minimum credit quality at time of purchase: B (S&P), B2 (Moody's), or B (Fitch).
- In case of split ratings, the highest rating will apply.
- With respect to duration/maturity guidelines, the weighted average portfolio duration will range within ±50% of the established benchmark.

Risk exposures for the investment of non-LTP assets are set forth below:

Credit Ranges	Minimum	Maximum
US Government Securities	15.0 %	100.0 %
Investment-Grade Securities	90.0	100.0
Below Investment-Grade Securities	0.0	10.0

Liquidity. At June 30, 2014, the University had $291.0 million (fair value) on deposit in cash and short-term investments and approximately $17.5 million (fair value) of investments in direct obligations of the United States of America. In addition, as of June 30, 2014, the University had approximately $224.0 million of unrestricted endowment and other funds which it could and would utilize, if necessary, to fund any liquidity needs.

The University had available unsecured lines of credit from various banks of $46.4 million at June 30, 2014 under which there were no borrowings at June 30, 2014. No compensating balances are required or maintained.

Investment Policy, Management and Oversight. The investment objective of Jefferson's endowment and similar funds is the preservation and growth of principal in constant dollars to provide, under a prudent spending rule policy, a consistent level of real growth of budgetary support from such funds. Jefferson's investments are overseen by the Investment Committee of the University, which is composed of seven members from the Board of Trustees and senior staff. The Committee has oversight over asset allocation, manager selection and review of University investment management. The University uses Russell Consulting, a division of Russell Investments, as its investment consultant. In this capacity, Russell Consulting provides investment consulting (policy construction, manager searches, strategy shift, and education) and risk management services concerning the University's long-term portfolios. Investment categories include domestic equities, international equities, fixed income assets, and alternative assets.

All investments of the University endowment must conform to investment restrictions established by the University's Investment Committee. The portfolio is structured to conform to the allocation targets established by the Investment Committee. These restrictions concern duration, average maturity, diversification, and credit risk. If necessary, there is a monthly rebalancing of assets to ensure that the portfolio remains within its target bands. In assessing potential alternative asset investments, management, supported by Russell Consulting, identifies potential alternative asset investment opportunities. Significant due diligence is conducted on these potential investments, including manager interviews, on-site visits and reference checks. No commitments to investment are permitted without the approval of the Investment Committee.

Endowment Spending. The Commonwealth of Pennsylvania has not adopted the Uniform Management of Institutional Funds Act (UMIFA) or the Uniform Prudent Management of Institutional Funds Act. As a result, Jefferson's endowment spending is governed by Act 141 of 1998. In accordance with the Pennsylvania Act, the objective of the University's investment policy is to provide a level of spendable income that is sufficient to meet the current and future budgetary requirements of the University consistent with the goal of protecting the purchasing power of the investments. Jefferson's calculation of spendable income is based on 75% of the prior year spendable income and 25% of the calculated two year moving average of the portfolio's market value multiplied by 4.75%; the sum of which is adjusted by an inflation factor.

Asset Valuation. Jefferson complies with Accounting Standards Codification ASC 320 "Fair Value Measurements" for the valuation of investments. A disclosure of the University and its affiliates' valuation methodologies are contained within the University's consolidated audited financial statement. Regarding the valuation of alternative assets, University management and Russell Consulting provide ongoing oversight of performance and investment valuations. The level of management oversight is dictated by the structure of the investment, the investment classification, whether it is a direct fund placement or a placement in a fund-of-funds entity. University management oversees alternative investments by active participation in calls and meetings with the managers of the alternative asset investment entities, as well as reviews of other financial information, legal documentation, valuation verifications, and the use of trust bank and purchased investment software.

PENSION PLANS

The retirement plans of Thomas Jefferson University consist of two components: defined contribution 403(b) or 401(a) plans (depending on the tax status of the affiliate involved) and defined benefit pension plans. Benefits under the defined benefit pension plans are funded solely by the employer and, through June 30, 2014, were determined on the basis of a combination of years of service and the employee's compensation. More information on the defined benefits plans is provided under caption "PENSION PLANS" in Note 13 of the audited Thomas Jefferson University (Post-Merger) Consolidated Balance Sheet as of June 30, 2014 included as APPENDIX B-1 to this Official Statement.

Defined Contribution Plans. Jefferson's primary retirement programs are offered through various defined contribution plans. Retirement benefits are provided for employees and administrative personnel of TJU, TJUH and JUP through direct employer contributions to an externally administered, multi-asset class investment platform. The platform provides access to investment in mutual fund vehicles that span a broad range of asset classes. Fund selection and oversight is conducted by the Chief Investment Officer, an external consultant and administrator and the Investment Committee of the Board of Trustees.

Employer contributions to the various defined contribution plans currently are based on the following criteria. For academic and certain administrative personnel, employer contributions are based upon a percentage of eligible employees' salaries ranging from 9% to 13% based upon age. For all other employees, there is a fixed contribution of 4.5% and a matching contribution of 25% of the first 6% of employee contributions. For JUP employees who work at least 1,000 hours a year, JUP makes contributions to the plan based on a percentage of compensation and years of service within limits established by the IRS. Employees become fully vested after one year of service.

Defined Benefit Plans. TJU and JUH have non-contributory defined benefit pension plans for other full-time employees. The TJU defined benefit plan, with limited exception for JUH employees who were transferred to TJU as part of the merger reorganization, was frozen to new entrants effective January 1, 2014 and the JUH plan, with limited exceptions for involuntary transfers from TJU to JUH, was frozen to new entrants effective July 1, 2004. The JUH defined benefit plan does not include employees in the Methodist Division. Commensurate with the freeze of each of these plans to new entrants, only existing employees that met certain age and years of service thresholds, were eligible to remain in the plans and continue to earn benefits (all other employees of TJU and JUH earn retirement benefits through defined contributions plans discussed above). 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 defined benefit plans are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Jefferson's defined benefit pension plans have significant holdings in a broad range of investments. The retirement fund assets and obligations are valued on June 30 of each year, and this valuation forms the basis for Jefferson's retirement expense for the next fiscal year commencing on July 1. Plan assets were $426 million as of June 30, 2014 as compared to $367 million as of June 30, 2013. See "*Actuarial Data*" below for information regarding the funded status of and contributions to Jefferson's defined benefit pension plans.

Asset Allocation. Jefferson utilizes asset liability studies to implement a liability driven investment ("LDI") program for each of the frozen plans. Each plan has an asset allocation strategy based on its LDI profile. This profile is determined utilizing information from the plans, external actuary and investment consultant. As of June 30, 2014, TJU and JUH had 32.9% and 67.1% respectively of the pooled assets.

Plan Assets and Allocation as of June 30, 2014 ($,000)

Asset Class	Consolidated Assets	TJU Assets	TJU Allocation	TJU Target Allocation	JUH Assets	JUH Allocation	JUH Target Allocation
Cash	$7,083	$71	1%	0-5%	$142	2%	0-5%
Fixed Income	129,984	49,394	38%	35-40%	35,096	27%	25-35%
Global Equities	233,809	107,552	46%	40 - 50%	137,946	59%	55 - 65%
Real Estate and Other	55,161	8,274	15%	10-20%	6,619	12%	10-15%
	$426,037	$140,527	100%		$285,510	100%	

Actuarial Data. The third party actuary annually determines what funding is required for the TJU and JUH defined benefit plans using a series of assumption including life expectancy, retirement age, and investment return. The discount rate applied for the TJU and JUH defined benefit plans was 4.43% and 4.51% respectively. The expected return on plans assets for TJU and JUH were 7.25% and 7.50% respectively.

Below is a table providing the projected benefit obligation ("PBO"), Fair Value of Assets, Funded Status and Funded Ratio for the TJU and JUH defined benefit plans from the June 30, 2014 measurement date.

($000s)	TJU	JUH	Total
PBO	$ (169,927)	$ (388,825)	$ (558,752)
Fair Value	140,526	285,511	426,037
Funded Status	(29,401)	(103,314)	(132,715)
Funded Ratio	82.7%	73.4%	76.2%

Below is a table providing the PBO, Fair Value of Assets, Funded Status and Funded Ratio for TJU and JUH defined benefit plans from the June 30, 2013 measurement date.

($000s)	TJU	JUH	Total
PBO	$ (141,172)	$ (333,388)	$ (474,560)
Fair Value	126,143	241,241	367,384
Funded Status	(15,029)	(92,147)	(107,176)
Funded Ratio	89.4%	72.4%	77.4%

TJU contributed $3.2 million to the TJU defined benefit pension plan for the fiscal year ended June 30, 2014 and $6.1 million for the period ended June 30, 2013. Based on preliminary actuarial projections, expected contributions for TJU will be $3.7 million for the period ended June 30, 2015. JUH contributed $21.0 million to the JUH defined benefit pension plan for the fiscal year ended June 30, 2014 and $16.9

million for the period ended June 30, 2013. Based on preliminary actuarial projections, expected contributions for JUH will be $20.5 million for the period ended June 30, 2015.

Contributions by TJU and JUH have met and are intended and expected to meet the required contributions established by the actuary for the pension plans.

The University's management considers, particularly given the frozen status of the TJU and JUH defined benefit plans, that actuarial changes in the discount rates for pension obligations and in the expected returns on plan assets will be the predominant factors that affect required contributions and the funded ratios for such plans in the future.

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The components of the net pension plan financial position for the TJU and JUH defined benefit plans on the consolidated balance sheet are as follows (in thousands):

	Consolidated June 30, 2014
Change in projected benefit obligation:	
Benefit obligation, beginning of year	$474,560
Service cost	9,731
Interest cost	23,750
Net experience loss	70,637
Benefits paid	(13,708)
Curtailment	(5,947)
Projected benefit obligation, end of year	$558,752
Change in plan assets:	
Fair value of plan assets, beginning of year	$367,384
Actual return of plan assets	48,137
Employer contributions	24,224
Benefit payments	(13,708)
Fair value of plan assets, end of year	$426,037
Plan funded status	($132,715)

Amounts recognized in unrestricted net assets consist of:

	Consolidated June 30, 2014
Net actuarial loss	$159,400

The accumulated benefit obligation at June 30, 2014 was as follows:

	Consolidated June 30, 2014
Accumulated benefit obligation	$520,229

The estimated actuarial loss that will be amortized from unrestricted net assets during the upcoming fiscal year is $7.9 million.

Actuarial assumptions used to estimate the June 30, 2014 pension obligation were as follows:

	TJU	JUH
Discount rate	4.43%	4.51%
Rate of compensation increase	3.25%	3.00%
Expected return on plan assets	7.25%	7.50%

Market interest rates and debt and equity market fluctuations, among other factors, could potentially have an impact on Jefferson’s pension fund liabilities and requirements for funding its related pension expenses.

Actuarial projected benefit payments for the next ten years are as follows (in thousands):

	TJU	JUH	Total
2015	$5,986	$11,729	$17,715
2016	6,423	13,199	19,622
2017	7,030	14,888	21,918
2018	7,728	16,550	24,278
2019	8,169	18,331	26,500
2020 – 2024	48,167	116,329	164,496
Total	$83,503	$191,026	$274,529

Participation in Multiemployer Defined Benefit Pension Plan: TJU and JUH are participating employers in The Pension Fund for Hospital and Health Care Employees – Philadelphia and Vicinity (the "Pension Fund"), a jointly-trusted multiemployer defined benefit pension plan. A participating employer does not have joint and several liability for the funding deficiencies of other participating employers. 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 University's participation is summarized below.

A six year collective-bargaining agreement was approved by the Union effective July 1, 2012. TJU and JUH contributions as a percentage of covered payroll to the Pension Fund over the term of the agreement are as follows:

FY 2014	14.00%
FY 2015	15.50%
FY 2016	17.25%
FY 2017	18.75%
FY 2018	20.50%

For the Plan Years beginning January 1, 2012 and January 1, 2013, 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 Year beginning January 1, 2014, the Pension Fund moved to Endangered Status (also referred to as yellow zone status). Accordingly, the Pension Fund is subject to a funding improvement plan. The zone status is based on information that the University received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded. Plans in the yellow zone are funded between 65 percent and 80 percent.

At January 1, 2014, the most recent date for which such information is available, the funded percentage for certification purposes was 72.3% (Actuarial Value of Plan Assets/Unit Credit Accrued Liability $388.9 million/$537.7 million).

For further information regarding TJU and JUH's pension obligations, see Note 13- Pension Plans in Appendix B-1 hereto.

Other Post-Employment Benefit (OPEB) Obligations. The University does not have any retiree healthcare, life insurance or similar other post-employment benefit (OPEB) obligations in addition to the pension benefits described above.

INDEBTEDNESS

Bonds and Notes. The total outstanding notes and bonds of the University as reported in the University's audited consolidated financial statements as of June 30, 2014, were $625.7 million. The 2015 Bonds and the Direct Placement Bonds are expected to refund the outstanding Notes and the 2008 Bonds (as defined in the front portion of the Official Statement) in addition to providing approximately $175 million of "new money" for capital projects. The table below shows the expected fiscal year debt service requirements for the University's outstanding bond indebtedness after issuance of the 2015 Bonds and the Authority's Direct Placement Bonds.

Upon issuance of the 2015 Bonds, there will be $734,475,000* aggregate principal amount of outstanding bond indebtedness issued on behalf of the University consisting of $361,805,000* aggregate principal amount of the 2015 Bonds, $190,000,000* aggregate principal amount of the Direct Placement Bonds and $182,670,000 aggregate principal amount of prior bonds issued by the Authority in 2006, 2010 and 2012 for TJU (the "Outstanding Prior University Bonds"). In connection with the issuance of the 2015 Bonds, the trustee for each series of the Outstanding Prior University Bonds will execute a joinder/intercreditor agreement whereby the Outstanding Prior University Bonds will be secured on a parity basis with the pledge of Gross Revenues of the University Entities (as defined in the Loan Agreement) made pursuant to the Loan Agreement and the respective Contribution Agreements and the trustee for each series of the Outstanding Prior University Bonds will become a secured party under, and become a subject to and bound by the Loan Agreement. Pursuant to the Loan Agreement and the respective Contribution Agreements the University Entities have agreed, subject to Permitted Encumbrances and the ability to grant subordinated liens on Gross Revenues, not to grant a lien on the property of the University without granting a prior lien for the benefit of the 2015 Bonds and other Senior Secured Obligations. See also "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS" in the front portion of this Official Statement. None of the 2015 Bonds, the Direct Placement Bonds and the Outstanding Prior University Bonds are secured by a mortgage on any real property of the University.

See "PLAN OF FINANCING" and "SECURITY AND SOURCES OF PAYMENT FOR THE 2015A BONDS – Bank Loans" in the front portion of the Official Statement for a description of the Bank Loans, evidenced by the Direct Placement Bonds, which will be Senior Secured Obligations under the Loan Agreement secured on a parity basis with the 2015 Bonds.

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* Expected. Assumes the sale of the 2015B Bonds and the Direct Placement Bonds in the principal amounts set forth under "PLAN OF FINANCING" in the front portion of the Official Statement.

Estimated Jefferson Bond Debt Service After Issuance of 2015 Bonds

		Series 2015A Bonds					
Fiscal Year Ending	Existing Bond Debt Service[(1)]	Principal	Interest	Total 2015A Debt Service	2015B Debt Service[(2)]	Direct Placement Bonds[(3)]	Total
2015	$ 4,776,709	$ 0	$ 0	$ 0	$ 465,370	$ 1,496,732	$ 6,738,811
2016	13,802,844	0	15,028,824	15,028,824	1,791,279	5,761,149	36,384,096
2017	13,653,206	0	14,822,950	14,822,950	1,784,721	7,104,567	37,365,444
2018	14,361,113	0	14,822,950	14,822,950	1,788,000	6,388,761	37,360,824
2019	14,391,025	0	14,822,950	14,822,950	1,788,000	6,358,103	37,360,078
2020	14,395,238	0	14,822,950	14,822,950	1,791,279	6,353,039	37,362,506
2021	10,704,881	0	14,822,950	14,822,950	1,784,721	10,047,967	37,360,519
2022	10,683,181	0	14,822,950	14,822,950	1,788,000	10,067,685	37,361,816
2023	10,711,831	0	14,822,950	14,822,950	1,788,000	10,042,888	37,365,670
2024	10,738,178	0	14,822,950	14,822,950	1,791,279	10,014,378	37,366,785
2025	10,768,644	0	14,822,950	14,822,950	1,784,721	9,998,630	37,374,945
2026	10,796,716	1,490,000	14,785,700	16,275,700	1,788,000	12,681,128	41,541,543
2027	10,822,406	670,000	14,731,700	15,401,700	1,788,000	13,531,542	41,543,648
2028	10,857,244	2,580,000	14,663,700	17,243,700	1,791,279	11,647,923	41,540,146
2029	10,888,300	2,555,000	14,557,763	17,112,763	1,784,721	11,754,410	41,540,193
2030	10,913,644	2,485,000	14,445,013	16,930,013	1,788,000	11,908,903	41,540,560
2031	10,946,294	2,515,000	14,324,075	16,839,075	1,788,000	11,969,751	41,543,120
2032	10,674,125	3,835,000	14,178,450	18,013,450	1,791,279	12,062,669	42,541,523
2033	8,555,100	7,090,000	13,918,450	21,008,450	1,784,721	12,190,741	43,539,012
2034	8,552,300	8,435,000	13,530,325	21,965,325	1,788,000	12,235,652	44,541,277
2035	16,645,725	1,520,000	13,289,050	14,809,050	1,788,000	12,299,840	45,542,615
2036	16,650,500	2,440,000	13,209,850	15,649,850	1,791,279	12,447,314	46,538,943
2037	16,650,175	3,500,000	13,075,525	16,575,525	1,784,721	12,528,855	47,539,276
2038	16,648,625	4,580,000	12,878,100	17,458,100	1,788,000	12,645,175	48,539,900
2039	16,646,375	4,695,000	12,651,500	17,346,500	1,788,000	12,759,413	48,540,288
2040	16,648,250	4,790,000	12,419,800	17,209,800	1,791,279	12,892,014	48,541,343
2041	2,282,250	19,465,000	11,913,500	31,378,500	1,784,721	13,093,680	48,539,151
2042	2,283,750	20,240,000	11,035,450	31,275,450	3,748,311	11,233,663	48,541,174
2043	0	23,570,000	9,977,500	33,547,500	14,990,904	0	48,538,404
2044	0	24,545,000	8,815,575	33,360,575	15,179,836	0	48,540,411
2045	0	25,555,000	7,605,750	33,160,750	15,380,503	0	48,541,253
2046	0	26,630,000	6,345,600	32,975,600	15,566,049	0	48,541,649
2047	0	19,505,000	5,190,544	24,695,544	0	0	24,695,544
2048	0	20,555,000	4,138,969	24,693,969	0	0	24,693,969
2049	0	21,665,000	3,030,694	24,695,694	0	0	24,695,694
2050	0	22,830,000	1,862,700	24,692,700	0	0	24,692,700
2051	0	24,065,000	631,706	24,696,706	0	0	24,696,706
TOTAL	$ 326,448,628	$ 301,805,000	$ 425,642,362	$ 727,447,362	$ 111,818,971	$ 293,516,573	$ 1,459,231,534

(1) Consists of the Series 2006, 2010 and 2012 Bonds which are all fixed rate bonds. Excludes the Notes and the 2008 Bonds, which will be refunded in full in connection with the issuance of the 2015 Bonds.
(2) Estimated. The 2015B Bonds are expected to be issued in the principal amount of $60,000,000 and to bear interest at an all-in variable rate assumed to be 2.98% per annum in this schedule.
(3) Estimated. Consists of the Bank Loans which will be evidenced by the Direct Placement Bonds issued concurrently with the 2015 Bonds. For this schedule, the Bank Loans are assumed to be fully drawn upon at closing. The Direct Placement Bonds are expected to consist of $160,950,000 of tax-exempt bonds and $29,050,000 of taxable bonds and to bear interest at all-in variable rates assumed to be 2.98% and 3.29%, per annum, respectively, for this schedule.

Interest Rate Derivatives. The University has entered into various derivative transactions for the purpose of reducing the impact of fluctuations in interest rates on various bond issues. The University currently has four fixed-payor swaps with a total notional value of $203,205,000 and a mark-to-market of approximately $31.56 million against the University as of June 30, 2014. The University also currently has two constant maturity swaps with a total notional value of $116,375,000 and a current mark-to-market of approximately $2.99 million in favor of the University as of June 30, 2014. Both regularly scheduled swap payments and termination payments for such existing swaps are secured on a parity basis by a gross revenue pledge of JUH and TJUH System (but not of TJU). Around the time of, or sometime after, the issuance of the 2015 Bonds, the University plans to negotiate with its existing swap counterparties to restructure and/or amend its existing fixed-payor swaps to potentially extend the maturities, reduce the notional amounts and potentially make other changes to the swap terms in order to align the swaps to hedge approximately half of the University's then outstanding variable rate debt. If the University cannot negotiate satisfactory restructuring terms for the existing swaps with the existing counterparties, the University may terminate some or all of the existing swaps and/or enter into new swaps in order to achieve the University's hedging goals. To the extent permitted by the University's loan agreements, in connection with a restructuring the University may secure its regularly scheduled swap payments by a pledge of one or more of the University Entities' gross revenues so that such obligations may become secured on a parity with, but not senior to, the gross revenue pledge that secures the 2015 Bonds. Termination payments under the restructured swaps, if secured, are expected to be secured on a subordinated basis to regularly scheduled swap payments. Under certain circumstances, the University's swaps may be terminated early, in which case the University Entities may become obligated to make a substantial payment to one or more swap counterparties regardless of whether the 2015 Bonds have been accelerated. The University further anticipates that in certain circumstances the University Entities may have an obligation under the restructured swaps to post collateral with the swap counterparties depending, among other things, on the University's then-current bond ratings and the then-current mark-to-market value of the swaps and subject to compliance with the Loan Agreement.

PROFESSIONAL LIABILITY INSURANCE

TJU, JUH and JUP maintain professional liability insurance under both self-insured and alternative risk financing insurance programs for the distinct services each provides. For all self-insured programs TJU, JUH and JUP accrue 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 an independent actuary. The professional liability insurance program is administered through a policyholder-owned, Vermont-domiciled, risk retention group, Mountain Laurel Risk Retention Group, Inc. ("RRG"). For the professional liability coverage only, the RRG is 100% reinsured by a non-profit captive protected cell insurance company, Five Pointe Insurance Company, domiciled in Delaware. The University has accrued professional liability claims of $312.1 million at June 30, 2014.

The first ("primary") layer of coverage is claims-made coverage with limits of $500,000 per medical incident and $2,500,000 annual aggregate per hospital and $500,000 per medical incident and $1,500,000 annual aggregate per physician. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. In addition, a $1,000,000 per medical incident and $3,000,000 annual aggregate limit is provided for scheduled dentists, as well as physicians and residents practicing in Delaware and New Jersey. At June 30, 2014, Jefferson University Hospital's non-healthcare provider entities are provided with a shared $1,000,000 per incident and $3,000,000 annual aggregate limit of liability. The RRG retains the general liability coverage exposure.

The RRG provides a $2,000,000 per incident and $5,000,000 annual aggregate general liability coverage limit for Jefferson Healthcare. The premiums charged for the primary professional and general liability layers of coverage are determined by an independent outside actuary, based on loss and loss adjustment expense experience and other factors, at a 65% confidence level and a 3% discount rate for 2014 and include a charge for premium tax and operating expenses.

The second layer of professional liability coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). This second layer, required by statute, consists of coverage with limits of $500,000 per incident and $1,500,000 annual aggregate per hospital and per employed physician/resident at June 30, 2014. 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.

Liabilities for potential losses in excess of the primary and MCARE layers up to $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention are based on actuarially-determined estimates, which reflect a 65% confidence level and a 3% discount rate for 2014. 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.

Jefferson Healthcare maintains claims-made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of $95,000,000 per medical incident and $95,000,000 annual aggregate after a $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention (inclusive of the primary and MCARE layers of coverage). Five Point reinsured 100% of this risk to seven currently A-rated insurers (ACE, Zurich, Allied World, Berkley, Lloyd's Syndicates, Endurance, and Swiss Re). A separate limit of $95,000,000 per occurrence and $95,000,000 aggregate is also maintained to provide liability insurance coverage excess of the primary general, auto, employers and aviation liability coverages.

LEGAL PROCEEDINGS

Lawsuits and claims have been filed against the University in the ordinary course of business. While the outcome of many of these actions is not presently determinable, it is the opinion of management that any resulting liability from these actions or, to its knowledge, any threatened actions, will not have a material adverse effect on the consolidated results of operations or the consolidated financial position of the University. Moreover, the University has a comprehensive program for primary and excess insurance, summarized above. If, however, a final judgment were entered in any action in excess of its insurance coverage, the University would be liable for the excess. Management of the University believes that any currently pending or, to its knowledge, threatened, lawsuits subjecting the University to liability not covered by insurance would not have a materially adverse effect on the University's consolidated operations, finances or properties.

APPENDIX B-1

CONSOLIDATED BALANCE SHEET OF THOMAS JEFFERSON UNIVERSITY
AS OF JUNE 30, 2014 (POST-MERGER)

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Thomas Jefferson University (Post-merger)

Consolidated Balance Sheet
June 30, 2014

Thomas Jefferson University (Post-merger)
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June 30, 2014

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Independent Auditor's Report

To the Board of Trustees
Thomas Jefferson University:

We have audited the accompanying consolidated balance sheet of Thomas Jefferson University (TJU) post-merger as of June 30, 2014.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated balance sheet 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 balance sheet that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in the 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 balance sheet is 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 misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to TJU'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 TJU'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 significant and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of the TJU at June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 23, 2014

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330-3000, F: (267) 330-3300, www.pwc.com/us

Thomas Jefferson University (Post-merger)
Consolidated Balance Sheet
June 30, 2014
(in thousands)

Assets	**June 30, 2014**
Current assets:	
Cash and cash equivalents	$97,761
Short-term investments	291,036
Accounts receivable, less allowance for doubtful accounts of $40,417	294,423
Inventory	31,510
Pledge receivables	16,757
Assets whose use is limited, current	40,583
Other current assets	17,648
Total current assets	789,718
Long-term investments	809,774
Assets whose use is limited, noncurrent	111,254
Assets held by affiliated foundation	8,561
Pledge receivables	75,887
Goodwill, net	11,418
Insurance recoverable	118,044
Loans receivable from students, net	26,480
Land, buildings and equipment, net	912,585
Other noncurrent assets	13,790
Total assets	$2,877,511
Liabilities and Net Assets	
Current liabilities:	
Current portion of:	
Long-term obligations	$10,142
Accrued professional liability claims	24,230
Accrued workers' compensation claims	7,484
Deferred revenues	10,636
Accounts payable and accrued expenses	181,893
Accrued payroll and related costs	124,554
Grant and contract advances	15,563
Notes payable	352,805
Other liabilities	7,029
Total current liabilities	734,336
Long-term obligations	262,831
Accrued pension liability	132,715
Federal student loan advances	18,114
Deferred revenues	8,873
Accrued professional liability claims	287,840
Accrued workers' compensation claims	12,974
Interest rate swap contracts	28,574
Other noncurrent liabilities	4,881
Total liabilities	1,491,139
Net assets:	
Unrestricted	959,233
Unrestriced net assets related to noncontrolling interests	3,855
Temporarily restricted	219,950
Permanently restricted	203,334
Total net assets	1,386,372
Total liabilities and net assets	$2,877,511

The accompanying notes are an integral part of the consolidated balance sheet.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Organization

Thomas Jefferson University ("TJU") is an independent, non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and recognized as a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code (the "Code"). It conducts research and offers undergraduate and graduate instruction through the Sidney Kimmel Medical College, and the Jefferson Schools of Nursing, Pharmacy, Health Professions, Population Health, and Graduate Biomedical Sciences. The University has approximately 3,600 students and is located in Philadelphia, Pennsylvania.

The University also includes Jefferson University Physicians ("JUP"). JUP is a non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and is recognized as a tax-exempt organization pursuant to Section 501(c)(3) of the Code. It consists of 17 clinical departments with approximately 647 physician members. JUP was formed to allow faculty of the University to conduct clinical practices while supporting the educational and research activities of the University. It acts as an integrated multi-specialty group practice with net patient service revenue less provision for bad debt for years 2014 and 2013 of approximately $279.3 million and $265.8 million, respectively.

On June 30, 2014 TJUH System, Inc. ("TJUH") separated from Jefferson Health System ("JHS") and merged with TJU to form a new organization, hereafter referred to as the University, and to enhance their tripartite mission of education, research and patient care. On June 30, 2014, the University became the sole coporate member of TJUH and TJUH became the sole member of JUP, thereby aggregating all clinical operations of the merged entities into one organization. This transaction was accounted for as a merger. TJUH, located in Philadelphia, Pennsylvania, is an integrated healthcare organization that provides inpatient, outpatient, and emergency care services through acute care, ambulatory care, physician, and other primary care services for residents of the Greater Philadelphia Region.

Subsequent to the merger on June 30, 2014 the consolidated balance sheet of the University includes the accounts and subsidiaries of the University, 1100 Walnut Associates and TJUH. The accounts and subsidiaries of TJUH include Thomas Jefferson University Hospital, the Jefferson Hospital for Neuroscience Division, the Methodist Hospital Division, JUP, TJUH Health Affiliates, the Atrium Corporation, Jeffex, Inc., JeffCare, Riverview Surgery Center at the Navy Yard, LP (a 51% owned joint venture), Jefferson University Radiology Associates (an 80% owned joint venture) and Jefferson Comprehensive Concussion Center (a 66% owned joint venture).

Principle of Consolidation

The accompanying consolidated balance sheet of the University contains the financial position of the University as of June 30, 2014 subsequent to the merger. All significant intercompany accounts and transactions have been eliminated.

Financial Statement Presentation

The accompanying consolidated financial statement has been prepared on an accrual basis.

The University classifies net assets as follows:

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

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

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

Use of Estimates

The preparation of a financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements including, but not limited to, recognition of 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 or with funds held in self-insurance trust arrangements are classified as assets whose use is limited or purchased by investment managers of the University's pooled investment fund are classified as investments.

Short-term investments

Short-term investments are comprised of debt instruments with maturities greater than three months when purchased.

Non Controlling Interest

Both TJU and TJUH had investments in certain companies that were accounted for under the equity method of accounting. These investments now qualify for consolidation since the University owns a controlling interest. The amount not owned by the University is shown as a non controlling interest.

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

The University records an allowance for doubtful accounts and bad debt expense for estimated losses resulting from non-payment for accounts receivable for services from patients. The University accounts for uncollectible accounts receivable balances from third-party commercial insurers as reductions to net patient service revenue rather than bad debt expense. Management routinely evaluates account collection history, economic conditions, and trends in health care coverage in determining the sufficiency of the allowance for doubtful accounts and provision for bad debts. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

Contributions

Contributions, including unconditional promises to donate, cash and other assets, are recognized at fair value on the date of receipt, recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges received which are to be paid in future periods, and contributions restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions of cash restricted by the donor for the purchase of long-lived assets implies a time restriction on the use of such contributed assets that expires over the assets' expected useful lives. Accordingly, the contributions received are reported as restricted support that increases temporarily restricted net assets. Depreciation is recorded over the assets useful life, and net assets are reclassified from temporarily restricted to unrestricted as depreciation is recognized.

The University 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 $5.6 million are included in other noncurrent assets on the consolidated balance sheet at June 30, 2014,

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, the University 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 the University 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). The University'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, 2014. The University 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 compliance with valuation procedures in place, the ability to redeem at NAV at the University's measurement date and existence of certain redemption restrictions at the measurement date. The University 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 the University'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 the University's investment policy is to provide a level of spendable income which is sufficient to meet the current and future budgetary requirements of the University and which is consistent with the goal of protecting the purchasing power of the investments.

The University'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 University personnel and outside advisors. The University maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits.

Investment in Assets of Affiliated Foundation

The Methodist Hospital Foundation (the "Foundation"), a separate corporation not under the control of TJUH, accepts gifts and bequests and engages in fundraising activities for the benefit of Methodist Hospital. The Board of Trustees of the Foundation, at its sole discretion, is authorized to contribute Foundation funds to Methodist Hospital. Underlying investments held by the Foundation with restrictions benefiting only Methodist Hospital amounting to

$8.6 million at June 30, 2014, is presented in the consolidated balance sheet. While the sole purpose of the Foundation is to support Methodist Hospital, this accounting treatment does not imply that the Foundation's assets or investment income are those of TJUH. The consolidated financial statement does not reflect or establish the legal relationship, agency or otherwise, between the Foundation and TJUH, or any right to assets owned by the Foundation. The by-laws of the Foundation provide that all assets held by it shall not be subject to attachments, execution, or sequestration for any debt, obligation or liability of TJUH or any other person or entity. In particular, the Foundation is not party to or obligated by any debt instrument of TJUH, and assets owned by the Foundation are not subject to the lien of any such debt instrument.

Split Interest Agreements
The University's split-interest agreements consist of charitable gift annuities, pooled income funds, charitable remainder trusts and a charitable lead trust. 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. The Univeristy participaties 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 the University's consolidated balance sheet 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, 2014:

Direct student loans	$20,986
Allowance for doubtful accounts	(4,473)
Net	16,513
Federally-sponsored student loans	9,967
Total	$26,480

The University 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 the University'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. The University considers the allowance recorded at June 30, 2014 and 2013 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 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 nonoperating activities unless explicit donor stipulations specify how the donated assets must be used. Interest expense on borrowed funds used for construction, net of interest income earned on unexpended amounts, is capitalized during the construction period.

Conditional Asset Retirement Obligation

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. A conditional asset retirement obligation of $2.9 million as of June 30, 2014 is included within other liabilities in the consolidated balance sheet.

New Accounting Standards

In January 2013, the FAB issued a standard *Clarifying the Scope of Disclosures about Offetting Assets and Liabilities*. This guidance requires enhanced disclosures about securities lending thransactions to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on its financial position. The University adopted this guidance on July 1, 2013.

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2016. The University is evaluating the impact this will have on the combined financial statements beginning in Fiscal Year 2018.

2. NET ASSETS

Restricted net assets as of June 30, 2014 are categorized as follows (in thousands):

Temporarily restricted	
Pledges	$56,454
Gifts restricted for operating or capital purposes and loan funds	70,536
Undistributed net gains on permanently restricted assets	92,960
Total – Temporarily restricted	219,950
Permanently restricted assets	203,334
Total restricted net assets	$423,284

Temporarily restricted net assets are available for the following purposes at June 30, 2014 (in thousands):

University operations	$11,448
Clinical operations	32,833
Education	155,203
Research	20,466
Total temporarily restricted net assets	$219,950

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30, 2014 (in thousands):

University operations	$8,469
Clinical operations	12,472
Education	147,187
Research	35,206
Total permanently restricted net assets	$203,334

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are presented in the consolidated balance sheet at June 30, 2014 consist of the following (in thousands):

Board designated funds for plant replacement and expansion	$100,490
Board designated funds for self-insurance arrangements	20,072
Debt service funds	20,823
Women's Board and Medical Staff funds	451
Escrow account-Inspira Health Network collaboration	10,001
Total	$151,837
Less current portion	(40,583)
Noncurrent portion	$111,254

4. INVESTMENTS

A summary of investments held in pooled funds at June 30, 2014 is as follows (in thousands):

Cash and cash equivalents	$12,491
Equity securities:	
Domestic	11
Fixed income securities:	
U.S. Treasuries	17,527
Funds:	
Global equity	254,628
Fixed income	106,313
Private equity	70,344
Real estate funds	26,597
Hedge funds	148,778
Total	$636,689

The University'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 the University'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. The University's investment in real asset funds provide for monthly liquidity on transaction requests.

The University has made commitments to various private equity and real asset limited partnerships. The total amount of unfunded commitments is $80.5 million at June 30, 2014, which represents 12.1% of the value of the pooled investments at June 30, 2014. The University expects these funds to be called over the next 3 to 5 years.

Private equity	$72,922
Real estate	7,622
	$80,543

The University's pooled investments at June 30, 2014 include $148.8 million of hedge fund investments. These funds provide for quarterly or annual redemptions and require between 60 and 90 day notice periods, limiting the University's ability to respond quickly to changes in market conditions.

Also included in investments at June 30, 2014 were the following non-pooled investments at June 30, 2014 (in thousands):

Short-term investments	$291,036
Intermediate fixed income securities	39,702
Beneficial interest in perpetual trusts	48,021
Split interest agreements	8,214
Investment in Five Pointe under the equity method	66,122
Other	11,026
	$464,121

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.

A summary of investments held under split-interest agreements is as follows at June 30, 2014 (in thousands):

Charitable gift annuities	$3,620
Pooled income funds	11
Charitable lead trust	1,363
Charitable remainder trusts	3,220
	$8,214

At June 30, 2014 investment securities with an aggregate fair value of $5.8 million were loaned primarily on a short-term basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 103% of the market value of the securities loaned. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

5. ENDOWMENT FUNDS

The University's endowments consist of 755 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, 2014, the endowment net asset composition, excluding pledge receivables, by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$93,355	$161,128	$254,483
Quasi-endowment funds	224,033	-	-	224,033
Total funds	$224,033	$93,355	$161,128	$478,516

6. 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 the University 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 the University'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 investment- 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 2014 and 2013.

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 private equity (direct and fund of funds), real assets investments (real estate, natural resources - direct and fund of funds), hedge funds (direct and fund of funds), and beneficial interests in perpetual trusts and charitable lead trusts held by third parties. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated of future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The University uses the "market approach value" valuation technique to value its investments in private equity and real estate ("private investments") and hedge funds.

The University estimates the fair value of an investment company at the measurement date using the reported net asset value ("NAV"). Adjustment is required if the University 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. The University uses the NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where the University 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, the University 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 pirate investment based on an appraised value, discounted cash flow, industry comparable or some other method. The University values these limited partnerships at NAV. These interests, in the absence of a recent and relevant secondary market transaction, are classified as Level 3.

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 appraise 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 the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to demine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 Liquidity (Private investments and hedge funds)

Private Investments - Private investment funds 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.

Hedge funds – Hedge funds provide quarterly liquidity with (90) notice prior to the quarter's end. 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 these cases, the NAV is considered as a Level 2 input. Limited partnerships are valued at NAV. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial statements are distributed. In the case of the imposition of a gate, the University does not have the ability to validate or verify the NAV through redemptions. Therefore, the interest is generally classified as Level 3.

In the cases of a holdback, the University 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. If the holdback is significant, then the interest is generally classified as Level 3.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the 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). Substantially all of the University's investments in such funds have been classified within Level 3.

The fair value of the University's interest rate swaps related to its debt obligations and natural gas hedge are based on third-party valuations independent of the counterparties. As the fair values of the hedges are determined based on inputs that are readily available or can be derived from information available in public markets, the University has categorized the hedges as Level 2.

The following table presents the cash and cash equivalents, assets whose use is limited and investments carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$326,722	$54,179	$ -	$380,901
Equity securities:				
Domestic	3,689	-	2,500	6,189
Fixed income securities:				
Domestic	96,483	130,133	-	226,616
Funds:				
Global equity	-	183,139	-	183,139
Fixed income	-	76,465	-	76,465
Real asset	-	6,332	-	6,332
Other mutual funds	6,296	79,277	-	85,573
Private equity	-	-	72,495	72,495
Real estate	-	2,741	18,338	21,079
Hedge funds	-	-	153,328	153,328
External trusts	-	2,349	46,996	49,345
Total	$433,190	$534,615	$293,657	$1,261,462

The following table presents the other liabilities carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Interest rate swaps	-	$28,574	-	$28,574

7. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2014 (in thousands):

Unconditional promises expected to be collected in:	
Less than one year	$16,757
One year to five years	33,459
Over five years	85,000
	135,216
Less: unamortized discount and allowance for doubtful accounts	(42,572)
	$92,644

The discount rate ranges from 0.41% to 5.5%. The University's largest pledge comprises 87% of the pledge receivable at June 30, 2014.

8. LAND, BUILDINGS AND EQUIPMENT

	June 30, 2014
Land and land improvements	$76,459
Buildings and building improvements	1,089,604
Equipment	830,791
Leasehold improvements	50,680
Construction in progress	35,911
Less: accumulated depreciation	(1,170,861)
Total Land, Buildings and Equipment, net	$912,584

The University uses straight-line depreciation over the assets' estimated lives, which are as follows:

Land improvements	10-20 years
Buildings and building improvements	20-40 years
Equipment	5-10 years
Leasehold improvements	5-10 years

9. NOTES PAYABLE

The Pennsylvania Higher Education Financing Authority issued the 2014 Series A and 2014 Series B notes (the Notes) as limited obligations of the authority payable from amounts received under a loan agreement with the University. The principal amount of the 2014 Series A and 2014 Series B notes are $328.4 million and $24.4 million, respectively, and mature on May 31, 2015. Interest rates vary monthly and are based upon a SIFMA index and LIBOR index for the 2014 Series A and 2014 Series B, respectively, and interest is payable monthly. The proceeds provided funds for the payment or defeasance of certain JHS bonds pursuant to the TJUH separation from JHS on June 30, 2014.

10. LONG-TERM OBLIGATIONS

	June 30, 2014
Revenue bonds:	
1984 Commercial Revenue Bonds, due in 2015; average interest rate was 1.40% in 2014 and 1.43% 2013. Monthly interest payments, principal due in December.	$600
2006 Series A Revenue Bonds, due in varying amounts from 2032 to 2040; average interest rate was 4.73% in 2014 and 2013. Semi-annual interest payments	25,500
2006 Series B Revenue Bonds, due in varying amounts from 2015 to 2032; average interest rate was 4.18% in 2014 and 4.11% in 2013. Semi-annual interest payments.	45,265
2008 Series A Revenue Bonds, due in varying amounts from 2032 to 2034; average interest rate was 4.01% in 2014 and 3.39% in 2013. Monthly interest payments.	25,000
2008 Series B Revenue Bonds, due in varying amounts from 2015 to 2031; average interest rate was 4.01% in 2014 and 3.36% in 2013. Monthly interest payments.	42,260
2010 Series Revenue Bonds, due in varying amounts from 2021 to 2040; average interest rate was 4.89% in 2014 in 2013. Monthly interest payments.	75,000
2012 Series Revenue Bonds, due in varying amounts from 2015 to 2042; average interest rate was 3.92% in 2014 and 2013. Semi-annual interest payments.	41,765
Total Revenue bonds	255,390
Original issue premiums	6,057
Capital lease obligations	11,526
	$272,973

All Revenue bonds were issued by certain financing authorities as limited obligations of the authorities payable from amounts received under loan agreements with the University. The bonds are subject to optional redemption by the University prior to maturity on specified dates at a price equal to 100% of the principal amount, plus any accrued interest. The University is required, among other things, to generate net revenue (as defined) at least equal to 110% of maximum annual debt service requirements. The University was in compliance with such requirements at June 30, 2014.

The fair value of the University's debt obligation was $272.4 million at June 30, 2014. The fair value represents the quoted market value for Revenue bonds (Level 2) and carrying amounts for all other debt, which approximates fair value.

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

2015	10,142
2016	10,717
2017	6,483
2018	7,381
2019	7,748
Thereafter	230,502

The University had available unsecured lines of credit from various banks of $46.4 million at June 30, 2014 under which there were no borrowings at June 30, 2014. No compensating balances are required or maintained.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The University entered into derivative transactions for the purpose of reducing the impact of fluctuations in interest rates under the terms of interest rate swap agreements that expire in 2034 executed with the 2008 Series A and B Revenue Bonds. The University has the option of terminating the interest rate swap agreements on a semi-annual basis commencing in 2020. The fair value of this derivative instrument at June 30 in the consolidated balance sheet is as follows (in thousands):

Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2014	Balance Sheet Location	Fair Value at June 30, 2014
February 1, 2034 with option commencing in 2020	SIFMA	4.01%	$67,260	Noncurrent liability	$7,389

Additionally, in connection with the separation of TJUH from JHS and prior to the merger with the University on June 30, 2014, certain interest rate swap agreements were novated from JHS to the University, whereby the University replaced JHS as the derivative holder. The fair value of these derivative instruments at June 30 in the consolidated balance sheet is as follows (in thousands):

Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2014	Balance Sheet Location	Fair Value at June 30, 2014
May 1, 2018	68% of United States Dollar LIBOR BBA (one Month)	3.8570%	$19,570	Noncurrent liability	$2,064
May 1, 2027	68% of United States Dollar LIBOR BBA (one Month)	3.919%	$73,925	Noncurrent liability	$13,905
May 1, 2027	68% of United States Dollar LIBOR BBA (one Month)	3.980%	$42,450	Noncurrent liability	$8,202
May 1, 2027	68% of United States LIBOR BBA (Five Year minus 0.2930%)	68% of United States Dollar LIBOR BBA (one Month)	$73,925	Noncurrent liability	($2,473)
May 1, 2017	68% of United States LIBOR BBA (Five Year minus 0.325%)	68% of United States Dollar LIBOR BBA (one Month)	$42,450	Noncurrent liability	($513)

12. OPERATING LEASES

The University has lease obligations for buildings, equipment and ambulatory facilities under various operating leases. At June 30, 2014 the minimum future non-cancelable rental lease commitments are as follows (in thousands):

2015	$30,983
2016	28,746
2017	26,351
2018	23,722
2019	18,897
Thereafter	25,642
	$154,341

13. PENSION PLANS

Retirement benefits are provided for academic employees and certain administrative personnel of TJU and TJUH through direct payments to various funds. Benefits are based upon a percentage of eligible employees' salaries ranging for 9% to 13% based upon age. JUP has a defined contribution plan for employees who work at least 1,000 hours a year. JUP makes contributions to the plan based on a percentage of compensation and years of service within limits established by the IRS. Employees become fully vested after one year of service.

TJU and TJUH have non-contributory defined benefit pension plan for other full-time employees. The TJU plan was frozen to new entrants effective January 1, 2014 and the TJUH plan was frozen to new entrants effective Juy 1, 2004. Commensurate with the freeze of each of these plans to new entrants, existing employees that met certain age and years of service threholds were eligible to remain in the plans and continue to earn benefits. All other employees of TJU and TJUH earn retirement benefits through defined contributions plans that include a fixed employer contribution of 4.5% and a matching contribution of 25% of the first 6% of employee contributions.

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 statement of financial position. The PBO represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. The accounting guidance also requires employers to recognize annual changes in gains or losses, prior service costs, or other credits that have not been recognized as a component of net periodic pension cost through unrestricted net assets.

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

	TJU	TJUH	Total
Change in projected benefit obligation:			
Benefit obligation, beginning of year	$141,172	$333,388	$474,560
Service cost	3,379	6,352	9,731
Interest cost	6,842	16,908	23,750
Net experience loss	29,054	41,313	70,637
Benefits paid	(4,573)	(9,135)	(13,708)
Curtailment	(5,947)	-	(5,947)
Projected benefit obligation, end of year	$169,927	$388,825	$558,752
Change in plan assets:			
Fair value of plan assets, beginning of year	$126,143	$241,241	$367,384
Actual return of plan assets	15,756	32,381	48,137
Employer contributions	3,200	21,024	24,224
Benefit payments	(4,573)	(9,135)	(13,708)
Fair value of plan assets, end of year	$140,526	$285,511	$426,037
Plan funded status	($29,401)	($103,314)	($132,715)

Amounts recognized in unrestricted net assets consist of:

	TJU	TJUH	Total
Net actuarial loss	$55,812	$103,588	$159,400

The accumulated benefit obligation at June 30, 2014 was as follows:

	TJU	TJUH	Total
Accumulated benefit obligation	$163,012	$357,217	$520,229

The estimated actuarial loss that will be amortized from unrestricted net assets during the upcoming fiscal year is $7.9 million.

Actuarial assumptions used to estimate the June 30 pension obligation were as follows:

	TJU	TJUH
Discount rate	4.43%	4.51%
Rate of compensation increase	3.25%	3.00%
Expected return on plan assets	7.25%	7.50%

For their defined benefit pension plans, TJU and TJUH pool funds for investment and utilize the unitization method of accounting for investments in pooled funds. TJU and TJUH had 32.9% and 67.1% of the total shares of the pooled funds at June 30, 2014, respectively. A summary of the plans' targeted and actual asset allocations is as follows for TJU:

	Targeted Range	Percentage of Plan Assets June 30, 2014
Cash	0-5%	1%
Bonds	35-40%	38%
Global equity	40-50%	46%
Real estate and other	10-20%	15%
		100%

A summary of the plans' targeted and actual asset allocations is as follows for TJUH:

	Targeted Range	Percentage of Plan Assets June 30, 2014
Cash	0-5%	2%
Bonds	35-40%	27%
Global equity	40-50%	59%
Real estate and other	10-20%	12%
		100%

The portfolio utilizes 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 and TJUH and expect to contribute \$3.7 million and \$20.5 million, respectively, during fiscal year 2015.

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

	TJU	TJUH	Total
2015	$5,986	$11,729	$17,715
2016	6,423	13,199	19,622
2017	7,030	14,888	21,918
2018	7,728	16,550	24,278
2019	8,169	18,331	26,500
2020 – 2024	48,167	116,329	164,496
Total	$83,503	$191,026	$274,529

The following tables present the plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$1,166	$5,917	$ -	$7,083
Fixed income securities:				
U.S. Treasuries	8,088	-	-	8,088
Domestic	-	54,415	-	54,415
Funds:				
Global equity	-	233,809	-	233,809
Fixed income	-	67,481	-	67,481
Hedge funds	-	-	46,826	46,826
Private equity	3,134	51	3,322	6,507
Real estate	-	-	1,828	1,828
Total	$12,388	$361,673	$51,976	$426,037

Participation in Multiemployer Defined Benefit Pension Plan

TJU and TJUH are participating employers 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 University's participation is summarized below.

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 years ending in 2014.

A six year collective-bargaining agreement was approved by the Union effective July 1, 2012. TJU and TJUH contributions as a percentage of covered payroll to the Pension Fund over the term of the agreement is as follows:

2014	14.00%
2015	15.50%
2016	17.25%
2017	18.75%
2018	20.50%

For the Plan Years beginning January 1, 2012 and January 1, 2013, the Pension Fund was determined to be in critical status (also referred to as yellow and red zone status) under the Pension Protection Act of 2006. Accordingly, the Pension Fund is subject to a funding improvement plan. The zone status is based on information that the University received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funding.

At January 1, 2013, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $211,152,552.

14. PROFESSIONAL LIABILITY CLAIMS

TJU, TJUH and JUP maintain professional liability insurance under both self-insured and alternative risk financing insurance programs for the distinct services each provides. For all self-insured programs TJU, TJUH and JUP accrue 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 an independent actuary The professional liability insurance program is administered through a policyholder-owned, Vermont-domiciled, risk retention group, Mountain Laurel Risk Retention Group, Inc. ("RRG") which was exclusively owned by JHS until June 30, 2014. For the professional liability coverage only, the RRG is 100% reinsured by a non-profit captive protected cell insurance company, Five Pointe Insurance Company, domiciled in Delaware. Until June 30, 2014, JHS held the sole common membership in Five Pointe. The University has accrued professional liability claims of $312.1 million at June 30, 2014, of which $24.2 million were current. The interest rate used to discount malpractice claims was 3% at June 30, 2014.

The first ("primary") layer of coverage is claims-made coverage with limits of $500,000 per medical incident and $2,500,000 annual aggregate per hospital and $500,000 per medical incident and $1,500,000 annual aggregate per physician. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. In addition, a $1,000,000 per medical incident and $3,000,000 annual aggregate limit is provided for scheduled dentists, as well as physicians and residents practicing in Delaware and New Jersey. At June 30, 2014, TJUH non-healthcare provider entities are provided with a shared $1,000,000 per incident and $3,000,000 annual aggregate limit of liability.The RRG retains the general liability coverage exposure.

The RRG provides a $2,000,000 per incident and $5,000,000 annual aggregate general liability coverage limit shared by TJUH and the other members of JHS. The premiums charged for the primary professional and general liability layers of coverage are determined by an independent outside actuary, based on loss and loss adjustment expense experience and other factors, at a 65% confidence level and a 3% discount rate for 2014 and include a charge for premium tax and operating expenses.

The second layer of professional liability coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). This second layer, required by statute, consists of coverage with limits of $500,000 per incident and $1,500,000 annual aggregate per hospital and per employed physician/resident at June 30, 2014. 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.

Liabilities for potential losses in excess of the primary and MCARE layers up to $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention are based on actuarially-determined estimates, which reflect a 65% confidence level and a 3% discount rate for 2014. 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.

TJUH maintains claims-made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of $95,000,000 per medical incident and $95,000,000 annual aggregate after a $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention (inclusive of the primary and MCARE layers of coverage). Five Pointe reinsured 100% of this risk to seven currently A-rated insurers (ACE, Zurich, Allied World, Berkley, Lloyd's Syndicates, Endurance, and Swiss Re). A separate limit of $95,000,000 per occurrence and $95,000,000 aggregate is also maintained to provide liability insurance coverage excess of the primary general, auto, employers and aviation liability coverages.

Health care entities are required to reflect their "gross" exposure to claims liabilities with a corresponding receivable for insurance recoveries in order to be consistent with other industries. The amount recorded at June 30, 2014 as a non-current asset and as a portion of non-current accrued professional liability claims is $118.0 million.

15. WORKERS' COMPENSATION CLAIMS

The University is self-insured for its workers' compensation exposures. The University accrues for its workers' compensation liability based upon actuarial estimates using a discount rate of 3%. Accrued workers' compensation liabilities were $20.5 million at June 30, 2014. This amounts are presented in the accompanying consolidated balance sheet.

16. COMMITMENTS AND CONTINGENCIES

Letters of Credit
At June 30, 2014, the University had open letters of credit aggregating $93.0 million. The letters of credit provide additional security for the following (in thousands):

1984 Commercial Revenue Bonds (Expiration 3/31/2015)	$625
2008 Series A Revenue Bonds (Expiration 5/31/2016)	25,000
2008 Series B Revenue Bonds (Expiration 5/31/2016)	42,260
Self-insurance (Expiration 12/31/2014)	25,140
	$93,025

Litigation
The University is involved in litigation and regulatory investigations arising in the ordinary course of business. Based on the information currently available, in the opinion of management, all such matters are adequately reserved for and/or covered by commercial insurance and if not so covered or accrued are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position of the University.

17. POST-MERGER ACTIVITIES ON JUNE 30, 2014

In connection with the TJUH separation from JHS on June 30, 2014 and subsequent to the merger between the Univesity and TJUH, JHS transferred certain ownership interests to TJUH and the University.

On June 30, 2014 JHS transferred its ownership interest in the Accountable Care Organization (“the ACO”) to TJUH (44.1%), Main Line Health (44.1%), Magee Rehabilitation Hospital (1.8%) and Holy Redeemer Health System (10.0%). TJUH recorded an investment in the ACO in the amount of $1.5 million as of June 30, 2014.

On June 30, 2014, JHS transferred its sole common membership in Five Pointe Insurance Company (“Five Pointe”) to TJUH (49%), Main Line Health (49%), and Magee Rehabilitation Hospital (2%), by entering into a Membership Interest and Membership Unit Transfer Agreement. TJUH recorded an investment in Five Pointe in the amount of $66.1 million as of June 30, 2014.

On June 30, 2014 JHS transferred its common stock in Moutain Laurel Risk Retention Group, Inc. (“the RRG”) to TJU (49%), Main Line Health (49%) and Magee Rehabilitation

Hospital (2%). TJU recorded an investment in the RRG in the amount of $2.8 million as of June 30, 2014.

The above transactions will be accounted for under the equity method of accounting.

18. CONSOLIDATING BALANCE SHEET OF MERGING ENTITES

The following consolidating balance sheet contains the amounts recognized at the time of the merger on June 30, 2014 for each major class of assets and liabilities and each class of net assets (in thousands). Additionally, the post-merger activity occurring on June 30, 2014 described in Note 17 is reflected.

Thomas Jefferson University (Post-merger)
Notes to Consolidated Balance Sheet
June 30, 2014

Assets	Pre-merger TJUH	Pre-merger TJU	Adjustments & Eliminations	June 30, 2014 Consolidated Total at Merger	June 30, 2014 Post-merger Activity	June 30, 2014 Consolidated Total Post-merger
Current assets:						
Cash and cash equivalents	$16,267	$80,864	$630	$97,761	$0	$97,761
Short-term investments	187,954	103,082	-	291,036	-	291,036
Accounts receivable, less allowance for doubtful accounts			-			
of $40,388	237,676	46,179	2,646	286,501	7,922	294,423
Due from TJUH	-	371,184	(371,184)	-	-	-
Inventory	30,118	1,392	-	31,510	-	31,510
Pledge receivables	621	16,136	-	16,757	-	16,757
Assets whose use is limited, current	40,583	-	-	40,583	-	40,583
Other current assets	11,082	5,605	961	17,648	-	17,648
Total current assets	524,301	624,442	(366,947)	781,796	7,922	789,718
Long-term investments	225,783	515,712	(2,198)	739,297	70,477	809,774
Assets whose use is limited, noncurrent	110,658	596	-	111,254	-	111,254
Assets held by affiliated foundation	8,561	-	-	8,561	-	8,561
Due from TJUH	-	37,917	(37,917)	-	-	-
Pledge receivables	19	75,868	-	75,887	-	75,887
Goodwill, net	11,418	-	-	11,418	-	11,418
Insurance recoverable	83,101	81,216	(51,185)	113,132	4,912	118,044
Loans receivable from students, net	-	26,480	-	26,480	-	26,480
Land, buildings and equipment, net	543,646	361,908	7,031	912,585	-	912,585
Other noncurrent assets	4,795	8,978	17	13,790	-	13,790
Total assets	$1,512,282	$1,733,117	($451,199)	$2,794,200	$83,311	$2,877,511
Liabilities and Net Assets						
Current liabilities:						
Current portion of:						
Long-term obligations	$1,435	$6,481	$2,226	$10,142	$0	$10,142
Due to Thomas Jefferson University	371,184	-	(371,184)	-	-	-
Accrued professional liability claims	13,550	10,680	-	24,230	-	24,230
Accrued workers' compensation claims	5,924	1,560	-	7,484	-	7,484
Deferred revenues	516	10,120	-	10,636	-	10,636
Accounts payable and accrued expenses	122,582	54,697	1,762	179,041	2,852	181,893
Accrued payroll and related costs	62,218	62,336	-	124,554	-	124,554
Grant and contract advances	-	15,563	-	15,563	-	15,563
Notes payable	-	352,805	-	352,805	-	352,805
Other liabilities	1,791	5,238	-	7,029	-	7,029
Total current liabilities	579,200	519,480	(367,196)	731,484	2,852	734,336
Long-term obligations	3,128	255,385	4,318	262,831	-	262,831
Due to Thomas Jefferson University	16,732	-	(16,732)	-	-	-
Accrued pension liability	103,314	29,401	-	132,715	-	132,715
Federal student loan advances	-	18,114	-	18,114	-	18,114
Deferred revenues	-	8,873	-	8,873	-	8,873
Accrued professional liability claims	190,297	143,816	(51,185)	282,928	4,912	287,840
Accrued workers' compensation claims	11,571	1,403	-	12,974	-	12,974
Interest rate swap contracts	-	28,574	-	28,574	-	28,574
Other noncurrent liabilities	23,082	2,985	(21,185)	4,882	-	4,882
Total liabilities	927,324	1,008,031	(451,980)	1,483,375	7,764	1,491,139
Net assets:						
Unrestricted	536,579	347,107	-	883,686	75,547	959,233
Unrestriced net assets related to noncontrolling interests	3,074	-	781	3,855	-	3,855
Temporarily restricted	32,833	187,117	-	219,950	-	219,950
Permanently restricted	12,472	190,862	-	203,334	-	203,334
Total net assets	584,958	725,086	781	1,310,825	75,547	1,386,372
Total liabilities and net assets	$1,512,282	$1,733,117	($451,199)	$2,794,200	$83,311	$2,877,511

19. SUBSEQUENT EVENTS

The University monitored subsequent events from the date of the consolidated balance sheet through September 23, 2014 for material items that would require and adjustment to or disclosure in the consolidated financial statements. No material items were noted that would require an adjustment to or disclosure in the financial statements.

Supplemental Information
Thomas Jefferson University
Unaudited Pro Forma Consolidated Statements of Activities and Changes in Net Assets *
For the Years Ended June 30, 2014 and 2013

(in thousands)

	Unaudited 2014	Unaudited 2013
Unrestricted revenues, gains and other support:		
Patient service revenue, net of contractual allowance	$1,819,156	$1,776,063
Provision for bad debts	(82,369)	(80,642)
Net patient service revenue less provision for bad debts	1,736,787	1,695,421
Grants and contracts	93,495	100,494
Tuition and fees, net	110,124	107,183
Sales and services of auxiliary activities	17,186	15,893
Investment income	16,773	23,212
Contributions	2,422	3,122
Other revenue clinical operations	73,699	79,242
Other	15,932	14,346
Net assets released from restrictions	24,885	22,498
Total unrestricted revenues, gains and other support	2,091,303	2,061,411
Expenses:		
Clinical operations	1,695,354	1,634,942
Instruction	134,014	134,089
Research and other sponsored programs	89,800	95,057
Auxiliary activities	23,063	22,037
Student services	9,731	8,674
Institutional support	33,956	30,946
Operations and maintenance	18,357	20,622
Academic support	26,690	24,716
Other	2,945	2,878
Total expenses	2,033,910	1,973,961
Income from operations before extinguishment of debt	57,393	87,450
Extinguishment of debt	(26,119)	-
Income from operations	31,274	87,450
Nonoperating changes in unrestricted net assets, net:		
Gain on investments, net	41,026	39,231
Investment income, net of amounts classified as operating revenue	(11,760)	(10,769)
Reclassification of net assets	(400)	(1,317)
Government grants for capital projects	2,173	4,473
Donated capital received	2,634	-
Change in noncontrolling interest in joint venture	1,663	40
Net assets released from restriction for capital expenditures	251	399
Transfers from JHS	73,272	-
Defined benefit plan, net actuarial (loss) gain	(37,442)	45,102
Increase in unrestricted net assets from nonoperating items	71,417	77,159
Increase in unrestricted net assets	$102,691	$164,609

Supplemental Information
Thomas Jefferson University
Unaudited Pro Forma Consolidated Statements of Activities and Changes in Net Assets, continued *
For the Years Ended June 30, 2014 and 2013

(in thousands)

	Unaudited 2014	**Unaudited 2013**
Unrestricted net assets:		
Revenues, gains and other support	$2,091,303	$2,061,411
Expenses	(2,033,910)	(1,973,961)
Extinguishment of debt	(26,119)	-
Nonoperating changes in unrestricted net assets, net	71,417	77,159
Change in unrestricted net assets	102,691	164,609
Temporarily restricted net assets:		
Contributions	61,823	15,003
Gain on investments, net	21,512	15,629
Investment income	5,520	5,115
Reclassification of net assets	9	44
Net assets released from restrictions	(25,146)	(22,883)
Change in temporarily restricted net assets	63,718	12,908
Permanently restricted net assets:		
Contributions	34,552	7,324
Net gain on externally held trusts	4,419	2,244
Reclassification of net assets	391	1,273
Change in permanently restricted net assets	39,362	10,841
Change in net assets	205,771	188,358
Net assets, beginning of the year	1,180,601	992,243
Net assets, end of year	$1,386,372	$1,180,601

* The Pro Forma consolidated statements of activities and changes in net assets include the results of historical TJU and TJUH operations, after adjustments for elimination entries and accounting for the post-merger activities described in Note 17.

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APPENDIX B-2

CONSOLIDATED FINANCIAL STATEMENTS OF THOMAS JEFFERSON UNIVERSITY AND AFFILIATES AS OF JUNE 30, 2014, 2013 AND 2012 (PRE-MERGER)

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Thomas Jefferson University and Affiliates (Pre-merger)

Consolidated Financial Statements
June 30, 2014, 2013 and 2012

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Independent Auditor's Report

To the Board of Trustees
Thomas Jefferson University:

We have audited the accompanying consolidated financial statements of Thomas Jefferson University (University) which comprise the balance sheets as of June 30, 2014, 2013 and 2012 and the related consolidated statements of activities, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in the 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 misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TJU'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 significant 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 the TJU at June 30, 2014, 2013 and 2012 and changes in its net assets and in its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 23, 2014

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330-3000, F: (267) 330-3300, www.pwc.com/us

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Balance Sheets
June 30, 2014 and 2013

(in thousands)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$80,864	$68,244
Short-term investments	103,082	96,454
Patient receivables, less allowance for doubtful accounts of $4,327 in 2014 and $5,301 in 2013	29,316	28,853
Due from TJUH	371,184	19,662
Other receivables, net	16,863	15,837
Inventory	1,392	531
Pledge receivables	16,136	5,822
Other current assests	5,605	3,465
Total current assets	624,442	238,868
Investments	515,712	468,280
Due from TJUH	37,917	7,730
Pledge receivables	75,868	6,086
Assets whose use is limited	596	15,314
Insurance recoverable	81,216	87,023
Loans receivable from students, net	26,480	26,486
Land, buildings and equipment, net	361,908	336,017
Other noncurrent assets	8,978	9,168
Total assets	$1,733,117	$1,194,972
Liabilities and Net Assets		
Current liabilities:		
Current portion of:		
Long-term obligations	$6,481	$7,029
Accrued professional liability claims	10,680	8,977
Deferred revenues	10,120	8,824
Accounts payable and accrued expenses	54,696	47,276
Accrued payroll and related costs	62,336	47,908
Grant and contract advances	15,563	17,189
Notes payable	352,805	-
Other liabilities	6,798	4,268
Total current liabilities	519,479	141,471
Long-term obligations	255,385	261,448
Accrued professional liability claims	143,816	145,047
Accrued pension cost	29,401	15,029
Federal student loan advances	18,114	18,109
Deferred revenues	8,873	9,523
Interest rate swap contracts	28,574	6,844
Other liabilities	4,389	4,322
Total liabilities	1,008,031	601,793
Net assets:		
Unrestricted	347,107	317,300
Temporarily restricted	187,117	124,204
Permanently restricted	190,862	151,675
Total net assets	725,086	593,179
Total liabilities and net assets	$1,733,117	$1,194,972

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

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2014 and 2013

(in thousands)

	2014	**2013**
Unrestricted revenues, gains and other support:		
Patient service revenue, net of contractual allowance	$299,714	$284,863
Provision for bad debts	(20,383)	(19,068)
Net patient service revenue less provision for bad debts	279,331	265,795
Grants and contracts	93,495	100,494
Tuition and fees, net	110,124	107,183
Sales and services of auxiliary activities	72,159	63,634
State appropriations	1,000	1,000
TJUH reimbursement for physician services	170,768	152,431
Investment income	11,496	11,676
Contributions	1,803	2,242
Other	15,315	13,748
Net assets released from restrictions	21,308	19,570
Total unrestricted revenues, gains and other support	776,799	737,773
Expenses:		
Professional activities	365,892	344,951
Instruction	135,163	135,148
Research and other sponsored programs	89,800	95,057
Auxiliary activities	74,436	66,636
Student services	9,731	8,674
Institutional support	33,956	30,946
Operations and maintenance	18,357	20,622
Academic support	26,690	24,716
Other	2,946	2,878
Total expenses	756,971	729,628
Operating income	19,828	8,145
Nonoperating changes in unrestricted net assets, net:		
Gain on investments, net	27,188	25,270
Investment income, net of amounts classified as operating revenue	(9,150)	(8,578)
Reclassification of net assets	(400)	(1,317)
Government grants for capital projects	2,174	4,473
TJUH capital transfers	4,966	3,667
Defined benefit plan, net actuarial (loss) gain	(14,799)	14,701
Increase in unrestricted net assets from nonoperating activities	9,979	38,216
Increase in unrestricted net assets	$29,807	$46,361

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

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Statements of Activities and Changes in Net Assets, continued
For the Years Ended June 30, 2014 and 2013

(in thousands)

	2014	**2013**
Unrestricted net assets:		
Revenues, gains and other support	$776,799	$737,773
Expenses	(756,971)	(729,628)
Nonoperating changes in unrestricted net assets, net	9,979	38,216
Change in unrestricted net assets	29,807	46,361
Temporarily restricted net assets:		
Contributions	61,142	11,961
Gain on investments, net	20,738	15,041
Investment income	2,332	2,524
Reclassification of net assets	9	44
Net assets released from restrictions	(21,308)	(19,570)
Change in temporarily restricted net assets	62,913	10,000
Permanently restricted net assets:		
Contributions	34,552	7,324
Net gain on externally held trusts	4,244	2,135
Reclassification of net assets	391	1,273
Change in permanently restricted net assets	39,187	10,732
Change in net assets	131,907	67,093
Net assets, beginning of the year	593,179	526,086
Net assets, end of year	$725,086	$593,179

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

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

(in thousands)

	2014	**2013**
Cash flows from operating activities:		
Increase in net assets	$131,907	$67,093
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	27,441	30,296
Provision for bad debts	20,527	19,788
Net gain on long-term investments	(52,172)	(42,446)
Contributions, grants and TJUH transfers designated for acquisition of long-term assets	(12,287)	(13,531)
Defined benefit plan net actuarial loss (gain)	14,799	(14,701)
Provision for uncollectible pledges	(147)	521
Change in obligations under split interest agreements	104	(74)
Increase (decrease) due to changes in:		
Patient and other receivables	(21,872)	(18,159)
Due from TJUH	(7,719)	(2,176)
Inventory	(861)	574
Other assets	434	(1,287)
Accrued pension	(427)	169
Pledges receivables	(79,949)	(6,543)
Insurance recoverable	5,807	9,998
Accounts payable and accrued expenses	6,403	358
Accrued payroll and related costs	14,428	3,452
Grant and contract advances	(1,626)	(1,526)
Accrued professional liability claims	472	(14,747)
Deferred revenues	646	5,064
Interest rate swap contracts	545	(3,526)
Other liabilities	110	(4,805)
Net cash and cash equivalents provided by operating activities	46,563	13,792
Cash flows from investing activities:		
Purchase of land, buildings, and equipment	(52,274)	(57,431)
Decrease (increase) in assets whose use is limited	14,718	(13,287)
Purchase of investments	(73,552)	(620,926)
Sale of investments	71,664	632,944
(Increase) decrease in cash collateral	(2,384)	4,653
Due from TJUH (Note 9)	(352,805)	-
Student loans issued	(4,518)	(3,371)
Student loans repaid	4,274	4,337
Net cash and cash equivalents used in investing activities	(394,877)	(53,081)
Cash flows from financing activities:		
Contributions, grants and TJUH transfers designated for acquisition of long-term assets	12,287	13,531
Proceeds from notes payable	352,805	-
Proceeds from long-term obligations	-	45,634
Repayment of long-term obligations	(6,653)	(15,104)
Increase in federal student loan advances	111	211
Deferred financing fees	-	(562)
Increase (decrease) in cash collateral payable	2,384	(4,653)
Net cash and cash equivalents provided by financing activities	360,934	39,057
Net increase (decrease) in cash and cash equivalents	12,620	(232)
Cash and cash equivalents, beginning of year	68,244	68,476
Cash and cash equivalents, end of year	$80,864	$68,244
Supplemental disclosure:		
Accounts payable related to buildings and equipment	$3,330	$2,313
Interest paid	$11,767	$10,481
Non-cash activity		
Novation of JHS interest rate swaps (Note 11)	$21,185	-
Land, building and equipment purchase	$522	$3,840

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Organization

Thomas Jefferson University ("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 (the "Code"). It conducts research and offers undergraduate and graduate instruction through the Sidney Kimmel Medical College, and the Jefferson Schools of Nursing, Pharmacy, Health Professions, Population Health, and Graduate Biomedical Sciences. The University has approximately 3,600 students and is located in Philadelphia, Pennsylvania.

Jefferson University Physicians ("JUP") is a non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and is recognized as a tax-exempt organization pursuant to Section 501(c)(3) of the Code. It consists of 17 clinical departments with approximately 647 physician members. JUP was formed to allow faculty of the University to conduct clinical practices while supporting the educational and research activities of the University. It acts as an integrated multi-specialty group practice with net patient service revenue less provision for bad debt for years 2014 and 2013 of approximately $279.3 million and $265.8 million, respectively.

For the years ended June 30, 2014 and 2013, the University maintained an academic affiliation with both TJUH System, Inc. ("TJUH"), an integrated healthcare organization that provides healthcare services for residents of the greater Philadelphia region, and the Jefferson Health System (JHS). JHS was the sole corporate member of TJUH. JHS was a regional integrated healthcare delivery system. The other members of JHS were Magee Rehabilitation Hospital and Main Line Health.

On June 30, 2014 TJUH separated from JHS and merged with the University to form a new organization and to enhance its tripartite mission of education, research and patient care. On June 30, 2014, the University became the sole coporate member of TJUH and TJUH became the sole member of JUP, thereby aggregating all clinical operations of the merged entities into one organization. This transaction was accounted for as a merger and thus the University's balance sheet will continue to be recorded at its historical basis under the carryover method. These consolidated financial statements reflect the financial position and results of operations of the University, JUP and 1100 Walnut Associates (an owner and operator of a medical office building) prior to the merger.

Principle of Consolidation

The consolidated financial statements of the University include the accounts of JUP and 1100 Walnut Associates. All significant intercompany accounts and transactions have been eliminated.

Financial Statement Presentation

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

The University classifies net assets as follows:

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

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

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

The University's measure of operations in the consolidated statements of activities and changes in net assets includes revenues from patient services, grants and contracts, tuition and fees, auxiliary activities, TJUH reimbursement for physician services, unrestricted contributions, net assets released from restriction, distribution of investment returns based on the University's spending policy and other sources. Operating expenses are presented on a functional basis, after allocating costs for depreciation and interest.

Non-operating activities presented in the consolidated statements of activities and changes in net assets includes investment returns net of amounts classified as operating revenue in accordance with the University's spending policy, gains and losses on derivative financial instruments, governmental grants for capital projects, TJUH capital transfers and the net actuarial gain or loss of the defined benefit plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues 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 contractual allowances and provisions for bad debt; 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.

Loans Receivable from Students

Many students receive financial aid that consists of scholarship grants, work-study opportunities and student loans. The Univeristy participaties 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 the University's consolidated balance sheet 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:

	2014	2013
Direct student loans	$20,986	$20,106
Allowance for doubtful accounts	(4,473)	(4,343)
Net	16,513	15,763
Federally-sponsored student loans	9,967	10,723
Total	$26,480	$26,486

The University 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 the University'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. The University considers the allowance recorded at June 30, 2014 and 2013 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

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 or with funds held in self-insurance trust arrangements are classified as assets whose use is limited or purchased by investment managers of the University's pooled investment fund are classified as investments.

Short-term investments
Short-term investments are comprised of debt instruments with maturities greater than three months when purchased for use in current operations.

Contributions
Contributions, including unconditional promises to donate, cash and other assets, are recognized at fair value on the date of receipt, recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges received which are to be paid in future periods, and contributions restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions of cash restricted by the donor for the purchase of long-lived assets implies a time restriction on the use of such contributed assets that expires over the assets' expected useful lives. Accordingly, the contributions received are reported as restricted support that increases temporarily restricted net assets. Depreciation is recorded over the assets useful life, and net assets are reclassified from temporarily restricted to unrestricted as depreciation is recognized.

The University 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 $5.6 million are included in other noncurrent assets on the consolidated balance sheet at June 30, 2014 and 2013.

Net Patient Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Revenue from a single third-party payor accounted for approximately 23% of the net patient revenue for the fiscal years 2014 and 2013. Revenue from the Medicare program accounted for approximately 17% of the net patient service revenue for the fiscal years 2014 and 2013.

Provision for Bad Debts
The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payer category, including those amounts not covered by insurance and history of cash collections. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect

from the patient have been exhausted, JUP follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by JUP. Accounts receivable are written off after collections efforts have been followed in accordance with JUP policies.

Grants and Contracts

Grant and contract revenue primarily represents research activity sponsored by governmental and private sources. The University recognized operating revenues based on direct expenditures and related facilities and administrative cost rate (F&A) as follows for the years ended June 30:

	Direct Expenditures	F&A Cost	2014 Total	2013 Total
Federal agencies	$46,546	$17,860	$64,406	$66,856
Non-federal agencies	24,605	4,484	29,089	33,638
Total	$71,151	$22,344	$93,495	$100,494

The University'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 the University.

Tuition and Fees

The University provides financial aid to eligible students in the form of direct grants, loans and employment during the academic year. Tuition and fees have been reduced by certain grants and scholarships in the amount of $10.5 million and $10.1 million at 2014 and 2013, respectively.

TJUH Reimbursement for Physician Services

Hospital reimbursement for physicians' services represents payments for professional physician services rendered to TJUH. Revenue is recorded in the period the related services are rendered.

Sales and Services of Auxiliary Activities

Auxiliary activities represent revenues and expenses associated with the operations of the parking facilities, residence halls, bookstore and corporate services that the University provides to TJUH. Revenue is recorded in the period the related services are rendered.

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, the University 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 the University 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). The University'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, 2014 and 2013. The University 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 compliance with valuation procedures in place, the ability to redeem at NAV at the University's measurement date and existence of certain redemption restrictions at the measurement date. The University 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 the University'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 the University's investment policy is to provide a level of spendable income which is sufficient to meet the current and future budgetary requirements of the University and which is consistent with the goal of protecting the purchasing power of the investments. The calculation of spendable income is based on 75% of the prior year spendable income and 25% of the calculated two year moving average of the portfolio's market value multiplied by 4.75%; the sum of which is adjusted by an inflation factor.

The University'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 University personnel and outside advisors. The University maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits.

Split Interest Agreements

The University's split-interest agreements consist of charitable gift annuities, pooled income funds, charitable remainder trusts and a charitable lead trust. 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.

Land, Buildings, and Equipment, net

Land, buildings, and equipment are carried at cost on 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 nonoperating activities unless explicit donor stipulations specify how the donated assets must be used. Interest expense on borrowed funds used for construction, net of interest income earned on unexpended amounts, is capitalized during the construction period.

Conditional Asset Retirement Obligation

A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. A conditional asset retirement obligation of $1.0 million as of June 30, 2014 and 2013 is included within other liabilities in the consolidated balance sheet.

Allocation of Certain Expenses

The consolidated statements of activities and changes in net assets present expenses by functional classification. Depreciation is allocated to the functional classifications based on square footage and interest expense is allocated to the functional classifications of the activity that benefited from the proceeds of the debt.

Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation. As a result of the merger with TJUH, the University classified assets and liabilities between current and noncurrent and reclassified certain line items to enchance the comparability with TJUH.

Charity Care

Of JUP's $368.2 million and $345.3 million of total operating expenses reported for the years ended June 30, 2014 and 2013, respectively, an estimated $1.1 million arose from providing services to charity patients for the years ended June 30, 2014 and 2013. 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 JUP's total operating expenses divided by gross professional activity revenue.

New Accounting Standards

In January 2013, the FAB issued a standard *Clarifying the Scope of Disclosures about Offetting Assets and Liabilities*. This guidance requires enhanced disclosures about securities lending thransactions to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on its financial position. The University adopted this guidance on July 1, 2013.

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2016. The University is evaluating the impact this will have on the combined financial statements beginning in Fiscal Year 2018.

2. NET ASSETS

Restricted net assets as of June 30, 2014 and 2013 are categorized as follows (in thousands):

	2014	2013
Temporarily restricted		
Pledges	$55,814	$5,305
Gifts restricted for operating or capital purposes and loan funds	60,137	58,110
Undistributed net gains on permanently restricted assets	71,166	60,790
Total – Temporarily restricted	187,117	124,205
Permanently restricted assets	190,862	151,675
Total restricted net assets	$377,979	$275,880

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013 (in thousands):

	2014	2013
Operations	$11,448	$7,336
Education	155,203	96,784
Research	20,466	20,085
Total temporarily restricted net assets	$187,117	$124,205

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Operations	$8,469	$8,467
Education	147,187	110,872
Research	35,206	32,336
Total permanently restricted net assets	$190,862	$151,675

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include assets held by trustees under indenture agreements and self-insurance trust arrangements. The composition of assets limited as to use at June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Held by trustee under bond indenture agreement:		
Cash and cash equivalents	$-	$14,715
Self-insurance trust arrangements:		
Cash and cash equivalents	596	599
Total	$596	$15,314

4. INVESTMENTS

A summary of the University's portion of investments held in pooled funds at June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Cash and cash equivalents	$8,984	$3,935
Equity securities:		
Domestic	8	6
Fixed income securities:		
U.S. Treasuries	12,606	12,436
Funds:		
Global equity	183,139	192,359
Fixed income	76,465	66,609
Private equity	50,594	37,938
Real estate funds	19,130	19,386
Hedge funds	107,007	83,283
Total	$457,933	$415,952

The University pools funds for investment with TJUH. The University had 69% of the total market value of the pooled funds at June 30, 2014 and 2013.

The University'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 the University'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. The University's investment in real asset funds provide for monthly liquidity on transaction requests.

The University has made commitments to various private equity and real asset limited partnerships. The total amount of unfunded commitments is $55.4 million and $31.2 million at June 30, 2014 and June 30, 2013, respectively, which represents 12.1% and 7.5% of the value of the University's pooled investments at June 30, 2014 and June 30, 2013. The University expects these funds to be called over the next 3 to 5 years.

	2014	2013
Private equity	$50,192	$30,025
Real estate	5,246	1,153
	$55,438	$31,178

The University's pooled investments at June 30, 2014 include $107.0 million of hedge fund investments. These funds provide for quarterly or annual redemptions and require between 60 and 90 day notice periods, limiting the University's ability to respond quickly to changes in market conditions.

Also included in investments at June 30, 2014 and 2013 were the following non-pooled investments at June 30, 2014 and 2013 (in thousands):

	2014	2013
Short-term investments	$103,082	$96,454
Beneficial interest in perpetual trusts	45,634	41,445
Split interest agreements	8,214	7,596
Other	3,931	3,287
	$160,861	$148,782

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.

A summary of investments held under split-interest agreements is as follows at June 30, 2014 and 2013, respectively (in thousands):

	2014	2013
Charitable gift annuities	$3,620	$3,015
Pooled income funds	11	11
Charitable lead trust	1,363	1,524
Charitable remainder trusts	3,220	3,046
	$8,214	$7,596

At June 30, 2014 and 2013, investment securities with an aggregate fair value of $4.0 million and $1.7 million, respectively, were loaned primarily on a short-term basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 103% of the market value of the securities loaned. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

A summary of the University's total investment return for the years ended June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Investment income	$4,678	$5,622
Realized and unrealized gains	52,171	42,446
	$56,849	$48,068

5. ENDOWMENT FUNDS

The University's endowments consist of 350 individual funds established for purposes specified by donors, 21 externally held trusts where the University has a perpetual interest and 261 funds established by the University. 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, 2014, the endowment net asset composition, excluding pledge receivables, by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$71,561	$153,264	$224,825
Quasi-endowment funds	150,872	-	-	150,872
Total funds	$150,872	$71,561	$153,264	$375,697

Changes in endowment net assets for the fiscal year ended June 30, 2014, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$136,365	$56,197	$144,095	$336,657
Investment return:				
Investment income	143	164	-	307
Net appreciation (realized and unrealized)	16,497	18,115	4,244	38,856
Total investment gain	16,640	18,279	4,244	39,163
Contributions	38	175	4,409	4,622
Appropriation of endowment assets for expenditure	(7,186)	(8,495)	-	(15,681)
Transfers of University resources and matching gifts	5,015	5,405	517	10,937
Endowment net assets, end of year	$150,872	$71,561	$153,264	$375,697

At June 30, 2013, the endowment net asset composition, excluding pledge receivables, by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$56,197	$144,095	$200,292
Quasi-endowment funds	136,365	-	-	136,365
Total funds	$136,365	$56,197	$144,095	$336,657

Changes in endowment net assets for the fiscal year ended June 30, 2013, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$127,916	$50,657	$135,579	$314,152
Investment return:				
Investment income	365	400	-	765
Net appreciation (realized and unrealized)	13,217	14,061	2,120	29,398
Total investment gain	13,582	14,461	2,120	30,163
Contributions	34	68	5,094	5,196
Appropriation of endowment assets for expenditure	(7,043)	(8,113)	-	(15,156)
Transfers of University resources and matching gifts	1,876	(876)	1,302	2,302
Endowment net assets, end of year	$136,365	$56,197	$144,095	$336,657

6. 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 the University 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 the University'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 investment- 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 2014 and 2013.

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 private equity (direct and fund of funds), real assets investments (real estate, natural resources - direct and fund of funds), hedge funds (direct and fund of funds), and beneficial interests in perpetual trusts and charitable lead trusts held by third parties. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated of future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The University uses the "market approach value" valuation technique to value its investments in private equity and real estate (“private investments”) and hedge funds.

The University estimates the fair value of an investment company at the measurement date using the reported net asset value (“NAV”). Adjustment is required if the University 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. The University uses the NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where the University 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, the University 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 pirate investment based on an appraised value, discounted cash flow, industry comparable or some other method. The University values these limited partnerships at NAV. These interests, in the absence of a recent and relevant secondary market transaction, are classified as Level 3.

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 appraise 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 the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to demine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 Liquidity (Private investments and hedge funds)

Private Investments - Private investment funds 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.

Hedge funds – Hedge funds provide quarterly liquidity with (90) notice prior to the quarter's end. 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 these cases, the NAV is considered as a Level 2 input. Limited partnerships are valued at NAV. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial statements are distributed. In the case of the imposition of a gate, the University does not have the ability to validate or verify the NAV through redemptions. Therefore, the interest is generally classified as Level 3.

In the cases of a holdback, the University 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. If the holdback is significant, then the interest is generally classified as Level 3.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the 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). Substantially all of the University's investments in such funds have been classified within Level 3.

The fair value of the University's interest rate swaps related to its debt obligations and natural gas hedge are based on third-party valuations independent of the counterparties. As the fair values of the hedges are determined based on inputs that are readily available or can be derived from information available in public markets, the University has categorized the hedges as Level 2.

The following table presents the cash and cash equivalents, assets whose use is limited and investments carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$90,686	$24,312	$ -	$114,998
Equity securities:				
Domestic	3,685	-	-	3,685
Fixed income securities:				
Domestic	39,348	51,551	-	90,898
Funds:				
Global equity	-	183,139	-	183,139
Fixed income	-	76,465	-	76,465
Real asset	-	6,332	-	6,332
Other mutual funds	6,296	-	-	6,296
Private equity	-	-	50,594	50,594
Real estate	-	-	12,798	12,798
Hedge funds	-	-	107,007	107,007
External trusts	-	-	46,996	46,996
Total	$140,015	$341,798	$217,395	$699,208

The following table presents the other liabilities carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Interest rate swaps	-	$28,574	-	$28,574

The following table presents the cash and cash equivalents, assets whose use is limited and investments carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2013 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$82,931	$9,617	$ -	$92,548
Equity securities:				
Domestic	3,077	-	-	3,077
Fixed income securities:				
Domestic	42,363	-	-	42,363
Funds:				
Global equity	-	192,359	-	192,359
Fixed income	-	127,690	-	127,690
Real asset	-	5,694	-	5,694
Other mutual funds	6,072	-	-	6,072
Private equity	-	-	37,938	37,938
Real estate	-	-	13,693	13,693
Hedge funds	-	-	83,283	83,283
External trusts	-	-	42,941	42,941
Total	$134,443	$335,360	$177,855	$647,658

The following table presents the other liabilities carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2013 (in thousands):

	Level 1	Level 2	Level 3	Total
Interest rate swap	-	$6,844	-	$6,844

The following tables include a roll-forward of the amounts for the year ended June 30, 2014 and 2013 (in thousands) for investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

	Private Equity	Real Estate	Hedge Funds	External Trusts	Total
Balance at July 1, 2013	$37,938	$13,693	$83,283	$42,941	$177,855
Acquisitions	17,771	3,547	34,416	-	55,734
Dispositions	(15,288)	(9,753)	(15,752)	-	(40,793)
Realized gain/(loss), net	3,364	(151)	1,985	-	5,198
Unrealized gain/(loss), net	6,809	5,462	3,075	4,055	19,401
Balance at June 30, 2014	$50,594	$12,798	$107,007	$46,996	$217,395

	Private Equity	Real Estate	Hedge Funds	External Trusts	Total
Balance at July 1, 2012	$34,525	$13,517	$70,565	$40,825	$159,432
Acquisitions	84,510	1,472	8,509	-	94,491
Dispositions	(103,056)	(1,545)	-	-	(104,601)
Realized gain/(loss), net	21,653	(1,201)	-	-	20,452
Unrealized gain/(loss), net	306	1,450	4,209	2,116	8,081
Balance at June 30, 2013	$37,938	$13,693	$83,283	$42,941	$177,855

All net realized and unrealized losses in the tables above are reflected in the accompanying consolidated statements of activities and changes in net assets.

7. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2014 and 2013, respectively (in thousands):

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	$16,136	$5,822
One year to five years	33,440	7,903
Over five years	85,000	50
	134,576	13,775
Less: unamortized discount and allowance for doubtful accounts	(42,572)	(1,868)
	$92,004	$11,907

The discount rate ranges from 0.41% to 5.5%. The University's largest pledge comprises 87% of the pledge receivable at June 30, 2014.

8. LAND, BUILDINGS AND EQUIPMENT

	2014	2013
Land and land improvements	$47,576	$42,947
Buildings and building improvements	517,700	481,234
Equipment	194,233	182,650
Construction in progress	20,068	19,803
Less: accumulated depreciation	(417,670)	(390,617)
Total Land, Buildings and Equipment, net	$361,907	$336,017

The University recorded $27.9 million and $30.5 million of depreciation expense for the years ended June 30, 2014 and 2013, respectively.

Included in the amount of depreciation expense allocated to the line item professional activities on the consolidated statements of activities and changes in net assets for the fiscal year ended June 30, 2013 is additional depreciation of $3.5 million associated with an impairment related to an electronic medical record information system. Management has determined that it is probable that the existing system will be replaced prior to the end of its previously estimated useful life.
The University uses straight-line depreciation over the assets' estimated lives, which are as follows:

Land improvements	10-20 years
Buildings and building improvements	20-40 years
Equipment	5-10 years

9. NOTES PAYABLE

The Pennsylvania Higher Education Financing Authority issued the 2014 Series A and 2014 Series B notes (the Notes) as limited obligations of the authority payable from amounts received under a loan agreement with the University. The principal amount of the 2014 Series A and 2014 Series B notes are $328.4 million and $24.4 million, respectively, and mature on May 31, 2015. Interest rates vary monthly and are based upon a SIFMA index and LIBOR index for the 2014 Series A and 2014 Series B, respectively, and interest is payable monthly. The proceeds provided funds for the payment or defeasance of certain JHS bonds pursuant to the TJUH separation from JHS on June 30, 2014. Pursuant to the terms of an agreement among the University and TJUH, TJUH has agreed to contribute to the University all amounts due in connection with the issuance of the Notes. Accordingly, $352.8 million is included in the consolidated balance sheets as due from TJUH at June 30, 2014.

10. LONG-TERM OBLIGATIONS

	June 30, 2014	June 30, 2013
Revenue bonds:		
1984 Commercial Revenue Bonds, due in 2015; average interest rate was 1.40% in 2014 and 1.43% 2013. Monthly interest payments, principal due in December.	$600	$1,200
2006 Series A Revenue Bonds, due in varying amounts from 2032 to 2040; average interest rate was 4.73% in 2014 and 2013. Semi-annual interest payments	25,500	25,500
2006 Series B Revenue Bonds, due in varying amounts from 2015 to 2032; average interest rate was 4.18% in 2014 and 4.11% in 2013. Semi-annual interest payments.	45,265	49,905
2008 Series A Revenue Bonds, due in varying amounts from 2032 to 2034; average interest rate was 4.01% in 2014 and 3.39% in 2013. Monthly interest payments.	25,000	25,000
2008 Series B Revenue Bonds, due in varying amounts from 2015 to 2031; average interest rate was 4.01% in 2014 and 3.36% in 2013. Monthly interest payments.	42,260	43,110
2010 Series Revenue Bonds, due in varying amounts from 2021 to 2040; average interest rate was 4.89% in 2014 in 2013. Monthly interest payments.	75,000	75,000
2012 Series Revenue Bonds, due in varying amounts from 2015 to 2042; average interest rate was 3.92% in 2014 and 2013. Semi-annual interest payments.	41,765	42,195
Total Revenue bonds	255,390	261,910
Original issue premiums	6,057	6,538
Capital lease obligations	419	29
	$261,866	$268,477

All Revenue bonds were issued by certain financing authorities as limited obligations of the authorities payable from amounts received under loan agreements with the University. The bonds are subject to optional redemption by the University prior to maturity on specified dates at a price equal to 100% of the principal amount, plus any accrued interest. The University is required, among other things, to generate net revenue (as defined) at least equal to 110% of maximum annual debt service requirements. The University was in compliance with such requirements at June 30, 2014 and 2013, respectively.

The fair value of the University's debt obligation was $272.4 million and $264.9 million at June 30, 2014 and 2013, respectively. The fair value represents the quoted market value for Revenue bonds (Level 2) and carrying amounts for all other debt, which approximates fair value.

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

2015	6,481
2016	5,823
2017	5,870
2018	6,708
2019	7,010
Thereafter	229,974

The University had available unsecured lines of credit from various banks of $32.0 million at June 30, 2014 and 2013 under which there were no borrowings at June 30, 2014 and 2013. These arrangements do not have termination dates and are reviewed periodically. No compensating balances are required or maintained.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The University entered into derivative transactions for the purpose of reducing the cost of utilities under the terms of futures contracts for natural gas that expired in 2013 and impact of fluctuations in interest rates under the terms of interest rate swap agreements that expire in 2034 executed with the 2008 Series A and B Revenue Bonds. The University has the option of terminating the interest rate swap agreements on a semi-annual basis commencing in 2020. The fair value of this derivative instrument at June 30 in the consolidated balance sheets is as follows (in thousands):

Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2014	Notional Amount at June 30, 2013	Balance Sheet Location	Fair Value at June 30, 2014	Fair Value at June 30, 2013
February 1, 2034	SIFMA	4.01%	$67,260	$68,110	Noncurrent liability	$7,389	$6,844

Additionally, in connection with the separation of TJUH from JHS and prior to the merger with the University on June 30, 2014, certain interest rate swap agreements were novated from JHS to the University, whereby the University replaced JHS as the counterparty. The fair value of these derivative instruments at June 30 in the consolidated balance sheets is as follows (in thousands):

Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2014	Notional Amount at June 30, 2013	Balance Sheet Location	Fair Value at June 30, 2014
May 1, 2018	68% of United States Dollar LIBOR BBA (one Month)	3.8570%	$19,570	$19,670	Noncurrent liability	$2,064
May 1, 2027	68% of United States Dollar LIBOR BBA (one Month)	3.919%	$73,925	$74,125	Noncurrent liability	$13,905
May 1, 2027	68% of United States Dollar LIBOR BBA (one Month)	3.980%	$42,450	$42,575	Noncurrent liability	$8,202
May 1, 2027	68% of United States LIBOR BBA (Five Year minus 0.2930%)	68% of United States Dollar LIBOR BBA (one Month)	$73,925	$74,125	Noncurrent liability	($2,473)
May 1, 2017	68% of United States LIBOR BBA (Five Year minus 0.325%)	68% of United States Dollar LIBOR BBA (one Month)	$42,450	$42,575	Noncurrent liability	($513)

Pursuant to the terms of an agreement among the University and TJUH, TJUH has agreed to contribute to the University all amounts due in connection with the interest rate swap agreements novated to the University from JHS. Accordingly, $21.2 million is included in the consolidated balance sheets as due from TJUH at June 30, 2014.

The effects of derivative instruments on the consolidated statement of activities and changes in net assets for years ended June 30, 2014 and 2013 are as follows (in thousands):

Instrument	Line Item	2014	2013
Interest rate contracts, variable to fixed rate	Gain on investments, net	($545)	$3,526
Natural gas contract	Gain on investments, net	$-	($50)

The University paid net settlements to counterparties for interest rate swap agreements and natural gas contracts of $2.7 million and $2.0 million for the years ended June 30, 2014 and 2013, respectively.

12. OPERATING LEASES

The University leases office space and equipment under various operating leases. Lease expense charged to operations was approximately $16.6 million during 2014 and 2013, respectively.

At June 30, 2014 the minimum future non-cancelable rental lease commitments are as follows (in thousands):

2015	$13,326
2016	13,954
2017	13,786
2018	13,424
2019	9,644
Thereafter	8,637
	$72,771

13. PENSION PLANS

Retirement benefits are provided for academic employees and certain administrative personnel of the University through direct payments to various funds. Benefits are based upon a percentage of eligible employees' salaries. Contributions to these funds amounted to approximately $13.8 million and $13.5 million for the years ended June 30, 2014 and 2013, respectively.

JUP has a defined contribution plan for employees who work at least 1,000 hours a year. JUP makes contributions to the plan based on a percentage of compensation and years of service within limits established by the IRS. Employees become fully vested after one year of service. Contributions to the plan were approximately $12.5 million and $11.9 million for the years ended June 30, 2014 and 2013, respectively.

The University has a non-contributory defined benefit pension plan for substantially all other full-time employees. Benefits under the plan 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. Effective January 1, 2014, the University established a new defined contribution plan for the following non-union and non-academic employee groups: new employees, employees below age 50, employees below age 60 with less than 15 years of service, employees below age 65 with less than 10 years of service. Employees that move to the new defined contribution plan will no longer accrue benefits in the defined benefit plan. Their previously accumulated benefits will be distributed to them upon retirement. The new defined contribution plan formula includes a fixed employer contribution of 4.5% and matching contribution of 25% of the first 6% of employee contributions. The University recognized a curtailment gain of $5.9 million in 2014 in connection with this change. This new plan will not have a material impact on the financial condition of the University.

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 statement of financial position. The PBO represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. The accounting guidance also requires employers to recognize annual changes in gains or losses, prior service costs, or other credits that have not been recognized as a component of net periodic pension cost through unrestricted net assets.

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

	2014	2013
Change in projected benefit obligation:		
Benefit obligation, beginning of year	$141,172	$146,900
Service cost	3,379	4,951
Interest cost	6,842	6,233
Net experience (gain)/loss	29,054	(12,702)
Benefits paid	(4,573)	(4,210)
Curtailment	(5,947)	-
Projected benefit obligation, end of year	$169,927	$141,172
Change in plan assets:		
Fair value of plan assets, beginning of year	$126,143	$117,340
Actual return of plan assets	15,756	6,917
Employer contributions	3,200	6,096
Benefit payments	(4,573)	(4,210)
Fair value of plan assets, end of year	$140,526	$126,143
Plan funded status	($29,401)	($15,029)

Amounts recognized in unrestricted net assets consist of:

	2014	2013
Net actuarial loss	$55,812	$41,013

The accumulated benefit obligation was $163.0 million and $130.4 million at June 30, 2014 and June 30, 2013, respectively.

The components of pension expense for the plan were as follows (in thousands):

	2014	2013
Service cost	$3,379	$4,951
Interest cost	6,842	6,233
Expected return on plan assets	(9,512)	(8,893)
Amortization of net actuarial loss	2,063	3,975
Net periodic benefit cost	2,772	6,266
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss (gain)	16,862	(10,726)
Amortization of net actuarial loss	(2,063)	(3,975)
Total recognized in unrestricted net assets	14,799	(14,701)
Total recognized in net periodic benefit cost and unrestricted net assets	$17,571	($8,435)

The estimated actuarial loss that will be amortized from unrestricted net assets during the upcoming fiscal year is $1.2 million.

Actuarial assumptions used to estimate the June 30 pension obligation were as follows:

	2014	2013
Discount rate	4.43%	4.89%
Rate of compensation increase	3.25%	3.00%
Expected return on plan assets	7.25%	7.50%

Actuarial assumptions used to determine periodic benefit costs for years ended June 30 were as follows:

	2014	2013
Discount rate	4.89%	4.32%
Rate of compensation increase	3.00%	3.00%
Expected return on plan assets	7.75%	7.75%

For their defined benefit pension plans, the University and TJUH pool funds for investment and utilize the unitization method of accounting for investments in pooled funds. The

University had 32.9% and 34.3% of the total shares of the pooled funds at June 30, 2014 and June 30, 2013, respectively. A summary of the plans' targeted and actual asset allocations are as follows:

	Targeted Range	Percentage of Plan Assets June 30, 2014	Percentage of Plan Assets June 30, 2013
Cash	0-5%	1%	2%
Bonds	35-40%	38%	38%
Global equity	40-50%	46%	42%
Real estate and other	10-20%	15%	18%
		100%	100%

The portfolio utilizes 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.

The University made a contribution of $3.2 million during fiscal year 2014 and expects to contribute an additional $3.7 million during fiscal year 2015.

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

2015	$ 5,986
2016	6,423
2017	7,030
2018	7,728
2019	8,169
2020-2024	48,167
	$83,503

The following tables present the plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$1,015	$ -	$1,015
Fixed income securities:				
U.S. Treasuries	3,310	-	-	3,310
Domestic	-	22,262	-	22,262
Funds:				
Global equity	-	65,031	-	65,031
Fixed income	-	27,616	-	27,616
Hedge funds	-	-	18,237	18,237
Private equity	1,283	21	1,371	2,675
Real estate	-	-	381	381
Total	$4,593	$115,945	$19,989	$140,527

The following table presents the plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2013 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$2,271	$ -	$2,271
Equity securities:				
Domestic	23	-	-	23
Fixed income securities:				
U.S. Treasuries	3,071	-	-	3,071
Domestic	-	21,199	-	21,199
Funds:				
Global equity	-	53,143	-	53,143
Fixed income	-	23,958	-	23,958
Hedge funds	-	-	20,721	20,721
Private equity	-	-	1,374	1,374
Real estate	-	-	383	383
Total	$3,094	$100,571	$22,478	$126,143

The following tables include a roll-forward of the amounts for the years ended June 30, 2014 and 2013 (in thousands) for plan assets classified within Level 3. The classification of plan assets within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. There were no significant transfers between Levels 1 and 2 during 2014 and 2013.

	Hedge Funds	Private Equity	Real Estate	Total
Balance at July 1, 2013	$20,721	$1,374	$383	$22,478
Acquisitions	1,947	21	67	2,035
Dispositions	(4,383)	(324)	(90)	(4,797)
Realized gain (loss), net	488	239	(13)	714
Unrealized gain, net	(536)	61	34	(441)
Balance at June 30, 2014	$18,237	$1,371	$381	$19,989

	Hedge Funds	Private Equity	Real Estate	Total
Balance at July 1, 2012	$17,778	$1,835	$857	$20,470
Acquisitions	2,184	40,804	22	43,010
Dispositions	-	(46,324)	(118)	(46,442)
Realized gain (loss), net	-	5,148	(146)	5,002
Unrealized gain, net	758	(89)	(232)	437
Balance at June 30, 2013	$20,721	$1,374	$383	$22,478

Participation in Multiemployer Defined Benefit Pension Plan

The University 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 University's participation is summarized below.

The employer identification number for the Pension Fund is 23-2627428.

The University contributions to the Pension Fund were approximately $645,000 and $508,000 for each of the years ended June 30, 2014 and 2013, respectively. These contributions represent less than 5% of the total contributions made to the plan by all contributing employers for each of the plan years ended December 31, 2013 and 2012. There have been no significant changes that affect the comparability of the 2014 and 2013 contributions. At the date the financial statements were issued Form 5500 was not available for the plan years ending in 2014.

A six year collective-bargaining agreement was approved by the Union effective July 1, 2012.

The University's contribution as a percentage of covered payroll to the Pension Fund over the term of the agreement is as follows:

2014	14.00%
2015	15.50%
2016	17.25%
2017	18.75%
2018	20.50%

For the Plan Years beginning January 1, 2012 and January 1, 2013, the Pension Fund was determined to be in critical status (also referred to as yellow and red zone status) under the Pension Protection Act of 2006. Accordingly, the Pension Fund is subject to a funding improvement plan. The zone status is based on information that the University received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funding.

At January 1, 2013, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $211,152,552.

14. PROFESSIONAL LIABILITY CLAIMS

The University and JUP maintain professional liability insurance under both self-insured and alternative risk financing insurance programs for the distinct services each provides. For all self-insured programs the University and JUP accrue 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 an independent actuary. Accrued professional liability claims of $154.5 million and $154.0 million were included in the consolidated balance sheets at June 30, 2014 and 2013, respectively, using discount rates of 3%. Pursuant to the requirements of accounting guidance for *Presentation of Insurance Claims and Related Insurance Recoveries* included in accrued professional liability claims is $78.2 and $84.2 million at June 30, 2014 and 2013, respectively, related to estimated liabilities that have been transferred to third parties. A corresponding receivable of $78.2 and $84.2 million is included in insurance receivable in the consolidated balance sheet at June 30, 2014 and 2013, respectively.

Professional liability expense of $31.3 million and $31.2 million is included in the consolidated statement of activities for the years ended June 30, 2014 and 2013, respectively.

Effective July 1, 2005, the University and JUP, for the distinct services each provides, maintain professional liability insurance through a policyholder-owned, Vermont-domiciled, risk retention group, Mountain Laurel Risk Retention Group, Inc. ("RRG") which was exclusively owned by Jefferson Health System (JHS) until June 30, 2014. For the professional liability coverage only, the RRG is 100% reinsured by a non-profit captive protected cell insurance company, Five Pointe Insurance Company (Five Pointe), domiciled in

Delaware. Until June 30, 2014, JHS held the sole common membership in Five Pointe. On June 30, 2014, in connection with the TJUH separation from JHS and merger with the University, JHS transferred 49% of the common stock of the RRG to the University. Additionally, JHS relinquished its sole common membership in Five Pointe and transferred 48% of the membership units to TJUH.

JUP participates in the Medical Availability and Reduction of Error Fund ("MCARE Fund"), which is a Pennsylvania governmentally authorized entity that consists of coverage with limits of $500,000 per medical incident and a $1.5 million annual aggregate per physician.

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. No provision has been made for any future MCARE Fund assessments in the accompanying consolidated financial statements as the University's portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

While management continues to monitor the factors used in making these estimates, the ultimate liability for professional and general liability claims could differ from current estimates due to the inherent uncertainties involved in making such estimates.

TJUH has agreed to partially fund certain JUP payments for professional liability settlements in excess of primary and MCARE coverage limits. Pursuant to these agreements, $13.6 million and $1.7 million is included in the consolidated statement of activities for the years ended June 30, 2014 and 2013, respectively, as hospital reimbursement for physician services and $27.3 million and $16.7 million is included in the consolidated balance sheets as due from TJUH at June 30, 2014 and 2013, respectively.

15. COMMITMENTS AND CONTINGENCIES

Letters of Credit

At June 30, 2014 and 2013, the University had open letters of credit aggregating $67.8 million and $69.4 million, respectively. The letters of credit provide additional security for the following (in thousands):

	2014	2013
1984 Commercial Revenue Bonds (Expiration 3/31/2015)	$625	$1,249
2008 Series A Revenue Bonds (Expiration 5/31/2016)	25,000	25,000
2008 Series B Revenue Bonds (Expiration 5/31/2016)	42,260	43,110
	$67,885	$69,359

Litigation

The University and JUP are involved in litigation and regulatory investigations arising in the ordinary course of business. Based on the information currently available, in the opinion of management, all such matters are adequately covered by commercial insurance or by accruals, and if not so covered, are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position, changes in net assets or cash flows of the University and JUP.

16. RELATED PARTY

The University provides to TJUH the following services: physician and non-physician personnel and other support necessary to preserve and maintain the tertiary care capacity of TJUH, administrative, finance, human resource, information systems, maintenance and security services. Amounts charged to TJUH were $222.7 million and $197.6 million for the years ended June 30, 2014 and 2013, respectively. Additionally, TJUH transferred to the University $5.0 million and $3.7 million for the years ended June 30, 2014 and 2013, respectively to fund certain capital projects.

TJUH provides the University with certain office and clinical space, materiels management, information systems services, telecommunications and ancillary services. Additionally, the University reimburses TJUH for healthcare services provided to University employees. Expenses incurred from TJUH for these services aggregated approximately $37.1 million and $39.6 million in 2014 and 2013, respectively.

The net receivable from TJUH at June 30 in the consolidated balance sheets is as follows (in thousands):

	2014	2013
2014 Series A and B notes (Note 9)	$352,805	$ -
Interest rate swaps (Note 11)	21,185	-
Professional liability (Note 14)	27,313	16,707
All other activities, net	7,797	10,685
	$409,100	$27,392

17. SUBSEQUENT EVENTS

The University monitored subsequent events from the date of the consolidated balance sheet through September 23, 2014 for material items that would require and adjustment to or disclosure in the consolidated financial statements. On June 30, 2014 TJUH separated from Jefferson Health System and merged with the University. No material items were noted that would require an adjustment to or disclosure in the financial statements.

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Balance Sheet
June 30, 2012
(in thousands)

Assets	
Assets:	
Cash and cash equivalents	$68,476
Patient receivables, less allowance for doubtful accounts of $4,799	25,837
Due from TJUH	25,216
Other receivables, net	19,762
Inventory	1,105
Prepaid expenses	877
Pledges receivable, net	5,885
Cash collateral	6,407
Assets whose use is limited	2,027
Investments	534,306
Insurance receivable, net	97,021
Loans receivable from students, net	28,335
Deferred financing costs, net	2,763
Land, buildings and equipment, net	305,257
Other assets	5,629
Total assets	$1,128,903
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	$71,830
Cash collateral payable	6,407
Accrued vacation	19,545
Grant and contract advances	18,715
Accrued professional liability claims	168,772
Federal student loan advances	18,061
Accrued pension cost	29,561
Long-term obligations	238,400
Other liabilities	31,526
Total liabilities	602,816
Net assets:	
Unrestricted	270,938
Temporarily restricted	114,205
Permanently restricted	140,943
Total net assets	526,086
Total liabilities and net assets	$1,128,903

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

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2012

(in thousands)

Unrestricted revenues, gains and other support:	
Patient service revenue, net of contractual allowance	$271,503
Provision for bad debts	(17,351)
Net patient service revenue less provision for bad debts	254,152
Grants and contracts	115,795
Tuition and fees, net	104,273
Sales and services of auxiliary activities	60,923
State appropriations	1,000
TJUH reimbursement for physician services	144,104
Investment income	11,628
Contributions	4,134
Other	15,595
Net assets released from restrictions	19,748
Total unrestricted revenues, gains and other support	731,352
Expenses:	
Professional activities	333,259
Instruction	135,941
Research and other sponsored programs	105,557
Auxiliary activities	65,603
Student services	8,556
Institutional support	31,033
Operations and maintenance	19,269
Academic support	22,219
Other	2,999
Total expenses	724,436
Operating gain	6,916
Nonoperating changes in unrestricted net assets, net:	
Loss on investments, net	(11,614)
Investment income, net of amounts classified as operating revenue	(8,239)
Reclassification of net assets	(1,321)
Government grants for capital projects	6,933
Defined benefit plan, net actuarial loss	(18,903)
Decrease in unrestricted net assets from nonoperating activities	(33,144)
Decrease in unrestricted net assets	($26,228)

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

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Statement of Activities and Changes in Net Assets, continued
For the Year Ended June 30, 2012
(in thousands)

Unrestricted net assets:	
Revenues, gains and other support	$731,352
Expenses	(724,436)
Nonoperating changes in unrestricted net assets, net	(33,144)
Change in unrestricted net assets	(26,228)
Temporarily restricted net assets:	
Contributions	5,209
Loss on investments, net	(4,688)
Investment income	2,680
Net assets released from restrictions	(19,748)
Change in temporarily restricted net assets	(16,547)
Permanently restricted net assets:	
Contributions	4,530
Net loss on externally held trusts	(1,823)
Reclassification of net assets	1,321
Change in permanently restricted net assets	4,028
Change in net assets	(38,747)
Net assets, beginning of the year	564,833
Net assets, end of year	$526,086

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

Thomas Jefferson University and Affiliates (Pre-merger)
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2012

(in thousands)

Cash flows from operating activities:	
Decrease in net assets	($38,747)
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation and amortization	25,463
Provision for bad debts	17,975
Net loss on long-term investments	18,125
Contributions and grants designated for acquisition of long-term assets	(4,705)
Defined benefit plan net actuarial loss	18,903
Provision for uncollectible pledges	485
Change in obligations under split interest agreements	(895)
Increase (decrease) due to changes in:	
Patient and other receivables	(23,652)
Due from TJUH	(4,509)
Inventory	(208)
Prepaid expenses and other assets	1,583
Accrued pension	(6,461)
Pledges receivable	139
Insurance recievable	(97,021)
Accounts payable and accrued expenses	6,380
Grant and contract advances	(1,818)
Accrued professional liability claims	103,303
Other liabilities	2,544
Net cash and cash equivalents provided by operating activities	16,883
Cash flows from investing activities:	
Purchase of land, buildings, and equipment	(60,742)
Decrease in assets whose use is limited	48,761
Purchase of investments	(258,276)
Sale of investments	258,322
Increase in cash collateral	(550)
Student loans issued	(3,777)
Student loans repaid	4,204
Net cash and cash equivalents used in investing activities	(12,058)
Cash flows from financing activities:	
Contributions and grants designated for acquisition of long-term assets	4,705
Repayment of long-term obligations	(6,080)
Decrease in federal student loan advances	(20)
Increase in cash collateral payable	550
Net cash and cash equivalents used in financing activities	(845)
Net increase in cash and cash equivalents	3,980
Cash and cash equivalents, beginning of year	64,496
Cash and cash equivalents, end of year	$68,476
Supplemental disclosure:	
Accounts payable related to buildings and equipment	$4,113
Interest paid	$9,335

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Thomas Jefferson University ("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 (the "Code"). It conducts research and offers undergraduate and graduate instruction through the Jefferson Medical College, and the Jefferson Schools of Nursing, Pharmacy, Health Professions, Population Health, and Graduate Biomedical Sciences. The University has approximately 3,666 students and is located in Philadelphia, Pennsylvania. The University maintains an academic affiliation with both TJUH System, Inc. ("TJUH"), an integrated healthcare organization that provides healthcare services for residents of the greater Philadelphia region, and the Jefferson Health System.

Jefferson University Physicians ("JUP") is a non-profit corporation organized under the laws of the Commonwealth of Pennsylvania and is recognized as a tax-exempt organization pursuant to Section 501(c)(3) of the Code. It consists of 17 clinical departments with approximately 622 physician members. The University does not provide professional physician services. Therefore, JUP was formed to allow faculty of the University to conduct clinical practices while supporting the educational and research activities of the University. It acts as an integrated multi-specialty group practice with net patient service revenue less provision for bad debt for 2012 of approximately $254.1 million.

Principle of Consolidation

The consolidated financial statements of the University include the accounts of JUP, 1100 Walnut Associates (an owner and operator of a medical office building), and Walnut Assurance Company (a captive insurance company). Walnut Assurance Company was dissolved in 2012. All significant intercompany accounts and transactions have been eliminated.

Financial Statement Presentation

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

The University classifies net assets as follows:

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

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

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

The University's measure of operations in the consolidated statements of activities and changes in net assets includes revenues from patient services, grants and contracts, tuition and fees, auxiliary activities, TJUH reimbursement for physician services, unrestricted contributions, net assets released from restriction, distribution of investment returns based on the University's spending policy and other sources. Operating expenses are presented on a functional basis, after allocating costs for depreciation and interest.

Non-operating activities presented in the consolidated statements of activities and changes in net assets includes investment returns net of amounts classified as operating revenue in accordance with the University's spending policy, gains and losses on derivative financial instruments, governmental grants for capital projects and the net actuarial gain or loss of the defined benefit plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues 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 contractual allowances and provisions for bad debt; 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.

Loans Receivable from Students
The carrying value of student loans receivable approximate fair value and are valued at Level 2 on the fair value hierarchy table. Such loans include federally sponsored student loans with mandated interest rates and repayment terms.

The University records an allowance for doubtful accounts related to student loans receivable at June 30, 2012 (in thousands) as follows:

Federally-sponsored student loans	$11,718
Other student loans	20,160
Related allowance	(3,543)
Net	16,617
Total	$28,335

The University assesses the adequacy of the allowance for doubtful accounts related to 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 the student loans it is the University'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. The University considers the allowance recorded at June 30, 2012 to be reasonable and adequate to absorb potential credit losses inherent in the student loan portfolio.

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 or with funds held in self-insurance trust arrangements are classified as assets whose use is limited or purchased by investment managers of the University's pooled investment fund are classified as investments.

Contributions

Contributions, including unconditional promises to donate, cash and other assets, are recognized at fair value on the date of receipt, recognized as revenue in the period received and are reported as increases in the appropriate net asset category based on donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges received which are to be paid in future periods, and contributions restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a time restriction ends or stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Contributions of cash restricted by the donor for the purchase of long-lived assets implies a time restriction on the use of such contributed assets that expires over the assets' expected useful lives. Accordingly, the contributions received are reported as restricted support that increases temporarily restricted net assets. Depreciation is recorded over the assets useful life, and net assets are reclassified from temporarily restricted to unrestricted as depreciation is recognized.

The University 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 $5.6 million are included in other assets on the consolidated balance sheet at June 30, 2012.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Revenue from a single third-party payor accounted for approximately 23% of the net patient revenue for fiscal year 2012. Revenue from the Medicare program accounted for approximately 17% of the net patient service revenue for fiscal year 2012.

Provision for Bad Debts

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payer category, including those amounts not covered by insurance and history of cash collections. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, JUP follows established guidelines for placing certain past-due patient balances with collection agencies, subject to terms of certain restrictions on collection efforts as determined by JUP. Accounts receivable are written off after collections efforts have been followed in accordance with JUP policies.

Grants and Contracts
Grant and contract revenue primarily represents research activity sponsored by governmental and private sources. The University'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 the University.

Tuition and Fees
The University provides financial aid to eligible students in the form of direct grants, loans and employment during the academic year. Tuition and fees have been reduced by certain grants and scholarships in the amount of $9.2 million for 2012.

TJUH Reimbursement for Physician Services
Hospital reimbursement for physicians' services represents payments for professional physician services rendered to TJUH. Revenue is recorded in the period the related services are rendered.

Sales and Services of Auxiliary Activities
Auxiliary activities represent revenues and expenses associated with the operations of the parking facilities, residence halls, bookstore and corporate services that the University provides to TJUH. Revenue is recorded in the period the related services are rendered.

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. These investments are valued at the latest available nonaudited net asset value of the investments. The University 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 the University'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 the University's investment policy is to provide a level of spendable income which is sufficient to meet the current and future budgetary requirements of the University and which is consistent with the goal of protecting the purchasing power of the investments. The calculation of spendable income is based on 75% of the prior year spendable income and 25% of the calculated two year moving average of the portfolio's market value multiplied by 4.75%; the sum of which is adjusted by an inflation factor.

The University'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 University personnel and outside advisors. The University maintains its cash and cash equivalents in financial institutions, which at times exceed federally insured limits.

Split Interest Agreements

The University's split-interest agreements consist of charitable gift annuities, pooled income funds, charitable remainder trusts and a charitable lead trust. 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.

Land, Buildings, and Equipment, net
Land, buildings, and equipment are carried at cost on 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 nonoperating activities unless explicit donor stipulations specify how the donated assets must be used. Interest expense on borrowed funds used for construction, net of interest income earned on unexpended amounts, is capitalized during the construction period.

Conditional Asset Retirement Obligation
A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. A conditional asset retirement obligation of $1.0 million as of June 30, 2012 is included within other liabilities in the consolidated balance sheet.

Allocation of Certain Expenses
The consolidated statements of activities and changes in net assets present expenses by functional classification. Depreciation is allocated to the functional classifications based on square footage and interest expense is allocated to the functional classifications of the activity that benefited from the proceeds of the debt.

Charity Care
Of JUP's $333 million of total operating expenses reported for the year ended June 30, 2012, an estimated $914,000 arose from providing services to charity patients for the years ended June 30, 2012. 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 JUP's total operating expenses divided by gross professional activity revenue.

New Accounting Standards
In 2011, the FASB issued a standard, *Measuring and Disclosing Fair Value*. This guidance clarifies the FASB's intent about the application of existing fair value measurements and requires TJU to provide enhanced disclosures, most significantly related to unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. In addition, the guidance requires a sensitivity analysis to be performed and disclosed regarding those inputs. The University plans to adopt this this guidance on July 1, 2012.

New disclosures for multiemployer pension plans - In September 2011, new guidance was issued revising the disclosures in order to increase transparency about an employer's participation in a multiemployer pension plan. The disclosures provide details on commitments and risks involved with participating in multiemployer plan. The University will include theses additional disclosures on the plan effective for 2013.

Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Healthcare entities - In July 2011, new guidance was issued requiring bad debts relating to patient service revenue to be separately disclosed in the statement of operations and reported as a component of net patient service revenue. The University adopted this guidance on July 1, 2011.

Presentation of Insurance Claims and Related Insurance Recoveries - In August 2010, new guidance was issued for the presentation of insurance claims and associated insurance recoveries for healthcare organizations. Under the new guidance, healthcare entities are required to reflect their "gross" exposure to claims liabilities with a corresponding receivable for insurance recoveries in order to be consistent with other industries. This guidance became effective for the University on July 1, 2011.

Charity Care Disclosure - In August 2010, new guidance was issued regarding the measurement basis used in the disclosure of charity care. The guidance requires that the disclosures related to the level of charity care provided should be based on a healthcare organization's estimated direct and indirect costs of providing the services and that a healthcare organization should separately disclose the amount of charity care reimbursed by third parties. In addition, disclosure of the method used to identify or determine such costs is required. This guidance became effective for the University on July 1, 2011.

2. NET ASSETS

Restricted net assets as of June 30, 2012 are categorized as follows (in thousands):

Temporarily restricted	
Pledges	$1,645
Gifts restricted for operating or capital purposes and loan funds	56,580
Undistributed net gains on permanently restricted assets	55,980
Total – Temporarily restricted	114,205
Permanently restricted assets	140,943
Total restricted net assets	$255,148

Temporarily restricted net assets are available for the following purposes at June 30, 2012 (in thousands):

Operations	$6,526
Education	92,537
Research	15,142
Total temporarily restricted net assets	$114,205

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30, 2012 (in thousands):

Operations	$8,467
Education	101,613
Research	30,863
Total permanently restricted net assets	$140,943

3. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited is comprised of assets held by trustees under self-insurance trust arrangements of $2.0 million at June 30, 2012.

4. INVESTMENTS

A summary of the University's portion of investments held in pooled funds at June 30, 2012 is as follows (in thousands):

Cash and cash equivalents	$15,452
Equity securities:	
Domestic	47,598
International	6,184
Fixed income securities:	
U.S. Treasuries	4,835
Domestic	71,065
Funds:	
Domestic equity	44,099
International equity	55,762
Global equity	7,735
Fixed income	-
Real asset	17,641
Private equity	34,526
Real estate funds	13,516
Hedge funds	70,565
Total	$388,978

The University pools funds for investment with TJUH. The University had 70% of the total market value of the pooled funds at June 30, 2012.

The University'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 the University'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. The University's investment in real asset funds provide for monthly liquidity on transaction requests.

The University has made commitments to various private equity and real asset limited partnerships. The total amount of unfunded commitments is $29.6 million at June 30, 2012, which represents 7.8% of the value of the University's pooled investments at June 30, 2012. The University expects these funds to be called over the next 3 to 5 years.

Private equity	$28,165
Real estate	1,424
	$29,589

The University's pooled investments at June 30, 2012 include $70.6 million of hedge fund investments. These funds provide for quarterly or annual redemptions and require between 60 and 90 day notice periods, limiting the University's ability to respond quickly to changes in market conditions

Also included in investments at June 30, 2012 were the following non-pooled investments (in thousands):

Short-term investments	$95,113
Beneficial interest in perpetual trusts	39,206
Split interest agreements	7,493
Other	3,516
	$145,328

Short-term investments are comprised of debt instruments with maturities greater than three months when purchased. 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.

A summary of investments held under split-interest agreements is as follows at June 30, 2012 (in thousands):

Charitable gift annuities	$2,890
Pooled income funds	12
Charitable lead trust	1,619
Charitable remainder trusts	2,972
	$7,493

At June 30, 2012, investment securities with an aggregate fair value of $6.2 million were loaned primarily on a short-term basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 102% of the market value of the securities loaned. The University receives lending fees and continues to earn interest and dividends on the loaned securities.

A summary of the University's total investment return for the year ended June 30, 2012 is as follows (in thousands):

Investment income	$6,069
Realized and unrealized gain/(loss)	(18,125)
	($12,056)

5. ENDOWMENT FUNDS

The University's endowments consist of 319 individual funds established for purposes specified by donors, 21 externally held trusts where the University has a perpetual interest and 241 funds established by the University. 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, 2012, the endowment net asset composition by type of fund consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ -	$50,657	$135,579	$186,236
Quasi-endowment funds	127,916	-	-	127,916
Total funds	$127,916	$50,657	$135,579	$314,152

Changes in endowment net assets for the fiscal year ended June 30, 2012, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$138,231	$61,871	$131,923	$332,025
Investment return:				
Investment income	513	571	-	1,084
Net appreciation (realized and unrealized)	(4,612)	(4,286)	(1,810)	(10,708)
Total investment gain	(4,099)	(3,715)	(1,810)	(9,624)
Contributions	51	370	4,145	4,566
Appropriation of endowment assets for expenditure	(7,009)	(7,869)	-	(14,878)
Transfers of University resources and matching gifts	742	-	1,321	2,063
Endowment net assets, end of year	$127,916	$50,657	$135,579	$314,152

6. 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 the University 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 the University’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 investment- 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 2012.

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 private equity (direct and fund of funds), real assets investments (real estate, natural resources - direct and fund of funds), hedge funds (direct and fund of funds), and beneficial interests in perpetual trusts and charitable lead trusts held by third parties. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated of future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. The University uses the "market approach value" valuation technique to value its investments in private equity and real estate (“private investments”) and hedge funds.

The University estimates the fair value of an investment company at the measurement date using the reported net asset value (“NAV”). Adjustment is required if the University 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. The University uses the NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where the University 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, the University 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 pirate investment based on an appraised value, discounted cash flow. Industry comparables or some other method. The University values these limited partnerships at NAV. These interests, in the absence of a recent and relevant secondary market transaction, are classified as Level 3.

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 appraise value, discounted cash flow, industry comparables 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 the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to demine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 Liquidity (Private investments and hedge funds)

Private Investments - Private investment funds do not 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.

Hedge funds – Hedge funds provide quarterly liquidity with (90) notice prior to the quarters end. 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 these cases, the NAV is considered as a Level 2 input. Limited partnerships are valued at NAV. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial statements are distributed. In the case of the imposition of a gate, the University does not have the ability to validate or verify the NAV through redemptions. Therefore, the interest is generally classified as Level 3.

In the cases of a holdback, the University 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. If the holdback is significant, then the interest is generally classified as Level 3.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the 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). Substantially all of the University's investments in such funds have been classified within Level 3.

The fair value of the University's interest rate swaps related to its debt obligations and natural gas hedge are based on third-party valuations independent of the counterparties.

The following table presents the cash and cash equivalents, assets whose use is limited and investments carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$75,877	$22,284	$ -	$98,161
Equity securities:				
Domestic	50,637	-	-	50,637
International	6,315	-	-	6,315
Fixed income securities:				
U.S. Treasuries	-	4,833	-	4,833
Domestic	-	153,465	-	153,465
Funds:				
Domestic equity	-	44,099	-	44,099
International equity	-	55,762	-	55,762
Global equity	-	7,735	-	7,735
Real asset	-	17,641	-	17,641
Other mutual funds	5,873	-	-	5,873
Private equity	-	-	34,526	34,526
Real estate	-	-	13,516	13,516
Hedge funds	-	-	70,565	70,565
External trusts	-	-	40,825	40,825
Total	$138,702	$305,819	$159,432	$603,953

The following table presents the other assets carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Natural gas hedge	-	$50	-	$50

The following table presents the other liabilities carried on the consolidated balance sheet by level within the valuation hierarchy as of June 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Interest rate swap	-	$10,369	-	$10,369

The following tables includes a roll-forward of the amounts for the year ended June 30, 2012 (in thousands) for investments classified within Level 3. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

	Private Equity	Real Estate	Hedge Funds	External Trusts	Total
Balance at July 1, 2011	$31,572	$11,556	$60,957	$42,953	$147,038
Acquisitions	8,618	2,318	33,385	-	44,321
Dispositions	(8,764)	(5,813)	(22,051)	-	(36,628)
Realized gain/(loss), net	1,076	(1,067)	2,122	-	2,131
Unrealized gain/(loss), net	2,023	6,523	(3,848)	(2,128)	2,570
Balance at June 30, 2012	$34,525	$13,517	$70,565	$40,825	$159,432

All net realized and unrealized losses in the table above are reflected in the accompanying consolidated statement of activities and changes in net assets.

7. PLEDGES RECEIVABLE

A summary of pledges receivable is as follows at June 30, 2012, respectively (in thousands):

Unconditional promises expected to be collected in:	
Less than one year	$3,764
One year to five years	3,316
Over five years	152
	7,232
Less: unamortized discount and allowance for doubtful accounts	(1,348)
	$5,884

The discount rate ranges from 4.0% to 5.5%.

8. LAND, BUILDINGS AND EQUIPMENT

Land and land improvements	$31,721
Buildings and building improvements	425,396
Equipment	173,885
Construction in progress	35,632
Less: accumulated depreciation	(361,377)
Total Land, Buildings and Equipment, net	$305,257

The University recorded $25.4 million of depreciation expense for the year ended June 30, 2012.

The University uses straight-line depreciation over the assets' estimated lives, which are as follows:

Land improvements	10-20 years
Buildings and building improvements	20-40 years
Equipment	5-10 years

9. LONG-TERM OBLIGATIONS

	June 30, 2012
Revenue bonds:	
1984 Commercial Revenue Bonds, due from 2013 to 2015; average interest rate was 1.43% in 2012. Monthly interest payments, principal due annually in December.	$1,800
2002 Revenue Bonds due in varying amounts from 2013 to 2032, average interest rate was 5.09% in 2012. Principal and interest due annually in January.	10,015
2006 Series A Revenue Bonds, due in varying amounts from 2032 to 2040; average interest rate was 4.73% in 2012. Semi-annual interest payments.	25,500
2006 Series B Revenue Bonds, due in varying amounts from 2013 to 2032; average interest rate was 4.11% in 2012. Semi-annual interest payments.	53,545
2008 Series A Revenue Bonds, due in varying amounts from 2032 to 2034; average interest rate was 2.91% in 2012. Monthly interest payments.	25,000
2008 Series B Revenue Bonds, due in varying amounts from 2013 to 2031; average interest rate was 2.91% in 2012. Monthly interest payments.	43,905
2010 Series Revenue Bonds, due in varying amounts from 2021 to 2040; average interest rate was 4.89% in 2012. Semi-annual interest payments.	75,000
Total Revenue bonds	234,765
Original issue premiums	3,551
Capital lease obligations	84
	$238,400

All Revenue bonds were issued by certain financing authorities as limited obligations of the authorities payable from amounts received under loan agreements with the University. The bonds are subject to optional redemption by the University prior to maturity on specified dates at a price equal to 100% of the principal amount, plus any accrued interest. The University is required, among other things, to generate net revenue (as defined) at least equal to 110% of maximum annual debt service requirements. The University was in compliance with such requirements at June 30, 2012.

The fair value of the University's debt obligation was $250.5 million at June 30, 2012. The fair value represents the quoted market value for Revenue bonds (Level 2) and carrying amounts for all other debt, which approximates fair value.

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

2013	6,205
2014	6,485
2015	5,875
2016	5,245
2017	5,325
Thereafter	205,630

The University had available unsecured lines of credit from various banks of $30.1 million at June 30, 2012, under which there were no borrowings at June 30, 2012. These arrangements do not have termination dates and are reviewed periodically. No compensating balances are required or maintained.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The University entered into derivative transactions for the purpose of reducing the cost of utilities under the terms of futures contracts for natural gas that expire in 2013 and impact of fluctuations in interest rates under the terms of interest rate swap agreements that expire in 2034 on total notional amounts of $68.1 million executed with the 2008 Series A and B Revenue Bonds. The University has the option of terminating the interest rate swap agreements on a semi-annual basis commencing in 2020. The fair value of derivative instruments at June 30, 2012 in the consolidated balance sheets is as follows (in thousands):

Instrument	Line Item	Fair Value
Natural gas contract	Other assets	$50
Interest rate contracts, variable to fixed rate	Other liabilities	($10,369)

The effects of derivative instruments on the consolidated statement of activities and changes in net assets for years ended June 30, 2012 are as follows (in thousands):

Instrument	Line Item	2012
Interest rate contracts, variable to fixed rate	Loss on investments, net	($3,812)
Natural gas contract	Loss on investments, net	$17

The University paid net settlements to counterparties for interest rate swap agreements and natural gas contracts of $2.6 million for the year ended June 30, 2012.

11. OPERATING LEASES

The University leases office space and equipment under various operating leases. Lease expense charged to operations was approximately $14.5 million during 2012.

At June 30, 2012 the minimum future non-cancelable rental lease commitments are as follows (in thousands):

2013	11,698
2014	11,238
2015	9,576
2016	9,432
2017	9,497
Thereafter	9,350
	$60,791

12. PENSION PLANS

Retirement benefits are provided for academic employees and certain administrative personnel of the University through direct payments to various funds. Benefits are based upon a percentage of eligible employees' salaries. Contributions to these funds amounted to approximately $13.8 million for the year ended June 30, 2012.

JUP has a defined contribution plan for employees who work at least 1,000 hours a year. JUP makes contributions to the plan based on a percentage of compensation and years of service within limits established by the IRS. Employees become fully vested after one year of service. Contributions to the plan were approximately $11.3 million for the year ended June 30, 2012.

The University has a non-contributory defined benefit pension plan for substantially all other full-time employees. Benefits under the plan 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 statement of financial position. The PBO represents the actuarial present value of benefits attributable to employee service rendered to date, including the effects of estimated future salary increases. The accounting guidance also requires employers to recognize annual changes in gains or losses, prior service costs, or other credits that have not been recognized as a component of net periodic pension cost through unrestricted net assets.

The components of the net pension plan financial position on the consolidated balance sheet is as follows at June 30, 2012 (in thousands):

Change in projected benefit obligation:	
Benefit obligation, beginning of year	$122,961
Service cost	4,235
Interest cost	6,587
Net experience loss	17,119
Benefits paid	(4,002)
Projected benefit obligation, end of year	$146,900
Change in plan assets:	
Fair value of plan assets, beginning of year	$105,843
Actual return of plan assets	4,939
Employer contributions	10,560
Benefit payments	(4,002)
Fair value of plan assets, end of year	$117,340
Plan funded status	($29,561)

Amounts recognized in unrestricted net assets at June 30, 2012 consist of:

Net actuarial loss	$55,714

The accumulated benefit obligation was $136.7 million at June 30, 2012.

The components of pension expense for the plan were as follows for the year ended June 30, 2012 (in thousands):

Service cost	$4,235
Interest cost	6,587
Expected return on plan assets	(9,064)
Amortization of net actuarial loss	2,341
Net periodic benefit cost	4,099
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:	
Net actuarial loss	21,244
Amortization of net actuarial gain	(2,341)
Total recognized in unrestricted net assets	18,903
Total recognized in net periodic benefit cost and unrestricted net assets	$23,002

The estimated actuarial loss that will be amortized from unrestricted net assets during the upcoming fiscal year is $4.0 million.

Actuarial assumptions used to estimate the June 30, 2012 pension obligation were as follows:

Discount rate	4.32%
Rate of compensation increase	3.00%
Expected return on plan assets	7.75%

Actuarial assumptions used to determine periodic benefit costs for year ended June 30, 2012 were as follows:

Discount rate	5.47%
Rate of compensation increase	3.50%
Expected return on plan assets	8.25%

For their defined benefit pension plans, the University and TJUH pool funds for investment and utilize the unitization method of accounting for investments in pooled funds. The University had 35.4% of the total shares of the pooled funds at June 30, 2012. A summary of the plans' targeted and actual asset allocations are as follows:

	Targeted Range	Percentage of Plan Assets June 30, 2012
Cash	0-5%	1%
Bonds	35-40%	41%
Global equity	40-50%	36%
Real estate and other	10-20%	22%
		100%

The portfolio utilizes 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.

The University made a contribution of $10.5 million during fiscal year 2012 and expects to contribute an additional $4.5 million during fiscal year 2013.

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

2013	$ 5,283
2014	5,702
2015	6,170
2016	6,625
2017	7,136
2018-2022	42,492
	$73,408

The following table presents the plan assets by level within the valuation hierarchy, as discussed in Note 6, as of June 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$4,476	$ -	$4,476
Equity securities:				
Domestic	11,252	-	-	11,252
Fixed income securities:				
U.S. Treasuries	-	2,097	-	2,097
Domestic		23,857	-	23,857
Funds:				
Domestic equity	-	15,231	-	15,231
International equity	-	9,127	-	9,127
Global equity	-	5,910	-	5,910
Fixed income	-	21,658	-	21,658
Hedge funds	-	-	17,778	17,778
Private equity	-	38	1,835	1,873
Real estate	-	3,224	857	4,081
Total	$11,252	$85,618	$20,470	$117,340

The following table include a roll-forward of the amounts for the years ended June 30, 2012 (in thousands) for plan assets classified within Level 3. The classification of plan assets within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. There were no significant transfers between Levels 1 and 2 during 2012.

	Hedge Funds	Private Equity	Real Estate	Total
Balance at July 1, 2011	$11,818	$2,264	$929	$15,011
Acquisitions	10,351	(24)	111	10,438
Dispositions	(6,084)	(632)	(95)	(6,811)
Realized gain (loss), net	341	57	(301)	97
Unrealized gain, net	1,352	170	213	1,735
Balance at June 30, 2012	$17,778	$1,835	$857	$20,470

13. PROFESSIONAL LIABILITY CLAIMS

The University and JUP maintain professional liability insurance under both self-insured and alternative risk financing insurance programs for the distinct services each provides. For all self-insured programs the University and JUP accrue 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 an independent actuary. Accrued professional liability claims of $168.8 million were included in the consolidated balance sheet at June 30, 2012, using a discount rate of 3%. Pursuant to the requirements of accounting guidance for *Presentation of Insurance Claims and Related Insurance Recoveries* included in accrued professional liability claims is $93.6 million at June 30, 2012, related to estimated liabilities that have been transferred to third parties. A corresponding receivable of $93.6 million is included in insurance receivable in the consolidated balance sheet at June 30, 2012.

Professional liability expense of $46.8 million is included in the consolidated statement of activities for the year ended June 30, 2012.

Effective July 1, 2005, the University and JUP, for the distinct services each provides, maintain professional liability insurance through a policyholder-owned, Vermont-domiciled, risk retention group, Mountain Laurel Risk Retention Group, Inc. (“RRG”) which is owned by Jefferson Health System (JHS). For the professional liability coverage only, the RRG is 100% reinsured by a JHS sponsored, non-profit captive protected cell insurance company, Five Pointe Insurance Company, domiciled in Delaware.

JUP participates in the Medical Availability and Reduction of Error Fund (“MCARE Fund”), which is a Pennsylvania governmentally authorized entity that consists of coverage with limits of $500,000 per medical incident and a $1.5 million annual aggregate per physician.

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. No provision has been made for any future MCARE Fund assessments in the accompanying consolidated financial statements as the University’s portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

While management continues to monitor the factors used in making these estimates, the ultimate liability for professional and general liability claims could differ from current estimates due to the inherent uncertainties involved in making such estimates.

TJUH has agreed to partially fund certain JUP payments for professional liability settlements in excess of primary and MCARE coverage limits. Pursuant to this agreement, $12.0 million is included in the consolidated statement of activities for the year ended June 30, 2012 as hospital reimbursement for physician services and $21.9 million is included in the consolidated balance sheet as due from TJUH at June 30, 2012.

14. COMMITMENTS AND CONTINGENCIES

Letters of Credit
At June 30, 2012 the University had open letters of credit aggregating $70.8 million. The letters of credit provide additional security for the following (in thousands):

1984 Commercial Revenue Bonds (Expiration 3/31/2015)	$1,874
2008 Series A Revenue Bonds (Expiration 3/31/2015)	25,000
2008 Series B Revenue Bonds (Expiration 3/31/2015)	43,905
	$70,779

Litigation
The University and JUP are involved in litigation and regulatory investigations arising in the ordinary course of business. Based on the information currently available, in the opinion of management, all such matters are adequately covered by commercial insurance or by accruals, and if not so covered, are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position, changes in net assets or cash flows of the University and JUP.

15. RELATED PARTY

The University provides to TJUH the following services: physician and non-physician personnel and other support necessary to preserve and maintain the tertiary care capacity of TJUH, administrative, finance, human resource, information systems, maintenance and security services. Amounts charged to TJUH were $187.1 million for the year ended June 30, 2012.

TJUH provides the University with certain office and clinical space, materiels management, information systems services, telecommunications and ancillary services. Expenses incurred from TJUH for these services aggregated approximately $10.3 million in 2012. At June 30, 2012 the net receivable from TJUH amounted to $25.7 million.

16. SUBSEQUENT EVENTS

The University monitored subsequent events from the date of the consolidated balance sheet through September 23, 2014 for material items that would require and adjustment to or disclosure in the consolidated financial statements.

APPENDIX B-3

CONSOLIDATED FINANCIAL STATEMENTS OF TJUH SYSTEM AND ITS SUBSIDIARIES AS OF JUNE 30, 2014, 2013 AND 2012 (PRE-MERGER)

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TJUH System and its Subsidiaries (Pre-Merger)

Consolidated Financial Statements
June 30, 2014, 2013 and 2012

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Independent Auditor's Report

To the Board of Trustees of
TJUH System:

We have audited the accompanying consolidated financial statements of TJUH System and its Subsidiaries ("TJUH"), which comprise the consolidated balance sheets as of June 30, 2014, 2013 and 2012 and the related consolidated statements of operations and 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.

Auditor's 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 TJUH'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 TJUH'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 TJUH System and its Subsidiaries at June 30, 2014, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

September 23, 2014

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330-3000, F: (267) 330-3300, www.pwc.com/us

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Balance Sheets
June 30, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	$16,266,498	$20,891,724
Short-term investments	187,954,461	236,680,556
Accounts receivable, less allowance for doubtful accounts of $36,090,000 in 2014 and $34,954,000 in 2013	238,316,186	218,039,151
Inventory	30,117,908	27,024,193
Assets whose use is limited, current	40,582,728	19,257,654
Other current assets	11,082,136	10,363,733
Total current assets	524,319,917	532,257,011
Long-term investments	225,782,818	204,908,451
Assets whose use is limited, noncurrent	110,657,512	75,511,503
Assets held by affiliated foundation	8,561,440	7,787,087
Goodwill	11,417,619	11,417,619
Insurance recoverable	83,101,368	89,659,807
Other noncurrent assets	4,795,103	4,903,706
Land, buildings and equipment, net	543,645,850	532,687,976
Total assets	$1,512,281,627	$1,459,133,160
Liabilities and Net Assets		
Current liabilities:		
Current portion of:		
Long-term obligations	$1,434,834	$2,556,660
Due to Jefferson Health System	-	5,823,911
Due to Thomas Jefferson University	371,183,611	19,735,415
Accrued professional liability claims	13,550,242	12,955,898
Accrued workers' compensation claims	5,924,165	5,486,708
Accounts payable and accrued expenses	124,889,092	125,758,732
Accrued payroll and related costs	62,218,263	61,478,829
Total current liabilities	579,200,207	233,796,153
Long-term obligations	3,127,532	7,933,747
Due to Jefferson Health System	-	305,496,844
Due to Thomas Jefferson University	16,732,088	7,753,266
Accrued pension liability	103,313,886	92,147,112
Accrued professional liability claims	190,297,864	191,865,366
Accrued workers' compensation claims	11,571,119	9,168,075
Other noncurrent liabilities, principally interest rate swap contracts	23,081,688	23,550,622
Total liabilities	927,324,384	871,711,185
Net assets:		
Unrestricted	536,578,379	540,905,064
Noncontrolling interest in joint venture	3,074,086	2,192,569
Temporarily restricted	32,832,598	32,026,521
Permanently restricted	12,472,180	12,297,821
Total net assets	584,957,243	587,421,975
Total liabilities and net assets	$1,512,281,627	$1,459,133,160

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

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues, gains and other support:		
Net patient service revenue	$1,519,441,692	$1,492,460,688
Provision for bad debts	($61,986,158)	($61,574,013)
Net patient service revenue less provsion for bad debts	1,457,455,534	1,430,886,675
Investment income	2,601,368	8,848,518
Other revenue	98,188,209	103,658,202
Net assets released from restriction	3,577,314	2,927,369
Total operating revenues, gains and other support	1,561,822,425	1,546,320,764
Operating expenses:		
Salaries and employee benefits	628,779,598	610,120,513
Pension	28,108,130	31,052,646
Supplies	313,996,483	300,737,774
Purchased services	272,436,565	253,881,490
Depreciation and amortization	69,043,475	68,085,503
Interest	10,075,119	9,437,061
Insurance	24,747,683	23,072,439
Utilities	19,515,858	21,154,981
Other	166,873,669	154,773,310
Total operating expenses	1,533,576,580	1,472,315,717
Income from operations before extinguishment of debt	28,245,845	74,005,047
Extinguishment of debt	(26,118,869)	-
Income from operations	2,126,976	74,005,047
Nonoperating gains (losses):		
Investment earnings	10,410,805	17,915,786
Contributions	618,905	880,355
Contributions expense	(1,216,704)	(1,935,559)
Other, principally interest rate swap contracts	(4,145,163)	6,237,165
Total nonoperating gains	5,667,843	23,097,747
Excess of revenues over expenses	7,794,819	97,102,794
Increase in unrealized gains (losses) on investments	7,636,318	(9,696,088)
Net assets released from restrictions used for purchase of property and equipment	250,636	399,015
Donated capital received	2,634,527	-
Change in noncontrolling interest in joint venture	881,517	40,029
(Increase) decrease in pension liability	(22,642,985)	30,401,345
(Decrease) increase in unrestricted net assets	($3,445,168)	$118,247,095

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

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statements of Operations and Changes in Net Assets, continued
For the Years Ended June 30, 2014 and 2013

	2014	**2013**
Unrestricted net assets:		
Excess of revenues over expenses	$7,794,819	$97,102,794
Increase in net unrealized gains (losses) on investments	7,636,318	(9,696,088)
Net assets released from restrictions used for purchase of property and equipment	250,636	399,015
Donated capital received	2,634,527	-
Change in noncontrolling interest in joint venture	881,517	40,029
(Increase) decrease in pension liability	(22,642,985)	30,401,345
(Decrease) increase in unrestricted net assets	(3,445,168)	118,247,095
Temporarily restricted net assets:		
Contributions	681,755	3,042,381
Interest, dividends, and net realized gains on investments	697,882	3,956,429
Net assets released from restriction	(3,837,950)	(3,312,859)
Change in net unrealized gains (losses) on investments	2,490,037	(1,365,270)
Change in assets held by an affiliated foundation	774,353	587,860
Increase in temporarily restricted net assets	806,077	2,908,541
Permanently restricted net assets:		
Change in net unrealized gains (losses) on externally held trusts	174,359	108,678
Increase in permanently restricted net assets	174,359	108,678
(Decrease) increase in net assets	(2,464,732)	121,264,314
Net assets, beginning of year	587,421,975	466,157,661
Net assets, end of year	$584,957,243	$587,421,975

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

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
(Decrease) increase in net assets	($2,464,732)	$121,264,314
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Increase (decrease) in pension liability	22,642,985	(30,401,345)
Depreciation and amortization	69,043,475	68,085,503
Provision for bad debts	61,986,158	61,574,013
Assets held by affiliated foundation	(774,353)	(587,860)
Amortization of premium discount	(95,838)	(233,674)
Net realized and unrealized gains on investments and assets	(21,090,827)	(10,604,522)
Donated capital received	(2,634,527)	-
Other-than-temporary impairment of assets	1,684	15,193
Net gain on interest rate swap	(506,554)	(11,427,024)
Joint venture activities	(1,339,212)	(1,386,511)
Extinguishment of debt	26,118,869	-
Other	-	1,722,720
Increase or (decrease) from changes in:		
Accounts receivable	(82,263,193)	(49,350,101)
Inventories	(3,093,715)	(363,675)
Other current and noncurrent assets	2,132,859	(1,242,049)
Accounts payable and accrued expenses	(2,472,810)	(8,666,472)
Payable to Thomas Jefferson University	7,622,019	1,775,887
Accrued pension liability	(11,476,211)	(3,558,062)
Insurance recoverable	6,558,439	13,379,600
Accrued professional claims liability	(973,158)	(12,894,434)
Accrued workers' compensation liability	2,840,502	(2,152,171)
Other liabilities	2,340,137	2,183,596
Net cash provided by operating activities	72,101,997	137,132,926
Cash flows from investing activities:		
Short-term investments, net	49,420,698	(26,674,885)
Assets whose use is limited, net	(35,975,084)	(25,042,543)
Change in securities lending invested collateral	(1,037,875)	1,924,173
Purchase of land, buildings and equipment	(79,668,845)	(62,998,661)
Purchases of investments	(116,753,486)	(346,876,822)
Sales of investments	116,729,713	341,545,046
Net cash used in investing activities	(67,284,879)	(118,123,692)

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statements of Cash Flows, continued
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from financing activities:		
Distribution to noncontrolling interest	(1,421,000)	(2,058,000)
Proceeds from donated capital	2,634,527	-
Change in securities lending payable	1,037,875	(1,924,173)
Proceeds from long-term borrowings	-	24,161,059
Repayment of long-term borrowings	(11,693,750)	(27,274,694)
Net cash provided by (used in) financing activities	(9,442,348)	(7,095,808)
Net (decrease) increase in cash and cash equivalents	(4,625,226)	11,913,426
Cash and cash equivalents at beginning of year	20,891,724	8,978,298
Cash and cash equivalents at end of year	$16,266,498	$20,891,724
Supplemental disclosure of cash flow information:		
Interest paid, net of amount capitalized	$15,921,524	$14,507,378
Accounts payable related to buildings and equipment	$12,295,327	$12,156,282
Refinancing of JHS debt with TJU debt	$352,800,000	$0

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

1. Summary of Significant Accounting Policies:

Nature of Operations

TJUH System ("TJUH"), located in Philadelphia, Pennsylvania, is an integrated healthcare organization that provides inpatient, outpatient, and emergency care services through acute care, ambulatory care, physician, and other primary care services for residents of the Greater Philadelphia Region. The consolidated financial statements of TJUH include the accounts of TJUH and its subsidiaries including Thomas Jefferson University Hospital, the Jefferson Hospital for Neuroscience Division, the Methodist Hospital Division, TJUH Health Affiliates, the Atrium Corporation, Jeffex, Inc., JeffCare, Inc., and the Riverview Surgery Center at the Navy Yard, LP ("Riverview"), a 51%-owned joint venture. TJUH has an academic affiliation with Thomas Jefferson University ("TJU").

Until June 30, 2014, Jefferson Health System ("JHS"), a regional integrated healthcare delivery system, was the sole corporate member of TJUH. The other members of JHS were Magee Rehabilitation Hospital ("Magee") and Main Line Health ("MLH").

On June 30, 2014, TJUH separated from JHS and merged with TJU to form a new organization and to enhance their tripartite mission of education, research and patient care. On June 30, 2014, TJU became the sole corporate member of TJUH and TJUH became the sole corporate member of Jefferson University Physicians ("JUP"), thereby aggregating all clinical operations of the merged entities into one organization. This transaction is being accounted for as a merger. These consolidated financial statements reflect the financial position, results of operations and cash flows of TJUH and its subsidiaries prior to the merger with TJU, and TJUH becoming the sole corporate member of JUP.

Related party transactions and their effects on the financial statements are discussed in Note 10.

Subsequent Events

As discussed above, on June 30, 2014, subsequent to the close of these financial statements, TJUH separated from JHS and merged with TJU.

In connection with those transactions on June 30, 2014, JHS transferred to TJUH: 1) a 44.1% ownership interest in the Accountable Care Organization ("ACO") which was recorded in the amount of $1,527,752 (other partners include MLH (44.1%), Magee (1.8%) and Holy Redeemer Health System (10.0%)); and 2) a 49% sole common membership interest in Five Pointe Insurance Captive ("Five Pointe") which was recorded as an investment in Five Pointe in the amount of $66,122,320 as of June 30, 2014 (other common members include MLH (49%) and Magee (2%)).

Also in connection with the separation from JHS, TJUH is recording a receivable from JHS and a net asset transfer of $5,000,000 in connection with the return of TJUH's original capital contribution to JHS as well as a net receivable from JHS and a net reduction in overhead expenses of approximately $2,000,000 related to the wind down and distribution of JHS's net assets.

TJUH has performed an evaluation of subsequent events through September 23, 2014, which is the date the financial statements were issued.

1. Summary of Significant Accounting Policies, continued:

Basis of Presentation
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation
The accompanying consolidated financial statements include the financial position, results of operations and cash flows of TJUH and its subsidiaries prior to the merger with TJU described above. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make, where necessary, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the accompanying notes. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements including, but not limited to, recognition of net patient service revenue, which includes contractual allowances and provisions for bad debt; estimates for healthcare professional and general liabilities; determination of fair values of certain financial instruments; and assumptions for measurement of pension liabilities. 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 these estimates.

Financial Statement Presentation
TJUH accounts for its net assets by classifying them into three categories according to externally-imposed restrictions. The three net asset categories are as follows:

- **Unrestricted Net Assets** are available for the support of operations and are not externally restricted, although their use may be limited by other factors such as by contract or board designation.

- **Temporarily Restricted Net Assets** include gifts for which donor-imposed restrictions have not been met and trust activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

- **Permanently Restricted Net Assets** include gifts, trusts, and pledges which require that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Income Taxes
TJUH and certain of its subsidiaries are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c) (3) of the Internal Revenue Code, while its wholly-owned for-profit subsidiaries Atrium Corp. and JeffCare, Inc., as well as its joint venture Riverview, are taxable corporations.

1. Summary of Significant Accounting Policies, continued:

Cash and Cash Equivalents
Cash and cash equivalents consist of cash and short-term investments in highly liquid debt instruments with an original maturity of three months or less. Cash and cash equivalents are carried at cost which approximates market value.

Charitable Medical Care Provided
TJUH provides medically necessary services to all patients regardless of their ability to pay. Some patients qualify for charity care based on policies established by TJUH 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 TJUH's guidelines for charity care are not separately recorded in the accompanying consolidated financial statements.

TJUH 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 TJUH was $12,604,551 and $11,013,809 for the years ended June 30, 2014 and June 30, 2013, respectively. These amounts do not include the provision for bad debts of $61,986,158 and $61,574,013 in 2014 and 2013, respectively, which are reflected as deductions in net patient service revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue.

Other Uncompensated Community Services (unaudited)
Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. The cost of providing services to eligible welfare recipients who participate in this program exceeded reimbursement by $65,090,681 and $68,203,000 in 2014 and 2013, respectively.

In furtherance of its exempt purpose to benefit the community, TJUH provides education and training for medical residents, nurses and other healthcare professionals. Amounts expended for these services exceeded reimbursement by $22,168,237 and $25,063,472 in 2014 and 2013, respectively.

TJUH also provides various community services such as the provision of subsidized emergency services; telemedicine services for stroke patients at community hospitals; education for diabetes and heart disease; screenings for stroke and cancer risk; cancer support groups; senior health education; nutritional counseling for obesity; maternal and childbirth education; and youth participation in various work-ready or career preparation programs. Many of these services target areas of health disparity and include working with schools, grassroots organizations and other partners. The net amounts expended for the foregoing services were $27,881,563 and $31,188,255 in 2014 and 2013, respectively.

1. Summary of Significant Accounting Policies, continued:

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Revenue from the Medicare and Medicaid fee-for-service programs accounted for approximately 22.05% and 3.03%, respectively, and 20.44% and 2.98%, respectively of net patient service revenue in 2014 and 2013, respectively. Most payments to TJUH 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 TJUH as a teaching and disproportionate share hospital, as well as for cases that have an extremely long length-of-stay or 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 before 2011 as well as for 2012 have been audited and final settled. The 2011 and 2013 Medicare cost reports have been audited but there has not been a final settlement as of June 30, 2014, which is attributed to delays in Medicare program finalizing disproportionate share factors. No significant adjustments are expected. In addition, TJUH received funds from the Philadelphia Hospital Assessment program and the Medical Assistance Modernization Act-Quality Care Assessment program in the amount of $70,036,826 and $71,979,260 in 2014 and 2013, respectively. TJUH paid taxes in respect to these programs amounting to $59,015,739 and $56,246,017 in 2014 and 2013, 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. TJUH has also entered into agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to TJUH 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 27.74% and 9.04%, respectively, and 25.81% and 9.94%, respectively, of TJUH's net patient service revenue in 2014 and 2013, respectively.

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

TJUH records an allowance for doubtful accounts and bad debt expense for estimated losses resulting from non-payment for accounts receivable for services from patients. TJUH accounts for uncollectible accounts receivable balances from third-party commercial insurers as reductions to net patient service revenue rather than bad debt expense. Management routinely evaluates account collection history, economic conditions, and trends in health care coverage in determining the sufficiency of the allowance for doubtful accounts and provision for bad debts. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

The allowance for doubtful accounts increased by the bad debt expense of $61,986,158 and $61,574,013 in 2014 and 2013, respectively. The allowance for doubtful accounts decreased due to writeoffs of $60,850,513 and $54,884,191 in 2014 and 2013, respectively.

1. Summary of Significant Accounting Policies, continued:

Land, Buildings, Equipment and Depreciation

Land, buildings and equipment are stated at cost. Depreciation is calculated utilizing the straight-line method based on the estimated useful lives of the underlying assets. Gains and losses from retirement or disposition of fixed assets are recognized in the consolidated statements of operations and changes in net assets as nonoperating income at the time of disposition. Interest cost incurred on borrowed funds during the construction period of capital assets for projects that last 6 months or longer and whose expenditures are $5 million or greater, is capitalized as part of property and equipment as a component of the cost of constructing those assets. Repair and maintenance costs are expensed as incurred. During 2014 and 2013, respectively, TJUH recorded $0 and $657,501 of capitalized interest related to prior years. There were no additional interest costs capitalized to construction in progress during 2014.

Goodwill

The amount of the intangible asset is $11,417,619 comprised primarily of assets related to the acquisition of the inpatient ophthalmology program from Wills Eye Hospital and the acute care program from St. Agnes Medical Center. TJUH performed an impairment assessment by comparing the assets' fair value to the carrying value of the goodwill at June 30, 2014 and no impairment charge was warranted.

Inventory

Predominantly, inventories are stated at the lower of cost or market, with the cost determined using the first-in, first-out ("FIFO") method.

Investments and Investment Income

TJUH records investments in marketable securities with readily determinable fair values and investments in debt securities at fair value in the consolidated balance sheets. Fair values for certain private equity and real estate investments (“alternative investments”) are estimated by the respective external investment managers if market values are not readily ascertainable. Investments in joint ventures are accounted for under the equity method.

Net realized gains and losses, interest and dividends on unrestricted cash, cash equivalents, short-term investments, and trustee held funds associated with self-insurance and debt obligations are included in operating income. Net realized gains and losses, interest and dividends on long-term investments and changes in unrealized gains or losses on alternative investments and on impaired assets are included in nonoperating income. Changes in unrealized gains or losses on all other long-term investments are shown as a change in net assets, unless other than temporary impairments of investments are recognized, in which case, unrealized losses are recorded in nonoperating income.

Income on investments of donor-restricted funds, including unrealized gains and losses, is added to or deducted from the appropriate net asset category based on donor restrictions or state law.

TJUH followed an endowment spending policy in 2014 and 2013 of 5% of the three-year moving average of the market value of its long-term investment portfolio measured annually at March 31st. As a result of this policy, funds released from restricted long-term investments amounted to $1,390,739 and $1,121,543 in 2014 and 2013, respectively. Amounts withdrawn from unrestricted long-term investments amounted to $2,675,172 and $2,687,116 in 2014 and 2013, respectively.

1. Summary of Significant Accounting Policies, continued:

Additionally, funds released from restricted net assets for receipt of external pledges and donor-restricted gifts amounted to $2,186,575 and $1,805,826 in 2014 and 2013, respectively.

Investment in Assets of Affiliated Foundation
The Methodist Hospital Foundation (the "Foundation"), a separate corporation not under the control of TJUH, accepts gifts and bequests and engages in fundraising activities for the benefit of Methodist Hospital. The Board of Trustees of the Foundation, at its sole discretion, is authorized to contribute Foundation funds to Methodist Hospital. Underlying investments held by the Foundation with restrictions benefiting only Methodist Hospital amounting to $8,561,440 and $7,787,087 at June 30, 2014 and 2013, respectively, are presented in the consolidated balance sheets. Net changes in the fair market value of such assets were recorded as changes in assets held by an affiliated foundation in the consolidated statements of changes in net assets.

While the sole purpose of the Foundation is to support Methodist Hospital, this accounting treatment does not imply that the Foundation's assets or investment income are those of TJUH. The consolidated financial statements do not reflect or establish the legal relationship, agency or otherwise, between the Foundation and TJUH, or any right to assets owned by the Foundation. The by-laws of the Foundation provide that all assets held by it shall not be subject to attachments, execution, or sequestration for any debt, obligation or liability of TJUH or any other person or entity. In particular, the Foundation is not party to or obligated by any debt instrument of TJUH, and assets owned by the Foundation are not subject to the lien of any such debt instrument.

Beneficial Interest in Perpetual Trusts
Beneficial interest in perpetual trusts represents TJUH's interest in perpetual trusts, which are administered by independent trustees and generally consist of marketable equity securities. Because the trusts are perpetual and the original corpus cannot be violated by spending, they are reported as permanently restricted net assets.

Donor-Restricted Gifts
Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction, unless expended for the purchase of long-lived assets, in which case, they are reported as a change in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Other Revenue
Other revenue is derived from services other than the provision of health care services or coverage to patients or residents. This revenue consists primarily of TJU services revenue, biomedical services revenue, retail pharmacy revenue, rental revenue, cafeteria revenue, grant revenue, and other miscellaneous revenue.

1. Summary of Significant Accounting Policies, continued:

Excess of Revenues over Expenses

TJUH's excess of revenues over expenses in the consolidated statements of operations and changes in net assets includes all unrestricted revenues, expenses, gains and losses from continuing operations; contributions of long-lived assets and the costs of related fundraising efforts; and, realized gains and losses on long-term investments and the undistributed earnings thereon, including changes in unrealized gains or losses on alternative investments and on impaired assets. Changes in unrealized gains or losses on all other long-term investments, and the permanent transfers of assets to and from affiliates for other than goods and services are excluded.

Functional Expenses

As described previously in the Nature of Operations, the expenses of the integrated healthcare organization at June 30, 2014 and 2013 are as follows:

	2014	2013
Health care services	$1,198,730,344	$1,143,701,323
General and administration	334,846,236	328,614,394
Total	$1,533,576,580	$1,472,315,717

Reclassifications

Certain prior year amounts in the consolidated balance sheets have been reclassified to conform to the current year presentation.

2. Net Assets:

Temporarily and permanently restricted net assets are classified according to donor or time restrictions. Temporarily restricted net assets are restricted for patient care and various healthcare-related expenditures that can be spent in the future subject to certain spending limitations by Pennsylvania statute. Net assets are categorized as follows at June 30, 2014 and 2013:

	2014	2013
Temporarily restricted net assets consist of the following:		
Long-term investments	$21,794,236	$19,881,032
Special purpose funds	10,398,847	11,254,874
Pledges	639,515	890,615
	$32,832,598	$32,026,521
Permanently restricted net assets consist of the following:		
Long-term investments	$7,864,002	$7,864,002
Assets held by affiliated foundation	2,259,295	2,259,295
Externally held trusts	2,348,883	2,174,524
Total	$12,472,180	$12,297,821

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements:

Assets whose use is limited are presented in the consolidated balance sheets at June 30, 2014 and 2013 and consisted of the following:

	2014	2013
Board designated funds for plant replacement and expansion	$100,490,236	$75,366,723
Board designated funds for self-insurance arrangements	19,474,407	18,442,606
Debt service funds	20,822,767	121,428
Translational Medicine program funds	-	300,000
Women's Board and Medical Staff funds	451,416	538,400
Escrow account-Inspira Health Network collaboration	10,001,414	-
Total	$151,240,240	$94,769,157
Less: Current portion	(40,582,728)	(19,257,654)
Noncurrent portion	$110,657,512	$75,511,503

Short term investments were $187,954,461 and $236,680,556 at June 30, 2014 and June 30, 2013, respectively, and included amounts set aside for working capital obligations. Long-term investments were $225,782,818 and $204,908,451 at June 30, 2014 and June 30, 2013, respectively. For its long-term investment portfolio, TJUH pools funds with TJU and utilizes the unitization method of accounting for investments in pooled funds. TJUH had approximately 30% of the total shares of the pooled funds at June 30, 2014 and 2013. Also included in long-term investments were non-pooled investments of $4,938,235 and $2,910,880 at June 30, 2014 and June 30, 2013, respectively.

Investment income, realized gains and unrealized losses included in the consolidated statements of operations and changes in net assets are comprised of the following in 2014 and 2013:

	2014	2013
Investment income included in operating income:		
Interest and dividends	$1,339,741	$2,163,576
Net realized gains on sales of investments	803,932	5,338,461
Equity in earnings of joint venture	457,695	1,346,481
	2,601,368	8,848,518
Investment income included in nonoperating income:		
Interest and dividends	1,383,357	1,633,445
Net realized gains on sales of investments	2,535,737	14,009,590
Change in unrealized gains on alternative investments	6,493,395	2,287,944
Other-than-temporary impairment of assets	(1,684)	(15,193)
	10,410,805	17,915,786
Total	$13,012,173	$26,764,304

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

Unrealized gains on investments amounted to $14,129,713 (inclusive of gains of $6,493,395 for alternative investments) and unrealized losses on investments amounted to $7,408,144 (inclusive of gains of $2,287,944 for alternative investments) in 2014 and 2013, respectively. Except for unrealized gains and losses on alternative investments, all other unrealized gains and losses are included in the change in net assets.

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 TJUH 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 TJUH’s perceived risk of that instrument.

Level 1

Investments are based on quoted market prices in active markets. 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 is daily based on quoted market value at time of transaction or at daily Net Asset Value (NAV).

Level 2

Investments are traded 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. 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. Level 2 liquidity is daily based on quoted market value at time of transaction or at daily NAV.

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

Level 3

Investments have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity (direct and fund of funds), real assets investments (real estate, natural resources - direct and fund of funds), hedge funds (direct and fund of funds), and beneficial interests in perpetual trusts and charitable lead trusts held by third parties. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated of future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. TJUH uses the "market approach value" valuation technique to value its investments in private equity and real estate (“private investments”) and hedge funds. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities to determine the value.

With level 3 investments, TJUH estimates the fair value of an investment company at the measurement date using the reported NAV. Adjustment is required if TJUH expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with generally accepted accounting principles. TJUH uses the NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where TJUH 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, TJUH 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 investment based on an appraised value, discounted cash flow, industry comparables or some other method. TJUH values these limited partnerships at NAV. These interests, in the absence of a recent and relevant secondary market transaction, are classified as Level 3.

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 appraise value, discounted cash flow, industry comparables 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 TJUH believes its

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to demine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 liquidity related to private investment funds do not have 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.

Level 3 liquidity related to hedge funds is quarterly liquidity with ninety days' notice prior to the quarter's end. 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 these cases, the NAV is considered as a Level 2 input. Limited partnerships are valued at NAV. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial statements are distributed. In the case of the imposition of a gate, TJUH does not have the ability to validate or verify the NAV through redemptions. Therefore, the interest is generally classified as Level 3.

In the cases of a holdback, TJUH 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. If the holdback is significant, then the interest is generally classified as Level 3.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the 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). Substantially all of TJUH's investments in such funds have been classified within Level 3.

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

The following table presents assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2014:

	Assets at Fair Value as of June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Hedge funds	$0	$0	$46,321,278	$46,321,278
Cash & cash equivalents	236,036,196	29,867,054	-	265,903,250
Equity securities	3,506	-	2,500,110	2,503,616
Fixed income securities	57,135,416	78,581,859	-	135,717,275
Mutual funds	-	79,277,147	-	79,277,147
External trusts	-	2,348,883	-	2,348,883
Private equity	-	-	21,901,148	21,901,148
Real estate	-	2,741,146	5,539,987	8,281,133
Total	$293,175,118	$192,816,089	$76,262,523	$562,253,730

Investments recorded at cost at June 30, 2014 totaled $2,723,790.

A roll forward of those assets as Level 3 within the fair value hierarchy by TJUH is as follows:

Description	**Hedge Fund**	**Private Equity**	**Real Estate**	**Total**
Opening balance	$35,791,443	$16,304,493	$5,884,572	$57,980,508
Acquisitions	14,897,799	10,192,683	1,535,543	26,626,025
Dispositions	(6,818,426)	(6,618,462)	(2,218,018)	(15,654,906)
Net realized gain (loss)	859,307	1,456,342	(65,464)	2,250,185
Net unrealized gain (loss)	1,591,155	3,066,202	403,354	5,060,711
Closing balance at June 30, 2014	$46,321,278	$24,401,258	$5,539,987	$76,262,523

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

The following table presents assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2013:

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Hedge funds	$0	$0	$35,791,547	$35,791,547
Cash & cash equivalents	228,382,824	11,548,212	-	239,931,036
Equity securities	2,608	-	-	2,608
Fixed income securities	63,761,335	84,088,643	-	147,849,978
Mutual funds	-	82,667,870	-	82,667,870
External trusts	-	2,174,524	-	2,174,524
Private equity	-	-	16,304,389	16,304,389
Real estate	-	2,447,140	5,884,572	8,331,712
Total	$292,146,767	$182,926,389	$57,980,508	$533,053,664

Investments recorded at cost at June 30, 2013 totaled $3,304,500.

A roll forward of those assets as Level 3 within the fair value hierarchy by TJUH is as follows:

Description	Hedge Fund	Private Equity	Real Estate	Total
Opening balance	$29,485,468	$14,426,510	$5,647,978	$49,559,956
Acquisitions	3,656,920	36,318,919	632,435	40,608,274
Dispositions	-	(44,289,430)	(663,841)	(44,953,271)
Net realized gain (loss)	-	9,305,740	(516,267)	8,789,473
Net unrealized gain (loss)	2,649,055	542,754	784,267	3,976,076
Closing balance at June 30, 2013	$35,791,443	$16,304,493	$5,884,572	$57,980,508

There were no transfers between Levels 1 and 2 during 2014 and 2013.

TJUH has made commitments to various private equity and real estate limited partnerships. The total amount of unfunded commitments is $23,998,476 and $13,396,746 at June 30, 2014 and June 30, 2013, respectively, which represents 12.1% and 7.5% of the value of TJUH's pooled investments at June 30, 2014 and June 30, 2013, respectively. TJUH expects these funds to be called over the next 3 to 5 years.

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

TJUH's pooled investments at June 30, 2014 include $46,321,278 of hedge fund investments. These funds provide for quarterly or annual redemptions and require between 60 and 90 day notice periods, limiting TJUH's ability to respond quickly to changes in market conditions.

Investment securities with an aggregate fair value of $1,791,354 and $753,479 at June 30, 2014 and June 30, 2013, respectively, were loaned primarily on a short-term basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 103% at June 30, 2014 and June 30, 2013 of the market value of the securities loaned. TJUH receives lending fees and continues to earn interest and dividends on the loaned securities.

4. Endowment:

TJUH's endowment consists of approximately 123 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 endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

TJUH has interpreted the Pennsylvania State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, TJUH classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund, except for beneficial interests in perpetual trusts, that is not classified in permanently restricted net assets is classified as temporarily

restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

At June 30, 2014, the endowment net asset composition consisted of the following:

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$73,160,702	$21,794,236	$7,864,002	$102,818,940

Also included in permanently restricted net assets were investments in perpetual trust funds of $2,348,883 and assets held by an affiliated foundation of $2,259,295.

4. Endowment, continued:

Changes in endowment net assets for the year ended June 30, 2014 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$67,934,184	$19,881,032	$7,864,002	$95,679,218
Investment return:				
Investment income	65,483	27,816	-	93,299
Net realized and unrealized appreciation	7,750,617	3,160,102	-	10,910,719
Total investment income	7,816,100	3,187,918	-	11,004,018
Contributions	35,002	126,025	-	161,027
Appropriation of endowment assets for expenditure	(2,675,172)	(1,109,433)	-	(3,784,605)
Other changes:				
Additions/transfers	50,588	(291,306)	-	(240,718)
Endowment net assets, end of year	$73,160,702	$21,794,236	$7,864,002	$102,818,940

At June 30, 2013, the endowment net asset composition by type of fund consisted of the following:

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$67,934,184	$19,881,032	$7,864,002	$95,679,218

Also included in permanently restricted net assets were investments in perpetual trust funds of $2,174,524 and assets held by an affiliated foundation of $2,259,295.

4. Endowment, continued:

Changes in endowment net assets for the year ended June 30, 2013 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$62,803,675	$18,295,358	$7,864,002	$88,963,035
Investment return:				
Investment income	496,190	211,876	-	708,066
Net realized and unrealized appreciation	6,240,839	2,379,283	-	8,620,122
Total investment income	6,737,029	2,591,159	-	9,328,188
Contributions	48,071	126,058	-	174,129
Appropriation of endowment assets for expenditure	(2,687,116)	(1,126,450)	-	(3,813,566)
Other changes:				
Additions/transfers	1,099,997	(5,093)		1,094,904
Reclassification	(67,472)		-	(67,472)
Endowment net assets, end of year	$67,934,184	$19,881,032	$7,864,002	$95,679,218

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 TJUH to retain as a fund of perpetual duration. Shortfalls of this nature, which are reported in unrestricted net assets, were $4,481 as of June 30, 2014. 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 TJUH's Board of Trustees.

5. Medical Resident FICA Refund:

In March 2010, the IRS announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exception of FICA taxes. Institutions that had filed timely FICA refund claims covering periods up through that date are eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. As a result of this decision by the IRS, TJUH recorded other revenue of $14,500,000, along with a corresponding accounts receivable in the year ended June 30, 2010. In the year ended June 30, 2013, TJUH received $24,860,000; $10,360,000 was recorded as other revenue and the previously established receivable was fully satisfied.

In addition to the foregoing, TJUH received $25,414,000 on behalf of the medical residents from the IRS, which, in turn, was refunded to the residents during the year ended June 30, 2013.

6. Land, Buildings and Equipment:

A summary of land, buildings and equipment at June 30, 2014 and 2013 is as follows:

	2014	2013
Land and land improvements	$28,883,073	$16,566,573
Buildings and building improvements	571,904,048	573,098,381
Equipment	636,315,573	605,835,412
Leasehold improvements	43,799,122	11,526,093
Work in progress	15,843,129	14,600,449
Subtotal	1,296,744,945	1,221,626,908
Less: accumulated depreciation	(753,099,096)	(688,938,932)
Total	$543,645,849	$532,687,976

Buildings and building improvements, leasehold improvements, and land improvements are depreciated using an average estimated useful life of 20 years. Equipment is depreciated using an average estimated useful life of 8 years. No depreciation expense is taken on land or work in progress. TJUH recorded depreciation expense of $68,623,072 and $67,636,637 in 2014 and 2013, respectively.

7. Due to JHS and Due to TJU:

Due to JHS and Due to TJU at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Due to JHS		
Series 2005A Revenue Bonds	$0	$22,410,000
Series 2010B Revenue Bonds	-	167,170,000
Unamortized bond premium	-	2,192,192
Series 2012B Revenue Bonds	-	100,000,000
Series 2012C Revenue Bonds	-	19,548,563
Subtotal	-	311,320,755
Less: amounts due within one year	-	(5,823,911)
Total	$0	$305,496,844
Due to TJU		
Series 2014A Revenue Notes	$328,395,000	$0
Series 2014B Revenue Notes	24,410,000	-
Subtotal	352,805,000	-
Less: amounts due within one year	(352,805,000)	-
Total	$0	$0

Due to JHS

On April 7, 2005, the Pennsylvania Economic Development Financing Authority issued the Series 2005A Health System Revenue Bonds, maturing on May 15, 2038, in the amount of $26,720,000. In addition to paying the costs of issuing the bonds, the proceeds of the bonds were used to finance a portion of the costs incurred in the acquisition of the short-term acute care hospital business of St. Agnes Medical Center; a portion of the costs incurred in the expansion of emergency care facilities, capital improvements, equipment purchases and other capital expenditures at Methodist Hospital; and, the costs incurred in the acquisition of a 40% interest in the limited liability partnership established by St. Agnes Medical Center (now named St. Agnes Continuing Care Center) to own and operate St. Agnes Continuing Care Center’s new long-term acute care hospital.

On July 1, 2010, JHS issued $183,395,000 par amount of Series 2010B Bonds to refinance the Series 1997A and 1997B bonds. The Series 2010B Bonds were issued through the Hospitals and Higher Education Facilities Authority of Philadelphia as of July 1, 2010 to refinance the outstanding portion of the previously issued Series 1997A and 1997B Bonds.

On June 21, 2012, JHS issued $100,000,000 par amount of Series 2012B Bonds through the Montgomery County Industrial Development Authority. JHS used the 2012B Bond proceeds to refund the Pennsylvania Economic Development Financing Authority’s Thomas Jefferson University Hospital Revenue Bonds, Series 2007.

On September 14, 2012, JHS issued $20,000,000 par amount of Series 2012C Bonds through Bank of America. JHS used the 2012C Bond proceeds to refund the mortgage loan originally to TJUH.

7. Due to JHS and Due to TJU, continued:

Effective June 30, 2014 upon the separation of TJUH from JHS and the issuance of the Series 2014A Revenue Notes and the Series 2014B Taxable Revenue Notes, the aforementioned bonds were either defeased or paid in full.

Due to TJU
As a result of the departure from JHS, the legal defeasance of all JHS related debt, and the merger with TJU, on June 30, 2014, the Pennsylvania Higher Educational Facilities Authority (the "Issuer") issued the Series 2014A Revenue Notes and the Series 2014B Taxable Revenue Notes (collectively the "Notes") in the amount of $352,805,000 on behalf of TJU. The Notes will be classified as short-term and will be paid in full during FY15, at which time permanent long-term financing will be obtained. Interest rates vary monthly and are based upon a SIFMA index and LIBOR index for the 2014 Series A and 2014 Series B, respectively, and interest is payable monthly.

A portion of the proceeds of the Notes, together with other amounts, were deposited with US Bank, National Association (the "Escrow Agent") and were used to 1) provide for the payment of accrued interest and the redemption price on June 30, 2014, of the principal amount representing the remaining outstanding principal of the 2005A Bonds; and 2) provide for the payment of the 2010B Bonds by establishing an escrow that paid the interest on and the maturing principal of the 2010B Bonds to May 15, 2020, and on that date paid the redemption price of all the 2010B Bonds then outstanding, together with accrued interest to May 15, 2020.

A portion of the proceeds, together with other amounts, were deposited with the Bank of New York Mellon Trust Company, N.A. to 1) provide for the payment of accrued interest, prepayment penalty, and the redemption price on June 30, 2014, of the $100,000,000 principal amount representing the remaining outstanding principal of the 2012B Bonds; and 2) provide for the payment of accrued interest and the redemption price on June 30, 2014, of the $18,849,652 principal amount representing the remaining outstanding of the 2012C loan.

A loss on extinguishment of debt in the amount of $26,118,869 was recognized and included in Extinguishment of debt on the Consolidated Statements of Operations and Changes in Net Assets.

8. Long-Term Obligations:

Long-term obligations at June 30, 2014 and 2013 consisted of the following:

	2014	2013
The Hospitals and Higher Education Facilities Authority of Philadelphia Series of 2003 Hospital Revenue Bonds (a)	$0	$785,000
Capital Lease Obligations (b)	4,562,366	9,705,407
Subtotal	4,562,366	10,490,407
Less: amounts due within one year	(1,434,834)	(2,556,660)
Total	$3,127,532	$7,933,747

8. Long-Term Obligations, continued:

(a) On June 30, 2003, the Hospitals and Higher Education Facilities Authority of Philadelphia issued the Series of 2003 Hospital Revenue Bonds, maturing on January 1, 2017, in the amount of $6,500,000 for the "Thomas Jefferson University Hospital Project". The proceeds of the bonds were used to provide funding for the construction and equipping of improvements to the existing facilities of TJUH and its affiliates located in the City of Philadelphia, Pennsylvania; the refinancing of the Methodist Hospital Nursing Center Mortgage and Construction Loan, the Methodist Hospital Term Loan, and the Suthbreit Mortgage Loan; and, the payment of the costs of issuing the bonds. As of June 30, 2014, the remaining balance of $585,000 was paid in full, and a loss on extinguishment of debt of $58,348 was recorded.

(b) On October 9, 2009, a Master Lease Agreement was entered into between TD Equipment Finance, Inc. ("Lessor") and Riverview ("Lessee") for a term of 60 months commencing July 2010 in the amount of $5,960,718. Lease payments are due on the first day of each month and may be adjusted upward by the Lessor in order to preserve the Lessor's pre-tax yield which is indexed on a one-to-one basis to reflect any increases in the Lessor's cost of funds.

In 2010, the operating lease for the Voorhees Ambulatory Facility was recharacterized to a capital lease due to a change in terms of the lease agreement. The Voorhees Ambulatory Facility was capitalized in the amount of $3,560,794. The original lease was entered into on December 31, 1998. As of June 30, 2014, the remaining balance of $2,739,323 was paid in full, and a loss on extinguishment of debt of $446,838 was recorded.

A Master Lease Agreement was entered into between Philips Healthcare Informatics, Inc. ("Lessor") and TJUH ("Lessee") for a term of 84 months commencing March 1, 2013 in the amount of $4,161,059. Lease payments are due on the first day of each month at a discount rate of 6%.

Capital Leases
The following is a schedule by years of future minimum lease payments as of June 30, 2014:

2015	$1,434,834
2016	576,314
2017	612,674
2018	672,684
2019	737,865
Thereafter	527,995
Total	$4,562,366

The net book value of property and equipment recorded under capital leases was $10,434,139 and $11,528,148 at June 30, 2014 and June 30, 2013, respectively, representing the building value of the Voorhees Ambulatory Facility, the PACS equipment and certain equipment at Riverview. Accumulated depreciation of the property and equipment recorded under capital leases was $4,643,952 and $3,070,352 at June 30, 2014 and June 30, 2013, respectively. Depreciation expense on the outstanding obligations under the capital leases was $1,573,600 and $1,132,153 in 2014 and 2013, respectively.

8. Long-Term Obligations, continued:

In connection with the separation of TJUH from JHS and merger with TJU on June 30, 2014, all interest rate swap agreements were novated from JHS to TJU, whereby TJU replaced JHS as the counterparty. The fair value of these derivative instruments at June 30 in the consolidated balance sheets is as follows:

Expiration Date	TJU Receives	TJU Pays	Notional Amount at June 30, 2014	Notional Amount at June 30, 2013	Balance Sheet Location	Fair Value at June 30, 2014	Fair Value at June 30, 2013
May 1, 2018	68% of United States Dollar Libor BBA (One Month)	3.8570%	$19,570,000	$19,670,000	Noncurrent liability	$2,063,675	$2,551,248
May 1, 2027	68% of United States Dollar Libor BBA (One Month)	3.919%	$73,925,000	$74,125,000	Noncurrent liability	$13,905,073	$14,320,036
May 1, 2027	68% of United States Dollar Libor BBA (One Month)	3.980%	$42,450,000	$42,575,000	Noncurrent liability	$8,202,327	$8,460,574
May 1, 2027	68% of United States Dollar LIBOR BBA (Five Year minus 0.2930%)	68% of United States Dollar Libor BBA (One Month)	$73,925,000	$74,125,000	Noncurrent liability	-$2,472,896	-$3,138,636
May 1, 2027	68% of United States Dollar LIBOR BBA (Five Year minus 0.325%)	68% of United States Dollar Libor BBA (One Month)	$42,450,000	$42,575,000	Noncurrent liability	-$513,027	-$501,516

The London InterBank Offered Rate (“LIBOR”) British Bankers' Association (“BBA”) rates for the one month ranged from 0.15% to 0.18% (average rate of 0.16%) in 2014. The LIBOR BBA rates for the five year ranged from 1.17% to 1.93% (average rate of 1.68%) in 2014. Nonoperating gains of $506,554 and $11,427,024 on the swap agreements were included in the consolidated statements of operations in 2014 and 2013, respectively. Accumulated losses of $21,185,152 and $21,691,706 at June 30, 2014 and 2013, respectively, for these transactions are included in other noncurrent liabilities.

8. Long-Term Obligations, continued:

The following table presents liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2014:

	Liabilities at Fair Value as of June 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Swap contracts	$0	$21,185,152	$0	$21,185,152
Total	$0	$21,185,152	$0	$21,185,152

The following table presents liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2013:

	Liabilities at Fair Value as of June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Swap contracts	$0	$21,691,706	$0	$21,691,706
Total	$0	$21,691,706	$0	$21,691,706

9. Commitments and Contingencies:

Operating Leases
TJUH has various lease obligations for buildings, equipment and ambulatory facilities. Lease expenses charged to operations were $23,727,618 and $22,510,429 in 2014 and 2013, respectively. At June 30, 2013 the estimated minimum future non-cancelable rental lease commitments are as follows:

2015	$17,657,109
2016	14,791,733
2017	12,565,044
2018	10,298,333
2019	9,253,462
Thereafter	17,005,151
Total	$81,570,832

Certain of the future minimum lease payments related to the ambulatory facilities leases are contingent upon the interest rates indexed to various standard financial instruments. In addition, certain leases for office space are on a year-to-year basis.

Line of Credit
TJUH had available unsecured lines of credit totaling $15,000,000 as of June 30, 2014 and June 30, 2013. Outstanding amounts were $0 as of June 30, 2014 and 2013. The $15,000,000

9. Commitments and Contingencies, continued:

line of credit expires on April 30, 2015.

Letters of Credit
TJUH had available open letters of credit aggregating $25,140,000 at June 30, 2014 and June 30, 2013. The letters of credit expire between December 31, 2014 and June 30, 2015.

Litigation
TJUH 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 TJUH.

On November 20, 2009, a class action lawsuit was filed against JHS and the Members by certain hourly employees alleging restitution for unfair business practices, injunctive relief for unfair business practices, failure to pay overtime wages, and penalties associated therewith. On September 8, 2011, the Court granted the defendants' motions to dismiss all asserted claims but provided the plaintiffs with thirty days to file a second complaint. Plaintiffs filed a second amended complaint on November 10, 2011. Plaintiffs agreed to withdraw the RICO claim and their claims against individual defendants when they were confronted with a Rule 11 letter related to the RICO claim. On February 10, 2012, they filed a Third Amended Complaint. JHS filed a motion to dismiss the entire Third Amended Complaint. On August 8, 2012, the Court dismissed the Third Amended Complaint with prejudice to plaintiffs' claim under the Fair Labor Standards Act. The Court dismissed the state law claims without prejudice, allowing plaintiffs to file those claims in state court. On September 15, 2012, plaintiffs appealed all orders in this matter. On August 26, 2014, the Court of Appeals for the Third Circuit affirmed the District Court ruling.

TJUH is unable to determine the cost of defending such a lawsuit or the impact, if any, this action may have on its results of operations.

10. Related Party Transactions:

Thomas Jefferson University
Services provided by TJU to TJUH include physician and non-physician personnel and other support services necessary to preserve and maintain the tertiary care capacity of TJUH. TJU also provides office and clinical space, as well as administrative, finance, human resources, information technology, maintenance, security, education, temporary staffing and other ancillary services to TJUH. Expenses charged for these services aggregated $221,560,389 and $193,874,441 in 2014 and 2013, respectively. The costs in 2014 and 2013, respectively, include $13,671,000 and $1,740,636, respectively to offset a portion of professional liability expense incurred by Jefferson University Physicians ("JUP"), an affiliate of TJU.

10. Related Party Transactions, continued:

TJUH provides TJU with certain office and clinical space, as well as housekeeping, catering, employee health, information systems, telecommunications, supply chain management, and other support services. Expenses charged to TJU for these services aggregated $41,173,062 and $43,555,791 in 2014 and 2013, respectively.

Jefferson Health System
TJUH has been charged a management fee, internal audit fees and information systems support costs by JHS of $2,820,398 and $5,338,645 in 2014 and 2013, respectively. TJUH has recorded expense related to the JHS bonds of $8,630,505 and $8,441,804 in 2014 and 2013, respectively.

TJUH has been charged by Main Line Health (“MLH”) for management support services and rent. Expenses charged for these services aggregated $970,990 and $1,127,075 in 2014 and 2013, respectively.

TJUH provided various services to MLH and Magee Rehabilitation Hospital (“Magee”) for biomedical engineering, physician referral, residency program, respiratory care, accounting management, and home health medical directorship. Expenses charged to affiliates for these services aggregated $2,663,795 and $2,636,245 in 2014 and 2013, respectively.

11. Pension Plan:

TJUH has a non-contributory defined benefit plan covering full-time employees who were at least age 50 or had 15 years of service as of June 30, 2004 and elected to remain in the defined benefit plan. Generally, benefits under the plan are based on the employee's compensation and years of service. Contributions to the plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”).

Items included in unrestricted net assets represent amounts that have not been recognized in net periodic pension expense. The components recognized in unrestricted net assets as of June 30, 2014 and 2013 include:

	2014	2013
Amounts recognized in unrestricted net assets:		
Net actuarial loss	$103,588,188	$80,945,203
Total	$103,588,188	$80,945,203

11. Pension Plan, continued:

The following table sets forth the change in the projected benefit obligation and the change in the fair value of plan assets based on the measurement date, as well as the amounts recognized in the accompanying consolidated financial statements at June 30, 2014 and 2013:

	2014	2013
Accumulated benefit obligation, end of year	$357,216,804	$305,849,093
Change in projected benefit obligation:		
Benefit obligation, beginning of year	$333,387,630	$340,207,585
Service cost	6,351,625	6,892,132
Interest cost	16,908,053	15,714,356
Actuarial loss (gain)	41,312,800	(21,455,372)
Benefits paid	(9,135,379)	(7,971,071)
Projected benefit obligation, end of year	$388,824,729	$333,387,630
Change in plan assets:		
Fair value of plan assets, beginning of year	$241,240,518	$214,101,066
Actual return on plan assets, net of expenses	32,381,362	18,221,744
Employer contributions	21,024,342	16,888,779
Benefits paid	(9,135,379)	(7,971,071)
Fair value of plan assets, end of year	$285,510,843	$241,240,518
Net pension liability, end of year	($103,313,886)	($92,147,112)
Amounts recognized in the consolidated balance sheets consist of:		
Noncurrent liabilities	(103,313,886)	(92,147,112)
Total recognized in the consolidated balance sheets	($103,313,886)	($92,147,112)

The weighted-average assumptions used in measurement of the projected benefit obligation were as follows:

	2014	2013
Discount rate	4.51%	5.15%
Rate of compensation increase	3.00%	3.25%

11. Pension Plan, continued:

The following table sets forth the periodic benefit cost activity of the Plan at June 30, 2014 and 2013:

	2014	2013
Components of net periodic pension cost:		
Service cost	$6,351,625	$6,892,132
Interest cost	16,908,053	15,714,356
Expected return on plan assets	(18,476,956)	(16,901,589)
Actuarial loss	4,765,409	7,625,818
Net periodic cost	$9,548,131	$13,330,717
Other changes in plan assets and benefit obligation recognized in changes to unrestricted net assets:		
Net actuarial loss (gain) arising during measurement period	27,408,394	(22,775,527)
Amortization of actuarial loss	(4,765,409)	(7,625,818)
Total recognized in changes to unrestricted net assets	$22,642,985	($30,401,345)

The net actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost for FY 2015 is $6,650,125. The weighted-average assumptions used in measurement of the periodic pension costs were as follows:

	2014	2013
Discount rate	5.15%	4.68%
Expected return on plan assets	7.50%	7.75%
Rate of compensation increase	3.25%	3.25%

For its defined benefit pension plan, TJUH pools funds for investment with TJU and utilizes the unitization method of accounting for investments in pooled funds. TJUH had 67% and 66% of the total shares of the pooled funds at June 30, 2014 and 2013, respectively.

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

	Targeted Range	% of Actual Plan Assets 2014	% of Actual Plan Assets 2013
Cash	0-5%	2%	2%
Global Equity	40-50%	60%	57%
Bonds	35-40%	27%	28%
Real Estate and Other	10-20%	11%	13%
Total		100%	100%

11. Pension Plan, continued:

The following table sets forth the assets measured at fair value at June 30, 2014 and 2013:

	Assets at Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Global equity	$0	$168,778,428	$0	$168,778,428
Real assets	-	-	1,446,488	1,446,488
Private equity/Venture capital	1,851,842	30,600	1,951,197	3,833,639
Hedge funds	-	-	28,589,199	28,589,199
Fixed income	4,777,499	72,017,664	-	76,795,163
Cash	1,166,265	4,901,661	-	6,067,926
Total	$7,795,606	$245,728,353	$31,986,884	$285,510,843

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Global equity	$0	$136,124,155	$0	$136,124,155
Real assets	-	-	1,455,709	1,455,709
Private equity/Venture capital	(79,468)	-	1,954,819	1,875,351
Hedge funds	-	-	29,935,484	29,935,484
Fixed income	4,338,224	63,789,922	-	68,128,146
Cash	(834,300)	4,555,973	-	3,721,673
Total	$3,424,456	$204,470,050	$33,346,012	$241,240,518

The portfolio utilizes 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 rates 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. TJUH's expected long term rate of return for FY 2015 remained at 7.5%.

11. Pension Plan, continued:

A roll forward of those assets as Level 3 within the fair value hierarchy by TJUH is as follows:

Description	Hedge Fund	Real Estate	PE/VC	Total
Opening balance	$29,935,484	$1,455,709	$1,954,819	$33,346,012
Acquisitions	3,052,669	253,811	29,852	3,336,332
Dispositions	(6,870,266)	(344,317)	(461,059)	(7,675,642)
Realized gain/(loss)	764,929	(48,864)	340,670	1,056,735
Unrealized gain/(loss)	1,706,383	130,150	86,914	1,923,447
Closing balance at June 30, 2014	$28,589,199	$1,446,489	$1,951,196	$31,986,884

Description	Hedge Fund	Real Estate	PE/VC	Total
Opening balance	$24,300,488	$1,427,841	$2,713,466	$28,441,795
Transfer In	-	-	167,536	167,536
Acquisitions	3,155,696	84,529	58,034,519	61,274,744
Dispositions	-	(448,835)	(65,889,734)	(66,338,569)
Realized gain/(loss)	-	(555,985)	7,326,249	6,770,264
Unrealized gain/(loss)	2,479,300	948,159	(397,217)	3,030,242
Closing balance at June 30, 2013	$29,935,484	$1,455,709	$1,954,819	$33,346,012

Projected benefit payments for the next ten years are as follows:

2015	$11,729,000
2016	13,199,000
2017	14,888,000
2018	16,550,000
2019	18,331,000
2020 - 2024	116,329,000
Total	$191,026,000

In aggregate, TJUH projects it will make contributions of approximately $20.5 million to the plan in 2015.

11. Pension Plan, continued:

Effective July 1, 2004, TJUH established a defined contribution plan for the following non-union and non-faculty employee groups: new employees; employees below the age of 50; and, employees with less than 15 years of service. Employees age 50 and over and employees with 15 or more years of service were given the option to stay in the defined benefit plan or switch to the new defined contribution plan. Employees who moved to the new defined contribution plan no longer accrue benefits in the defined benefit plan. Their previously accumulated benefits will be distributed to them upon retirement or termination. The defined contribution plan formula includes a fixed employer contribution of 4.5% and a matching contribution of 25% of the first 6% of employee contributions. Employer contribution expenses were $15,131,946 and $14,508,555 in 2014 and 2013, respectively. An employer contribution of 9% to 13% exists for senior faculty administration based upon age and years of service. Employer contribution expenses for senior faculty administration were $2,093,726 and $2,019,884, in 2014 and 2013, respectively. These amounts have been included in the accompanying consolidated statements of operations and changes in net assets.

Participation in Multiemployer Defined Benefit Pension Plan

Through its affiliation with TJU, TJUH is a participating employer in The Pension Fund for Hospital and Health Care Employees – Philadelphia and Vicinity (the “Pension Fund”), a jointly-trusteed 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 TJUH’s participation is summarized below:

The employer identification number for the Pension Fund is 23-2627428.

TJUH contributions to the Pension Fund were $4,492,918 and $3,966,157 for each of the years ended June 30, 2014 and 2013, respectively. These contributions represent approximately 28% and 27% of contributions to the Pension Fund, respectively.

A six-year collective bargaining agreement was approved on July 1, 2012. For the years ended June 30, 2014 and June 30, 2013, TJUH contributed approximately 14.0% and 12.5%, respectively, of covered payroll to the Pension Fund. The contribution increases to 15.5% for the year beginning July 1, 2014.

The Pension Fund was determined to be in critical status (also referred to as red zone status) and endangered status (also referred to yellow zone status) under the Pension Protection Act of 2006 for the Plan Years beginning January 1, 2012 and 2013, respectively. Accordingly, the Pension Fund is subject to a funding improvement plan.

At December 31, 2013, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $211,152,552.

12. Professional Liability Claims:

TJUH's professional liability insurance program is administered through a policyholder-owned, Vermont-domiciled, risk retention group, Mountain Laurel Risk Retention Group, Inc. ("RRG") which was exclusively owned by JHS until June 30, 2014. For the professional liability coverage only, the RRG is 100% reinsured by a non-profit captive protected cell insurance company, Five Pointe Insurance Company, domiciled in Delaware. Until June 30, 2014, JHS held the sole common membership in Five Pointe. TJUH has accrued professional liability claims of $120,746,738 and $115,161,457 at June 30, 2014 and 2013, respectively, of which $13,550,242 and $12,955,898 were current. TJUH has recognized professional liability expenses of $22,194,248 and $20,851,190 in 2014 and 2013, respectively. The interest rate used to discount malpractice claims was 3% at June 30, 2014 and 2013.

The first ("primary") layer of coverage is claims-made coverage with limits of $500,000 per medical incident and $2,500,000 annual aggregate per hospital and $500,000 per medical incident and $1,500,000 annual aggregate per physician. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. In addition, a $1,000,000 per medical incident and $3,000,000 annual aggregate limit is provided for scheduled dentists, as well as physicians and residents practicing in Delaware and New Jersey. At June 30, 2014 and 2013, TJUH non-healthcare provider entities are provided with a shared $1,000,000 per incident and $3,000,000 annual aggregate limit of liability.

The RRG retains the general liability coverage exposure. The RRG provides a $2,000,000 per incident and $5,000,000 annual aggregate general liability coverage limit shared by TJUH and the other members of JHS. The premiums charged for the primary professional and general liability layers of coverage are determined by an independent outside actuary, based on loss and loss adjustment expense experience and other factors, at a 65% confidence level and a 3% discount rate for 2014 and 2013 and include a charge for premium tax and operating expenses.

The second layer of professional liability coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). This second layer, required by statute, consists of coverage with limits of $500,000 per incident and $1,500,000 annual aggregate per hospital and per employed physician/resident at June 30, 2014 and 2013. 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.

Liabilities for TJUH for potential losses in excess of the primary and MCARE layers up to $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention are based on actuarially-determined estimates, which reflect a 65% confidence level and a 3% discount rate for 2014 and 2013. These estimates are based on

12. Professional Liability Claims, continued:

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.

During 2014, TJUH maintained claims-made excess catastrophic professional liability insurance coverage through Five Pointe shared with JHS and the other JHS Member Organizations in the amount of $95,000,000 per medical incident and $95,000,000 annual aggregate after a $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention (inclusive of the primary and MCARE layers of coverage). During 2014 and 2013, Five Pointe reinsured 100% of this risk to seven currently A-rated insurers (ACE, Zurich, Allied World, Berkley, Lloyd's Syndicates, Endurance, and Swiss Re). A separate limit of $95,000,000 per occurrence and $95,000,000 aggregate is also maintained to provide liability insurance coverage excess of the primary general, auto, employers and aviation liability coverages.

During fiscal year 2013, TJUH maintained claims made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of $90,000,000 per medical incident / $90,000,000 annual aggregate (shared with JHS and the other JHS Member Organizations) after a $5,000,000 per medical incident/$5,000,000 annual aggregate excess of a $7,000,000 each and every medical incident retention by TJUH. During fiscal year 2013, Five Pointe reinsured 100 percent of this risk to six insurers currently rated at least A- by AM Best. (ACE, Zurich, Lloyd Syndicates, Berkley, Allied World, , Endurance, Swiss Re). A separate shared limit of $90,000,000 per occurrence / $90,000,000 aggregate is also maintained to provide liability insurance coverage excess of the primary general, auto, employers and aviation liability coverages.

The GAAP presentation for insurance claims and associated insurance recoveries for healthcare organizations is required for 2013 and 2014. Under the new guidance, health care entities are required to reflect their "gross" exposure to claims liabilities with a corresponding receivable for insurance recoveries in order to be consistent with other industries. The amount recorded at June 30, 2014 and June 30, 2013 as an other non-current asset and as a portion of non-current accrued professional liability claims is $83,101,368 and $89,659,807, respectively.

13. Workers' Compensation Claims:

Effective July 1, 2002, TJUH began self-insuring its workers' compensation exposures. TJUH accrues for its workers' compensation liability based upon actuarial estimates using a discount rate of 3%. Accrued workers' compensation liabilities were $17,495,284 and $14,654,783 at June 30, 2014 and 2013, respectively. These amounts are presented in the accompanying consolidated balance sheets. Workers' compensation expense was $8,907,965 and $4,824 470 in 2014 and 2013, respectively.

14. Fair Value of Financial Instruments:

The following methods and assumptions were used by TJUH in estimating fair value disclosures for financial statements:

Cash and Cash Equivalents: The carrying amount of cash and cash equivalents

14. Fair Value of Financial Instruments, (continued):

Short-term investments: Short-term investments are carried at fair value and are comprised of instruments with an average duration of 1 to 3 years.

Investments: The fair values for marketable equity, government, and fixed income securities included in long-term investments are based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers and are valued at the latest available unaudited net asset value of the investments.

Assets Whose Use Is Limited: Assets whose use is limited are comprised of investments held for self-insurance obligations and debt service requirements and are valued as stated above.

Long-Term Debt Obligations: Management estimates that the fair value of long-term debt is equal to its carrying value.

Assets Held by Affiliated Foundation: Assets held by an affiliated foundation are comprised of investments, which are valued as stated above.

Due to JHS: The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of financial instruments at June 30, 2014 and 2013 were as follows:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$16,266,498	$16,266,498	$20,891,724	$20,891,724
Short-term investments	$187,954,461	$187,954,461	$236,680,556	$236,680,556
Investments	$225,782,818	$225,782,818	$204,908,451	$204,908,451
Assets whose use is limited	$151,240,240	$151,240,240	$94,769,157	$94,769,157
Assets held by affiliated foundation	$8,561,440	$8,561,440	$7,787,087	$7,787,087
Balance sheet liabilities:				
Long-term debt	$4,562,366	$4,562,366	$10,490,407	$10,490,407
Due to JHS	$0	$0	$311,320,755	$317,290,926
Swap	$21,185,152	$21,185,152	$21,691,706	$21,691,706

15. Recent Accounting Pronouncements:

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2016. TJUH is evaluating the impact this will have on the combined financial statements beginning in Fiscal Year 2018.

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Balance Sheet
June 30, 2012

Assets

Current assets:	
Cash and cash equivalents	$8,978,298
Short-term investments	209,396,635
Accounts receivable, less allowance for doubtful accounts of $28,264,000	230,263,063
Inventory	26,660,518
Assets whose use is limited, current	19,466,636
Other current assets	11,068,915
Total current assets	505,834,065
Long-term investments	188,092,841
Assets whose use is limited, noncurrent	50,259,977
Assets held by affiliated foundation	7,199,228
Goodwill	11,417,619
Insurance recoverable	103,039,407
Other noncurrent assets	5,213,983
Land, buildings and equipment, net	539,327,755
Total assets	$1,410,384,875

Liabilities and Net Assets

Current liabilities:	
Current portion of:	
Long-term obligations	$2,683,054
Due to Jefferson Health System	4,940,000
Accrued pension liability	16,789,392
Accrued professional liability claims	12,022,884
Accrued workers' compensation claims	6,814,430
Accounts payable and accrued expenses	135,990,660
Due to Thomas Jefferson University	13,712,794
Accrued payroll and related costs	61,844,039
Total current liabilities	254,797,253
Long-term obligations	25,529,551
Due to Jefferson Health System	292,005,866
Due to Thomas Jefferson University	12,000,000
Accrued pension liability	109,317,127
Accrued professional liability claims	205,692,814
Accrued workers' compensation claims	9,992,523
Other noncurrent liabilities, principally interest rate swap contracts	34,892,080
Total liabilities	944,227,214
Net assets:	
Unrestricted	422,697,998
Noncontrolling interest in joint venture	2,152,540
Temporarily restricted	29,117,980
Permanently restricted	12,189,143
Total net assets	466,157,661
Total liabilities and net assets	$1,410,384,875

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

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statement of Operations and Changes in Net Assets
For the Year Ended June 30, 2012

Operating revenues, gains and other support:	
Net patient service revenue	$1,464,348,103
Provision for bad debts	($42,256,818)
Net patient service revenue less provsion for bad debts	1,422,091,285
Investment income	2,561,363
Other revenue	85,712,888
Net assets released from restriction	2,149,252
Total operating revenues, gains and other support	1,512,514,788
Operating expenses:	
Salaries and employee benefits	616,430,519
Pension	25,607,814
Supplies	308,034,255
Purchased services	241,295,145
Depreciation and amortization	62,312,041
Interest	9,936,188
Insurance	38,403,799
Utilities	19,503,777
Other	144,278,107
Total operating expenses	1,465,801,645
Income from operations	46,713,143
Loss on extinguishment of debt	(470,181)
Income from operations after extinguishment of debt	46,242,962
Nonoperating gains (losses):	
Investment earnings	1,233,537
Contributions	805,690
Contributions expense	(2,772,071)
Other, principally interest rate swap contracts	(19,579,264)
Total nonoperating losses	(20,312,108)
Excess of revenues over expenses	25,930,854
Increase in unrealized losses on investments	(3,824,766)
Net assets released from restrictions used for purchase of property and equipment	1,797,575
Donated capital received	4,762,829
Change in noncontrolling interest in joint venture	1,087,085
Decrease (increase) in pension liability	(41,150,595)
Increase (decrease) in unrestricted net assets	($11,397,018)

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

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statement of Operations and Changes in Net Assets, continued
For the Year Ended June 30, 2012

Unrestricted net assets:	
Excess of revenues over expenses	$25,930,853
Increase in net unrealized losses on investments	(3,824,766)
Net assets released from restrictions used for purchase of property and equipment	1,797,575
Donated capital received	4,762,829
Change in noncontrolling interest in joint venture	1,087,085
Increase in pension liability	(41,150,595)
Decrease in unrestricted net assets	(11,397,019)
Temporarily restricted net assets:	
Contributions	3,451,650
Interest, dividends, and net realized gains on investments	201,348
Net assets released from restriction	(3,946,827)
Change in net unrealized losses on investments	(882,329)
Change in assets held by an affiliated foundation	1,316,274
Increase in temporarily restricted net assets	140,116
Permanently restricted net assets:	
Change in net unrealized losses on externally held trusts	(133,125)
Decrease in permanently restricted net assets	(133,125)
Decrease in net assets	(11,390,028)
Net assets, beginning of year	477,547,689
Net assets, end of year	$466,157,661

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

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Decrease in net assets	($11,390,028)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Increase in pension liability	41,150,595
Depreciation and amortization	62,312,041
Provision for bad debts	42,256,818
Assets held by affiliated foundation	(1,316,274)
Amortization of premium discount	(107,182)
Net realized and unrealized losses on investments and assets	2,612,507
Donated capital received	(4,762,829)
Other-than-temporary impairment of assets	845,051
Net loss on interest rate swap	14,915,969
Joint venture activities	(2,352,034)
Other	470,181
Net change due to:	
Accounts receivable	(59,108,239)
Inventories	(8,986,072)
Other current and noncurrent assets	(526,170)
Accounts payable and accrued expenses	12,345,043
Payable to Thomas Jefferson University	4,501,216
Accrued pension liability	(5,357,423)
Insurance recoverable	(103,039,407)
Accrued professional claims liability	114,520,521
Accrued workers' compensation liability	332,617
Other liabilities	1,447,737
Net cash provided by operating activities	100,764,638
Cash flows from investing activities:	
Short-term investments, net	(23,917,063)
Assets whose use is limited, net	(28,088,029)
Change in securities lending invested collateral	(254,432)
Purchase of land, buildings and equipment	(69,979,619)
Purchases of investments	(135,651,840)
Sales of investments	140,740,718
Net cash used in investing activities	(117,150,265)

(continued)

TJUH System and its Subsidiaries (Pre-merger)
Consolidated Statement of Cash Flows, continued
For the Year Ended June 30, 2012

Cash flows from financing activities:	
Distribution to noncontrolling interest	(428,750)
Proceeds from donated capital	4,762,829
Change in securities lending payable	254,432
Proceeds from long-term borrowings	100,000,000
Repayment of long-term borrowings	(109,620,137)
Net cash used in financing activities	(5,031,626)
Net decrease in cash and cash equivalents	(21,417,253)
Cash and cash equivalents at beginning of year	30,395,551
Cash and cash equivalents at end of year	$8,978,298
Supplemental disclosure of cash flow information:	
Interest paid, net of amount capitalized	$14,787,785

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

1. Summary of Significant Accounting Policies:

Nature of Operations
TJUH System ("TJUH"), located in Philadelphia, Pennsylvania, is an integrated healthcare organization that provides inpatient, outpatient, and emergency care services through acute care, ambulatory care, physician, and other primary care services for residents of the Greater Philadelphia Region. Effective July 1, 2000, the Board of Directors of Thomas Jefferson University Hospitals, Inc. (the "Hospital") and Jefferson Health System ("JHS") approved a corporate reorganization of the Hospital. The new operating structure, known as TJUH System, includes all former combined entities of the Hospital. TJUH maintains an academic affiliation with Thomas Jefferson University ("TJU"). Related party transactions and their effects on the financial statements are discussed in Note 9. The consolidated financial statements of TJUH include the accounts and subsidiaries of Thomas Jefferson University Hospital, the Jefferson Hospital for Neuroscience Division, the Methodist Hospital Division, TJUH Health Affiliates, the Atrium Corporation and Jeffex, Inc., and the Riverview Surgery Center at the Navy Yard, LP ("Riverview"), a 51%-owned joint venture.

JHS was the sole corporate member of TJUH until June 30, 2014 when TJUH merged with TJU. JHS was a regional integrated healthcare delivery system. The other members of JHS were Magee Rehabilitation Hospital ("Magee") and Main Line Health ("MLH").

Basis of Presentation
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation
The accompanying consolidated financial statements include the financial position, results of operations and cash flows of TJUH and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make, where necessary, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the accompanying notes. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements including, but not limited to, recognition of net patient service revenue, which includes contractual allowances and provisions for bad debt; estimates for healthcare professional and general liabilities; determination of fair values of certain financial instruments; and assumptions for measurement of pension liabilities. 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 these estimates.

1. Summary of Significant Accounting Policies, continued:

Financial Statement Presentation

TJUH accounts for its net assets by classifying them into three categories according to externally-imposed restrictions. The three net asset categories are as follows:

- **Unrestricted Net Assets** are available for the support of operations and are not externally restricted, although their use may be limited by other factors such as by contract or board designation.
- **Temporarily Restricted Net Assets** include gifts for which donor-imposed restrictions have not been met and trust activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.
- **Permanently Restricted Net Assets** include gifts, trusts, and pledges which require that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Income Taxes

TJUH and certain of its subsidiaries are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c) (3) of the Internal Revenue Code.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments in highly liquid debt instruments with an original maturity of three months or less. Cash and cash equivalents are carried at cost which approximates market value.

Charitable Medical Care Provided

TJUH provides medically necessary services to all patients regardless of their ability to pay. Some patients qualify for charity care based on policies established by TJUH 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 TJUH's guidelines for charity care are not separately recorded in the accompanying consolidated financial statements.

TJUH 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 TJUH was $11,170,827 for the year ended June 30, 2012. This amount does not include the provision for bad debts of $42,256,818 in 2012 which is reflected as deductions in net patient service revenue. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital’s total expenses divided by gross patient service revenue.

1. Summary of Significant Accounting Policies, continued:

Other Uncompensated Community Services (unaudited)

Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. The cost of providing services to eligible welfare recipients who participate in this program exceeded reimbursement by $62,979,935 in 2012.

In furtherance of its exempt purpose to benefit the community, TJUH provides education and training for medical residents, nurses and other healthcare professionals. Amounts expended for these services exceeded reimbursement by $25,790,984 in 2012.

TJUH also provides various community services such as the provision of subsidized emergency services; telemedicine services for stroke patients at community hospitals; education for diabetes and heart disease; screenings for stroke and cancer risk; cancer support groups; senior health education; nutritional counseling for obesity; maternal and childbirth education; and youth participation in various work-ready or career preparation programs. Many of these services target areas of health disparity and include working with schools, grassroots organizations and other partners. The net amount expended for the foregoing services was $28,279,793 in 2012.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Revenue from the Medicare and Medicaid fee-for-service programs accounted for approximately 20.95% and 2.85% of net patient service revenue in 2012. Most payments to TJUH 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 TJUH as a teaching and disproportionate share hospital, as well as for cases that have an extremely long length-of-stay or 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 before 2008 have been audited and final settled. The 2008, 2009 and 2010 Medicare cost reports have been audited but there has not been a final settlement as of June 30, 2012 attributed to delays in Medicare program finalizing disproportionate share factors. No significant adjustments are expected. In addition, TJUH received funds from the Philadelphia Hospital Assessment program, the Medical Assistance Modernization Act-Quality Care Assessment program and the Medicare Wage Index Group Appeal in the amount of $79,204,891 in 2012. TJUH paid taxes in respect to these programs amounting to $53,874,043 in 2012 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.

1. Summary of Significant Accounting Policies, continued:

TJUH has also entered into agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to TJUH under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates and capitated rates. Revenue from the most notable of these types of insurers amounted to 28.63% and 8.86% of TJUH's net patient service revenue in 2012.

Accounts Receivable, Allowance for Doubtful Accounts, Provision / Expense for Bad Debt
JHS records an allowance for doubtful accounts and bad debt expense for estimated losses resulting from non-payment for accounts receivable for services from patients. JHS accounts for uncollectible accounts receivable balances from third-party commercial insurers as reductions to net patient service revenue rather than bad debt expense. Management routinely evaluates account collection history, economic conditions, and trends in health care coverage in determining the sufficiency of the allowance for doubtful accounts and provision for bad debts. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

The allowance for doubtful accounts increased by the bad debt expense of $42,256,818 in 2012. The allowance for doubtful accounts decreased due to writeoffs of $40,874,303 in 2012.

Land, Buildings, Equipment and Depreciation
Land, buildings and equipment are stated at cost. Depreciation is calculated utilizing the straight-line method based on the estimated useful lives of the underlying assets. Gains and losses from retirement or disposition of fixed assets are recognized in the consolidated statements of operations and changes in net assets as nonoperating income at the time of disposition.

Goodwill
The amount of the intangible asset is $11,417,619 comprised primarily of assets related to the acquisition of the inpatient ophthalmology program from Wills Eye Hospital and the acute care program from St. Agnes Medical Center. TJUH performed an impairment assessment by comparing the assets' fair value to the carrying value of the goodwill at June 30, 2012 and no impairment charge was warranted.

Inventory
Predominantly, inventories are valued on a cost basis using the first-in, first-out ("FIFO") method.

Investments and Investment Income
TJUH records investments in marketable securities with readily determinable fair values and investments in debt securities at fair value in the consolidated balance sheets. Fair values for certain private equity and real estate investments ("alternative investments") are estimated by the respective external investment managers if market values are not readily ascertainable. Investments in joint

1. Summary of Significant Accounting Policies, continued:

ventures are accounted for under the equity method.

Net realized gains and losses, interest and dividends on unrestricted cash, cash equivalents, short-term investments, and trustee held funds associated with self-insurance and debt obligations are included in operating income. Net realized gains and losses, interest and dividends on long-term investments and changes in unrealized gains or losses on alternative investments and on impaired assets are included in nonoperating income. Changes in unrealized gains or losses on all other long-term investments are shown as a change in net assets, unless other than temporary impairments of investments are recognized, in which case, unrealized losses are recorded in nonoperating income.

Income on investments of donor-restricted funds, including unrealized gains and losses, is added to or deducted from the appropriate net asset category based on donor restrictions or state law.

TJUH followed an endowment spending policy in 2012 of 5% of the three-year moving average of the market value of its long-term investment portfolio measured annually at March 31st. As a result of this policy, funds released from restricted long-term investments and amounts withdrawn from unrestricted long-term investments amounted to $1,124,455 and $2,682,290, respectively, in 2012. Additionally, funds released from restricted net assets for receipt of external pledges and donor-restricted gifts amounted to $1,024,797 in 2012.

Investment in Assets of Affiliated Foundation
The Methodist Hospital Foundation (the "Foundation"), a separate corporation not under the control of TJUH, accepts gifts and bequests and engages in fundraising activities for the benefit of Methodist Hospital. The Board of Trustees of the Foundation, at its sole discretion, is authorized to contribute Foundation funds to Methodist Hospital. Underlying investments held by the Foundation with restrictions benefiting only Methodist Hospital amounting to $7,199,228 at June 30, 2012 are presented in the consolidated balance sheets. Net changes in the fair market value of such assets were recorded as changes in assets held by an affiliated foundation in the consolidated statements of changes in net assets.

While the sole purpose of the Foundation is to support Methodist Hospital, this accounting treatment does not imply that the Foundation's assets or investment income are those of TJUH. The consolidated financial statements do not reflect or establish the legal relationship, agency or otherwise, between the Foundation and TJUH, or any right to assets owned by the Foundation. The by-laws of the Foundation provide that all assets held by it shall not be subject to attachments, execution, or sequestration for any debt, obligation or liability of TJUH or any other person or entity. In particular, the Foundation is not party to or obligated by any debt instrument of TJUH, and assets owned by the Foundation are not subject to the lien of any such debt instrument.

Beneficial Interest in Perpetual Trusts
Beneficial interest in perpetual trusts represents TJUH's interest in perpetual trusts, which are administered by independent trustees and generally consist of marketable equity securities. Because the trusts are perpetual and the original corpus cannot be violated by spending, they are reported as permanently restricted net assets.

1. Summary of Significant Accounting Policies, continued:

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restriction, unless expended for the purchase of long-lived assets, in which case, they are reported as a change in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Other Revenue

Other revenue is derived from services other than the provision of health care services or coverage to patients or residents. This revenue consists primarily of TJU services income, biomedical services income, retail pharmacy income, rental income, cafeteria income, grant income, and other miscellaneous income.

Excess of Revenues over Expenses

TJUH's excess of revenues over expenses in the consolidated statements of operations and changes in net assets includes all unrestricted revenues, expenses, gains and losses from continuing operations; contributions of long-lived assets and the costs of related fundraising efforts; and, realized gains and losses on long-term investments and the undistributed earnings thereon, including changes in unrealized gains or losses on alternative investments and on impaired assets. Changes in unrealized gains or losses on all other long-term investments, and the permanent transfers of assets to and from affiliates for other than goods and services are excluded.

Reclassifications

Certain prior year amounts in the consolidated statements of operations has been reclassified and certain prior year amounts in the consolidated statements of cash flows have been combined to conform to the current year presentation.

Subsequent Events

TJUH has performed an evaluation of subsequent events through September 23, 2014, which is the date the financial statements were issued and none were discovered that needed adjustment to or disclosure in the financial statements.

2. Net Assets:

Temporarily and permanently restricted net assets are classified according to donor or time restrictions. Temporarily restricted net assets are restricted for patient care and various healthcare-related expenditures that can be spent in the future subject to certain spending limitations by Pennsylvania statute. Net assets are categorized as follows at June 30, 2012:

Temporarily restricted net assets consist of the following:	
Long-term investments	$18,295,358
Special purpose funds	9,922,154
Pledges	900,468
	$29,117,980
Permanently restricted net assets consist of the following:	
Long-term investments	$7,864,002
Assets held by affiliated foundation	2,259,295
Externally held trusts	2,065,846
Total	$12,189,143

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements:

Assets whose use is limited are presented in the consolidated balance sheet at June 30, 2012 and consisted of the following:

Board designated funds for plant replacement and expansion	$50,125,000
Board designated funds for self-insurance arrangements	18,837,314
Debt service funds	98,190
Translational Medicine program funds	300,000
Women's Board and Medical Staff funds	366,109
Total	$69,726,613
Less: Current portion	(19,466,636)
Noncurrent portion	$50,259,977

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

Short term investments were $209,396,635 at June 30, 2012 and included amounts set aside for working capital obligations. Long-term investments were $188,092,841 at June 30, 2012. For its long-term investment portfolio, TJUH pools funds with TJU and utilizes the unitization method of accounting for investments in pooled funds. TJUH had approximately 30% of the total shares of the pooled funds at June 30, 2012. Also included in long-term investments were non-pooled investments of $2,958,445 at June 30, 2012.

Investment income, realized gains and unrealized losses included in the consolidated statements of operations and changes in net assets are comprised of the following in 2012:

Investment income included in operating income:	
Interest and dividends	$2,506,430
Net realized gains (losses) on sales of investments	(1,210,016)
Equity in earnings of joint venture	1,264,949
	2,561,363
Investment income included in nonoperating income:	
Interest and dividends	1,054,889
Net realized gains on sales of investments	1,296,311
Change in unrealized gains (losses) on alternative investments	(272,612)
Other-than-temporary impairment of assets	(845,051)
	1,233,537
Total	$3,794,900

Unrealized losses on investments amounted to $4,097,378 (inclusive of losses of $272,612 for alternative investments) in 2012. Except for unrealized gains and losses on alternative investments, all other unrealized gains and losses are included in the change in net assets.

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 TJUH 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;

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

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 TJUH's perceived risk of that instrument.

Level 1
Investments are based on quoted market prices in active markets. 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 is daily based on quoted market value at time of transaction or at daily Net Asset Value (NAV).

Level 2
Investments are 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. They include investment- 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. Level 2 liquidity is daily based on quoted market value at time of transaction or at daily NAV.

Level 3
Investments have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity (direct and fund of funds), real assets investments (real estate, natural resources - direct and fund of funds), hedge funds (direct and fund of funds), and beneficial interests in perpetual trusts and charitable lead trusts held by third parties. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated of future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. TJUH uses the "market approach value" valuation technique to value its investments in private equity and real estate ("private investments") and hedge funds. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities to determine the value.

With level 3 investments, TJUH estimates the fair value of an investment company at the measurement date using the reported NAV. Adjustment is required if TJUH expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

generally accepted accounting principles. TJUH uses the NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Most private investment funds (private equity, real asset funds) are structured as closed-end, commitment-based investment funds where TJUH 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, TJUH 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 investment based on an appraised value, discounted cash flow, industry comparables or some other method. TJUH values these limited partnerships at NAV. These interests, in the absence of a recent and relevant secondary market transaction, are classified as Level 3.

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 appraise value, discounted cash flow, industry comparables 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 TJUH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to demine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 liquidity related to private investment funds do not have 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.

Level 3 liquidity related to hedge funds is quarterly liquidity with ninety days’ notice prior to the quarter’s end. 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 these cases, the NAV is considered as a Level 2 input. Limited partnerships are valued at NAV. However, certain hedge funds may provide the manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

statements are distributed. In the case of the imposition of a gate, TJUH does not have the ability to validate or verify the NAV through redemptions. Therefore, the interest is generally classified as Level 3.

In the cases of a holdback, TJUH 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. If the holdback is significant, then the interest is generally classified as Level 3.

For those private equity, real estate limited partnerships, or hedge-fund of fund transactions where valuations dated on the last business day of the 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). Substantially all of TJUH's investments in such funds have been classified within Level 3.

The following table presents assets measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2012:

	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Hedge funds	$0	$0	$29,485,568	$29,485,568
Cash & cash equivalents	185,790,793	12,208,326	-	197,999,119
Equity securities	22,472,597	-	-	22,472,597
Fixed income securities	-	139,507,736	-	139,507,736
Mutual funds	-	44,958,636	-	44,958,636
External trusts	-	2,065,846	-	2,065,846
Preferred securities	91,430	-	-	91,430
Private equity	-	-	14,426,410	14,426,410
Real estate	-	7,371,193	5,647,978	13,019,171
Total	$208,354,820	$206,111,737	$49,559,956	$464,026,513

Investments recorded at cost at June 30, 2012 totaled $3,189,577.

3. Investments, Assets Whose Use is Limited and Assets Held by Affiliated Foundations Fair Value Measurements, continued:

A roll forward of those assets as Level 3 within the fair value hierarchy by TJUH is as follows:

Description	Hedge Fund	Private Equity	Real Estate	Total
Opening balance	$25,216,683	$13,060,936	$6,699,612	$44,977,231
Transfer out	-	(105)	-	(105)
Transfer in	-	97	-	97
Acquisitions	13,950,148	3,600,914	968,522	18,519,584
Dispositions	(9,214,118)	(3,661,917)	(2,428,918)	(15,304,953)
Net realized gain (loss)	886,516	449,435	(445,845)	890,106
Net unrealized gain (loss)	(1,353,761)	977,150	854,607	477,996
Closing balance at June 30, 2012	$29,485,468	$14,426,510	$5,647,978	$49,559,956

There were no transfers between Levels 1 and 2 during 2012.

TJUH has made commitments to various private equity and real estate limited partnerships. The total amount of unfunded commitments is $12,363,180 at June 30, 2012, which represents 7.6% of the value of TJUH's pooled investments at June 30, 2012. TJUH expects these funds to be called over the next 3 to 5 years.

Investment securities with an aggregate fair value of $2,677,653 at June 30, 2012 were loaned primarily on a short-term basis to various brokers in connection with a securities lending program. These securities are returnable on demand and are collateralized by cash deposits amounting to 103% at June 30, 2012 of the market value of the securities loaned. TJUH receives lending fees and continues to earn interest and dividends on the loaned securities.

4. Endowment:

TJUH's endowment consists of approximately 126 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 endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

TJUH has interpreted the Pennsylvania State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, TJUH classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund, except for beneficial interests in perpetual trusts, that is not classified in permanently restricted net assets is classified as temporarily

restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

At June 30, 2012, the endowment net asset composition by type of fund consisted of the following:

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$62,803,675	$18,295,358	$7,864,002	$88,963,035

Also included in permanently restricted net assets were investments in perpetual trust funds of $2,065,846 and assets held by an affiliated foundation of $2,259,295.

4. Endowment, continued:

Changes in endowment net assets for the year ended June 30, 2012 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$66,381,352	$19,909,004	$7,871,205	$94,161,561
Investment return:				
Investment (loss) income	(355)	3,038	-	2,683
Net realized and unrealized depreciation	(2,111,568)	(679,473)	-	(2,791,041)
Total investment income	(2,111,923)	(676,435)	-	(2,788,358)
Contributions	143,265	257,712	4,000	404,977
Appropriation of endowment assets for expenditure	(2,682,290)	(1,133,070)	-	(3,815,360)
Other changes:				
Additions/transfers	1,076,603	(61,853)		1,014,750
Reclassification	(3,332)		(11,203)	(14,535)
Endowment net assets, end of year	$62,803,675	$18,295,358	$7,864,002	$88,963,035

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 TJUH to retain as a fund of perpetual duration. Shortfalls of this nature, which are reported in unrestricted net assets, were $9,451 as of June 30, 2012. 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 TJUH’s Board of Trustees.

5. Medical Resident FICA Refund:

In March 2010, the IRS announced that for periods ending before April 1, 2005, medical residents would be eligible for the student exception of FICA taxes. Institutions that had filed timely FICA refund claims covering periods up through that date are eligible for refunds of both the employer and employee portions of FICA taxes paid, plus statutory interest. As a result of this decision by the IRS, TJUH recorded other revenue of $14,500,000 for the employer portion and also recorded accounts receivable of $21,750,000 and accrued liabilities of $7,250,000. Accounts receivable include both the employer and medical residents' amounts and accrued liabilities include the portion of the refund which may be collected on behalf of the medical residents. The estimate reflects the initial valuation of the refund, which may be subject to changes in future periods.

6. Land, Buildings and Equipment:

A summary of land, buildings and equipment at June 30, 2012 is as follows:

Land and land improvements	$16,251,573
Buildings and building improvements	560,467,797
Equipment	565,040,331
Leasehold improvements	11,293,827
Work in progress	8,384,972
Subtotal	1,161,438,500
Less: accumulated depreciation	(622,110,745)
Total	$539,327,755

Buildings and building improvements, leasehold improvements, and land improvements are depreciated using an average estimated useful life of 20 years. Equipment is depreciated using an average estimated useful life of 8 years. No depreciation expense is taken on land or work in progress. TJUH recorded depreciation expense of $61,993,584 in 2012.

7. Long-Term Obligations:

Long-term obligations at June 30, 2012 consisted of the following:

The Hospitals and Higher Education Facilities Authority of Philadelphia Series of 2003 Hospital Revenue Bonds (a)	$985,000
Mortgage Loan - 925 Chestnut Street (b)	19,793,656
Operating Line of Credit (c)	225,000
Capital Lease Obligations (d)	7,208,949
Subtotal	28,212,605
Less: amounts due within one year	(2,683,054)
Total	$25,529,551

(a) On June 30, 2003, the Hospitals and Higher Education Facilities Authority of Philadelphia issued the Series of 2003 Hospital Revenue Bonds, maturing on January 1, 2017, in the amount of $6,500,000 for the "Thomas Jefferson University Hospital Project". The proceeds of the bonds were used to provide funding for the construction and equipping of improvements to the existing facilities of TJUH and its affiliates located in the City of Philadelphia, Pennsylvania; the refinancing of the Methodist Hospital Nursing Center Mortgage and Construction Loan, the Methodist Hospital Term Loan, and the Suthbreit Mortgage Loan; and, the payment of the costs of issuing the bonds.

The bonds are remarketed weekly by a bank and traded at a rate of 0.22% at June 30, 2012. Interest rates ranged from 0.07% to 0.30% during 2012. TD Bank is the remarketing agent for the bonds. The bonds may be converted to a long-term rate or to a short-term rate with a different short-term rate period, as elected by TJUH, following which such bonds will bear interest at a variable rate determined by TD Bank.

A reimbursement agreement was entered into with the bank to provide for the issuance of a long-term letter of credit under which TJUH will reimburse the bank for draws upon the letter of credit. The letter of credit provides amounts sufficient to pay the purchase price of any bonds tendered for purchase and not remarketed. The termination date is June 30, 2014.

(b) On December 10, 2009, Bank of America N.A. provided a mortgage loan to TJUH. The loan proceeds were used to fund the acquisition of the property located at 925 Chestnut Street, Philadelphia, Pennsylvania. The loan bears interest at a rate equal to LIBOR plus 190 basis points with a mortgage-style amortization of 20 years. This loan was refinanced in July, 2012 by the 2012 Series C Bonds issued by JHS as described in Note 7 below.

(c) The balance outstanding for the line of credit for Riverview was $225,000 as of June 30, 2012.

7. Long-Term Obligations, continued:

(d) On October 9, 2009, a Master Lease Agreement was entered into between TD Equipment Finance, Inc. ("Lessor") and Riverview ("Lessee") for a term of 60 months commencing July 2010 in the amount of $5,960,718. Lease payments are due on the first day of each month and may be adjusted upward by the Lessor in order to preserve the Lessor's pre-tax yield which is indexed on a one-to-one basis to reflect any increases in the Lessor's cost of funds.

In 2010, the operating lease for the Voorhees Ambulatory Facility was recharacterized to a capital lease due to a change in terms of the lease agreement. The Voorhees Ambulatory Facility was capitalized in the amount of $3,560,794. The original lease was entered into on December 31, 1998. The term of the underlying loan is 25 years which includes rate resets every five years. The rate effective January 1, 2009 and for the ensuing five years is 2.55%.

Capital Leases
The following is a schedule by years of future minimum lease payments as of June 30, 2012:

2013	1,594,897
2014	1,659,296
2015	1,726,667
2016	529,884
2017	313,927
Thereafter	1,384,278
Total	$7,208,949

The net book value of property and equipment recorded under capital leases was $8,210,371 at June 30, 2012, representing the building value of the Voorhees Ambulatory Facility and certain equipment at Riverview. Accumulated depreciation of the property and equipment recorded under capital leases was $1,997,546 at June 30, 2012. Depreciation expense on the outstanding obligations under the capital leases was $907,702 in 2012.

7. Long-Term Obligations, continued:

Annual maturities of long-term debt for each of the next five years and thereafter are as follows:

2013	$2,683,054
2014	2,747,454
2015	2,819,825
2016	1,853,042
2017	1,372,085
Thereafter	16,737,145
Total	$28,212,605

Due to Jefferson Health System
"Due to Jefferson Health System" represents $294,520,000, excluding unamortized premium of $2,425,866, which TJUH has agreed to pay JHS pursuant to a certain Group Debt Allocation Agreement among JHS, TJUH, and MLH, collectively referred to as the "Institutions". This agreement allocates the principal and interest owed in connection with the obligations incurred by JHS under an Amended and Restated Master Trust Indenture, which was originally dated November 1, 1997, (collectively, the "Master Obligations") among the Institutions and certain of their respective members.

On April 7, 2005, the Pennsylvania Economic Development Financing Authority issued the Series 2005A Health System Revenue Bonds, maturing on May 15, 2038, in the amount of $26,720,000. In addition to paying the costs of issuing the bonds, the proceeds of the bonds were used to finance a portion of the costs incurred in the acquisition of the short-term acute care hospital business of St. Agnes Medical Center; a portion of the costs incurred in the expansion of emergency care facilities, capital improvements, equipment purchases and other capital expenditures at Methodist Hospital; and, the costs incurred in the acquisition of a 40% interest in the limited liability partnership established by St. Agnes Medical Center (now named St. Agnes Continuing Care Center) to own and operate St. Agnes Continuing Care Center's new long-term acute care hospital.

The Series 2005A bonds are remarketed weekly and traded at a rate of 0.32% at June 30, 2012. Interest rates ranged from 0.07% to 0.36% during 2012. UBS Financial Services, Inc. ("UBS") is the remarketing agent for the bonds. The bonds may be converted to a daily interest rate, long-term interest rate, bond interest term rate, indexed put rate, or auction rate, as elected by JHS. The bonds also are subject to optional, extraordinary, mandatory, and mandatory sinking fund redemption prior to maturity.

On July 1, 2010, JHS issued $183,395,000 par amount of Series 2010B Bonds to refinance the Series 1997A and 1997B bonds. The Series 2010B Bonds were issued through the Hospitals and Higher Education Facilities Authority of Philadelphia as of July 1, 2010 to refinance the outstanding portion of the previously issued Series 1997A and 1997B Bonds.

On June 21, 2012, JHS issued $100,000,000 par amount of Series 2012B Bonds through the Montgomery County Industrial Development Authority. JHS used the 2012B Bond proceeds to refund the Pennsylvania Economic Development Financing Authority's Thomas Jefferson University Hospital Revenue Bonds, Series 2007.

7. Long-Term Obligations, continued:

As of June 1, 2012, JHS entered into a Seventh Supplement to the Amended and Restated Master Trust Indenture, which was originally dated November 1, 1997, which provides for, among other things, the issuance from time to time of general unsecured debt obligations of JHS. The Seventh Supplement to the Amended and Restated Master Trust Indenture was entered into in connection with the issuance of the Series A of 2012 and the Series B of 2012. None of the Members of JHS are directly obligated to pay the bondholders the principal or interest on any bonds issued pursuant to the Master Trust Indenture. As of June 30, 2012, the Master Obligations aggregated approximately $512,900,000.

In addition, JHS entered into an Amended and Restated Contribution Agreement, dated as of June 1, 2012 with certain TJUH entities and certain MLH entities (the “Institutions”) whereby the Institutions have agreed to pay, loan or otherwise transfer to JHS such amounts as are necessary to pay the principal of and interest on the Series 2005A, the Series 2010A Bonds, the Series 2010B Bonds, the Series 2012A Bonds, the Series 2012B Bonds and the Series 2012C Bonds.

The Contribution Agreement and Group Debt Allocation Agreement are based on the debt as allocated and principal and interest repayment amounts will be subject to change if these funds are reallocated. As part of this Contribution Agreement, the rate of interest and the annual maturities on the loan from JHS are commensurate with the rate of interest (varying from 0.07% to 0.36% during 2012) and annual maturities on the JHS bonds.

Annual maturities of TJUH's long-term obligation to JHS for each of the next five years and thereafter are as follows:

2013	$4,940,000
2014	5,125,000
2015	5,280,000
2016	5,450,000
2017	5,660,000
Thereafter	268,065,000
Subtotal	294,520,000
Plus: net unamortized premium	2,425,866
Total	$296,945,866

7. Long-Term Obligations, continued:

In order to fix its interest rates JHS entered into various interest rate swap agreements with notional amounts of $253,770,000 at June 30, 2012. All of these swap transactions had a forward starting date within 2008. The London InterBank Offered Rate (“LIBOR”) British Bankers' Association (“BBA”) rates for the one month ranged from 0.18% to 0.30% (average rate of 0.24%) in 2012. The LIBOR BBA rates for the five year ranged from 0.94% to 2.08% (average rate of 1.25%) in 2012.

Expiration Date	JHS Receives	JHS Pays	Notional Amount at June 30, 2012	Balance Sheet Location	Fair Value at June 30, 2012
May 1, 2018	68% of United States Dollar Libor BBA (One Month)	3.8570%	$19,770,000	Noncurrent liability	$3,352,840
May 1, 2027	68% of United States Dollar Libor BBA (One Month)	3.919%	$74,300,000	Noncurrent liability	$20,202,095
May 1, 2027	68% of United States Dollar Libor BBA (One Month)	3.980%	$42,700,000	Noncurrent liability	$11,870,986
May 1, 2027	68% of United States Dollar LIBOR BBA (Five Year minus 0.2930%)	68% of United States Dollar Libor BBA (One Month)	$74,300,000	Noncurrent liability	-$1,999,232
May 1, 2027	68% of United States Dollar LIBOR BBA (Five Year minus 0.325%)	68% of United States Dollar Libor BBA (One Month)	$42,700,000	Noncurrent liability	-$307,960

Nonoperating losses of $14,915,969 on the swap agreements were included in the consolidated statements of operations in 2012. Accumulated losses of $33,118,730 at June 30, 2012 for these transactions are included in other noncurrent liabilities.

7. Long-Term Obligations, continued:

The following table presents liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy as of June 30, 2012:

	Liabilities at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Swap contracts	$0	$33,118,730	$0	$33,118,730
Total	$0	$33,118,730	$0	$33,118,730

8. Commitments and Contingencies:

Operating Leases

TJUH has various lease obligations for buildings, equipment and ambulatory facilities. Lease expenses charged to operations were $20,198,548 in 2012. At June 30, 2012 the estimated minimum future non-cancelable rental lease commitments are as follows:

2013	$20,214,324
2014	19,408,295
2015	18,782,416
2016	13,932,275
2017	11,234,061
Thereafter	22,997,598
Total	$106,568,969

Certain of the future minimum lease payments related to the ambulatory facilities leases are contingent upon the interest rates indexed to various standard financial instruments. In addition, certain leases for office space are on a year-to-year basis.

Line of Credit

TJUH had available unsecured lines of credit totaling $15,750,000 as of June 30, 2012. Outstanding amounts were $225,000 as of June 30, 2012. The $15,000,000 line of credit expires on April 30, 2013 while the $750,000 line of credit was closed on August 2, 2012.

Letters of Credit

TJUH had available open letters of credit aggregating $25,440,000 at June 30, 2012. The letters of credit expire between December 31, 2012 and June 30, 2014.

8. Commitments and Contingencies, continued:

Litigation

TJUH 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 TJUH.

On November 20, 2009, a class action lawsuit was filed against JHS and the Members by certain hourly employees alleging restitution for unfair business practices, injunctive relief for unfair business practices, failure to pay overtime wages, and penalties associated therewith. On September 8, 2011, the Court granted the defendants' motions to dismiss all asserted claims but provided the plaintiffs with thirty days to file a second complaint. Plaintiffs filed a second amended complaint on November 10, 2011. Plaintiffs agreed to withdraw the RICO claim and their claims against individual defendants when they were confronted with a Rule 11 letter related to the RICO claim. On February 10, 2012, they filed a Third Amended Complaint. JHS filed a motion to dismiss the entire Third Amended Complaint. On August 8, 2012, the Court dismissed the Third Amended Complaint with prejudice to plaintiffs' claim under the Fair Labor Standards Act. The Court dismissed the state law claims without prejudice, allowing plaintiffs to file those claims in state court. On September 15, 2012, plaintiffs appealed all orders in this matter. The matter is now in the United States Court of Appeals for the Third Circuit. All briefs have been submitted and TJUH understands that the court has indicated that no oral arguments will be heard.

JHS is unable to determine the cost of defending such a lawsuit or the impact, if any, this action may have on its results of operations.

9. Related Party Transactions:

Thomas Jefferson University

Services provided by TJU to TJUH include physician and non-physician personnel and other support services necessary to preserve and maintain the tertiary care capacity of TJUH. TJU also provides office and clinical space, as well as administrative, finance, human resources, information technology, maintenance, security, temporary staffing and other ancillary services to TJUH. Expenses charged for these services aggregated $182,993,313 in 2012. The costs in 2012 include $12,000,000 to offset a portion of professional liability expense incurred by Jefferson University Physicians ("JUP"), an affiliate of TJU.

9. Related Party Transactions, continued:

TJUH provides TJU with certain office and clinical space, as well as housekeeping, catering, employee health, information systems, telecommunications, supply chain management, and other support services. Expenses charged to TJU for these services aggregated $38,196,721 in 2012.

Jefferson Health System
TJUH has been charged a management fee, internal audit fees and information systems support costs by JHS of $3,890,384 in 2012. TJUH has recorded expense related to the JHS bonds of $7,763,141 in 2012.

TJUH has been charged by MLH for management support services, rent, and clinical lab services. Expenses charged for these services aggregated $1,168,731 in 2012.

TJUH provided various services to MLH and Magee for biomedical engineering, physician referral, residency program, laundry, pastoral care, accounting management, home health medical directorship, and equipment rental. Expenses charged to affiliates for these services aggregated $1,917,054 in 2012.

10. Pension Plan:

TJUH has a non-contributory defined benefit plan covering full-time employees who were at least age 50 or had 15 years of service as of June 30, 2004 and elected to remain in the defined benefit plan. Generally, benefits under the plan are based on the employee's compensation and years of service. Contributions to the plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”).

Items included in unrestricted net assets represent amounts that have not been recognized in net periodic pension expense. The components recognized in unrestricted net assets as of June 30, 2012:

Amounts recognized in unrestricted net assets:	
Net actuarial loss	$111,346,548
Total	$111,346,548

10. Pension Plan, continued:

The following table sets forth the change in the projected benefit obligation and the change in the fair value of plan assets based on the measurement date, as well as the amounts recognized in the accompanying consolidated financial statements at June 30, 2012:

Accumulated benefit obligation, end of year	$310,238,246
Change in projected benefit obligation:	
Benefit obligation, beginning of year	$291,456,291
Service cost	6,182,187
Interest cost	15,904,584
Actuarial loss	33,487,616
Benefits paid	(6,823,093)
Projected benefit obligation, end of year	$340,207,585
Change in plan assets:	
Fair value of plan assets, beginning of year	$201,142,944
Actual return on plan assets, net of expenses	5,163,039
Employer contributions	14,618,176
Benefits paid	(6,823,093)
Fair value of plan assets, end of year	$214,101,066
Net pension liability, end of year	($126,106,519)
Amounts recognized in the consolidated balance sheets consist of:	
Noncurrent liabilities	(126,106,519)
Total recognized in the consolidated balance sheets	($126,106,519)

The weighted-average assumptions used in measurement of the projected benefit obligation were as follows:

Discount rate	4.68%
Rate of compensation increase	3.25%

10. Pension Plan, continued:

The following table sets forth the periodic benefit cost activity of the Plan at June 30, 2012:

Components of net periodic pension cost:	
Service cost	$6,182,187
Interest cost	15,904,584
Expected return on plan assets	(16,943,403)
Actuarial loss	4,117,385
Net periodic cost	$9,260,753
Other changes in plan assets and benefit obligation recognized in changes to unrestricted net assets:	
Net actuarial loss arising during measurement period	45,267,980
Amortization of actuarial loss	(4,117,385)
Total recognized in changes to unrestricted net assets	$41,150,595

The weighted-average assumptions used in measurement of the periodic pension costs were as follows.

Discount rate	5.53%
Expected return on plan assets	8.25%
Rate of compensation increase	3.25%

For its defined benefit pension plan, TJUH pools funds for investment with TJU and utilizes the unitization method of accounting for investments in pooled funds. TJUH had 65% of the total shares of the pooled funds at June 30, 2012.

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

	Targeted Range	% of Actual Plan Assets
Cash	0-5%	3%
Global Equity	40-50%	53%
Bonds	35-40%	33%
Real Estate and Other	10-20%	11%
Total		100%

10. Pension Plan, continued:

	Assets at Fair Value as of June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Domestic equity	$26,865,830	$36,367,211	$0	$63,233,041
Global equity	0	10,863,153	0	10,863,153
International equity	0	27,611,108	0	27,611,108
Real assets	0	5,366,579	1,427,841	6,794,420
Private equity/Venture capital	0	56,496	2,713,466	2,769,962
Hedge funds	0	0	24,300,488	24,300,488
Fixed income	0	71,801,243	0	71,801,243
Cash	(3,227,638)	9,955,289	0	6,727,651
Total	$23,638,192	$162,021,079	$28,441,795	$214,101,066

The portfolio utilizes 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 rates 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.

A roll forward of those assets and liabilities as Level 3 within the fair value hierarchy by TJUH is as follows:

Description	**Hedge Fund**	**Real Estate**	**PE/VC**	**Total**
Opening balance	$20,414,492	$1,214,571	$3,710,188	$25,339,251
Acquisitions	14,148,739	185,183	(36,279)	14,297,643
Dispositions	(8,315,993)	(157,477)	(943,442)	(9,416,912)
Realized gain/(loss)	465,609	(503,064)	83,271	45,816
Unrealized gain/(loss)	(2,412,359)	688,628	(100,272)	(1,824,003)
Closing balance at June 30, 2012	$24,300,488	$1,427,841	$2,713,466	$28,441,795

10. Pension Plan, continued:

Projected benefit payments for the next ten years are as follows:

2013	$8,964,000
2014	10,239,000
2015	11,668,000
2016	13,170,000
2017	14,835,000
2018 - 2021	98,026,000
Total	$156,902,000

In aggregate, TJUH projects it will make contributions of approximately $16.8 million to the plan in 2013.

Effective July 1, 2004, TJUH established a defined contribution plan for the following non-union and non-faculty employee groups: new employees; employees below the age of 50; and, employees with less than 15 years of service. Employees age 50 and over and employees with 15 or more years of service were given the option to stay in the defined benefit plan or switch to the new defined contribution plan. Employees who moved to the new defined contribution plan no longer accrue benefits in the defined benefit plan. Their previously accumulated benefits will be distributed to them upon retirement or termination. The defined contribution plan formula includes a fixed employer contribution of 4.5% and a matching contribution of 25% of the first 6% of employee contributions. Employer contribution expenses were $13,843,569 in 2012. An employer contribution of 9% to 13% exists for senior faculty administration based upon age and years of service. Employer contribution expenses for senior faculty administration were $2,503,500, in 2012. These amounts have been included in the accompanying consolidated statements of operations and changes in net assets.

Participation in Multiemployer Defined Benefit Pension Plan

Through its affiliation with TJU, TJUH is a participating employer in The Pension Fund for Hospital and Health Care Employees – Philadelphia and Vicinity (the "Pension Fund"), a jointly-trusteed 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 TJUH's participation is summarized below:

The employer identification number for the Pension Fund is 23-2627428.

TJUH contributions to the Pension Fund were $3,607,713 for the years ended June 30, 2012. These contributions represent approximately 25% of contributions to the Pension Fund.

The collective bargaining agreement with 1199C expired on June 30, 2012. A new six-year agreement was approved on July 1, 2012. For the years ended June 30, 2012, TJUH contributed approximately 10.0% of covered payroll to the Pension Fund. The contribution increases to 12.5% for the year beginning July 1, 2012.

10. Pension Plan, continued:

For the Plan Years beginning January 1, 2011, the Pension Fund was determined to be in critical status (also referred to as red zone status) under the Pension Protection Act of 2006. Accordingly, the Pension Fund is subject to a funding improvement plan.

At December 31, 2011, the most recent date for which such information is available, the projected benefit obligation of the Pension Fund exceeded the plan assets by $179,858,589.

11. Professional Liability Claims:

TJUH's professional liability insurance program is administered by JHS. TJUH has accrued professional liability claims of $114,676,291 at June 30, 2012 of which $12,022,884 were current. TJUH has recognized professional liability expenses of $35,093,871 in 2012. The interest rate used to discount malpractice claims was 3% at June 30, 2012.

The first ("primary") layer of coverage is claims-made coverage with limits of $500,000 per medical incident and $2,500,000 annual aggregate per hospital and $500,000 per medical incident and $1,500,000 annual aggregate per physician. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. In addition, a $1,000,000 per medical incident and $3,000,000 annual aggregate limit is provided for scheduled dentists, as well as physicians and residents practicing in Delaware and New Jersey. At June 30, 2012, TJUH non-healthcare provider entities are provided with a shared $1,000,000 per incident and $3,000,000 annual aggregate limit of liability. JUP non-healthcare provider entities continue to be provided with a shared $1,000,000 per incident and $2,000,000 annual aggregate limit of liability. In addition, at June 30, 2012, TJUH non-healthcare provider entities are provided with a shared $1,000,000 per incident and $2,000,000 annual aggregate limit of liability. TJUH and its subsidiaries obtain primary hospital and physician professional liability, miscellaneous professional liability and general liability coverage through a policyholder-owned, Vermont-domiciled, risk retention group, Mountain Laurel Risk Retention Group, Inc. (the "RRG"). For professional liability coverage, the RRG is 100% reinsured by a JHS-owned, Delaware-domiciled, 501(c) (3) sponsored protected cell insurance company, Five Pointe Professional Liability Insurance Company ("Five Pointe").

The RRG retains the general liability coverage exposure. The RRG provides a $2,000,000 per incident and $5,000,000 annual aggregate general liability coverage limit shared by TJUH and the other members of JHS. At June 30, 2012, a separate general liability policy with a $1,000,000 per incident and $2,000,000 annual aggregate general liability coverage limit is provided to TJUH. The premiums charged for the primary professional and general liability layers of coverage are determined by an independent outside actuary, based on loss and loss adjustment expense experience and other factors, at a 65% confidence level and a 3% discount rate for 2012 and include a charge for premium tax and operating expenses.

The second layer of professional liability coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). This second layer, required by statute, consists of coverage with limits of $500,000 per incident and $1,500,000 annual aggregate per hospital and per employed physician/resident at June 30, 2012. The annual assessments for MCARE

11. Professional Liability Claims, continued:

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.

Liabilities for TJUH for potential losses in excess of the primary and MCARE layers up to $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention are based on actuarially-determined estimates, which reflect a 65% confidence level and a 3% discount rate for 2012. 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.

During 2012, TJUH maintained claims-made excess catastrophic professional liability insurance coverage through Five Pointe in the amount of $90,000,000 per medical incident and $90,000,000 annual aggregate after a $5,000,000 each medical incident and $5,000,000 aggregate retention excess of a $7,000,000 each and every medical incident retention (inclusive of the primary and MCARE layers of coverage). During 2012, Five Pointe reinsured 100% of this risk to six currently A-rated insurers (ACE, Zurich, Allied World, Berkley, Endurance, and Swiss Re). A separate limit of $90,000,000 per occurrence and $90,000,000 aggregate is also maintained to provide liability insurance coverage excess of the primary general, auto, employers and aviation liability coverages.

The GAAP presentation for insurance claims and associated insurance recoveries for healthcare organizations is required for 2012. Under the new guidance, health care entities are required to reflect their "gross" exposure to claims liabilities with a corresponding receivable for insurance recoveries in order to be consistent with other industries. The amount recorded at June 30, 2012 as an other non-current asset and as a portion of non-current accrued professional liability claims is $103,039,407.

12. Workers’ Compensation Claims:

Effective July 1, 2002, TJUH began self-insuring its workers’ compensation exposures. TJUH accrues for its workers’ compensation liability based upon actuarial estimates using a discount rate of 3%. Accrued workers’ compensation liabilities were $16,806,953 at June 30, 2012. These amounts are presented in the accompanying consolidated balance sheets. Workers’ compensation expense was $7,447,173 in 2012.

13. Fair Value of Financial Instruments:

The following methods and assumptions were used by TJUH in estimating fair value disclosures for financial statements:

Cash and Cash Equivalents: The carrying amount of cash and cash equivalents

Short-term investments: Short-term investments are carried at fair value and are comprised of instruments with an average duration of 1 to 3 years.

Investments: The fair values for marketable equity, government, and fixed income securities included in long-term investments are based on quoted market prices. Alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers and are valued at the latest available unaudited net asset value of the investments.

Assets Whose Use Is Limited: Assets whose use is limited are comprised of investments held for self-insurance obligations and debt service requirements and are valued as stated above.

Long-Term Debt Obligations: Management estimates that the fair value of long-term debt is equal to its carrying value.

Assets Held by Affiliated Foundation: Assets held by an affiliated foundation are comprised of investments, which are valued as stated above.

Due to JHS: The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of financial instruments at June 30, 2012 were as follows:

	Carrying Amount	Fair Value
Balance sheet assets:		
Cash and cash equivalents	$8,978,298	$8,978,298
Short-term investments	$209,521,635	$209,521,635
Investments	$188,092,841	$188,092,841
Assets whose use is limited	$69,601,613	$69,601,613
Assets held by affiliated foundation	$7,199,228	$7,199,228
Balance sheet liabilities:		
Long-term debt	$28,212,605	$28,212,605
Due to JHS	$296,945,866	$312,303,207
Swap	$33,118,730	$33,118,730

14. Recent Accounting Pronouncements:

Measuring and Disclosing Fair Value

In 2011, the Financial Accounting Standards Board (FASB) issued a standard, Measuring and Disclosing Fair Value. This guidance clarifies the FASB's intent about the application of existing fair value measurements and requires TJUH to provide enhanced disclosures, most significantly related to unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. In addition, the guidance requires a sensitivity analysis to be performed and disclosed regarding those inputs. This guidance is effective prospectively for TJUH on July 1, 2012.

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts

In 2011, the FASB issued a standard, Presentation and Disclosure of Patient Service Revenue, the Provision for Bad Debts, and Allowance for Doubtful Accounts. This guidance requires TJUH to modify the presentation of its consolidated statement of operations and changes in net assets by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Additionally, the guidance requires enhanced disclosure about TJUH's policies for recognizing revenue and assessing bad debts, patient service revenue (net of contractual allowances and discounts), and qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance will become effective for TJUH on July 1, 2012.

Intangible - Goodwill and other: Testing Goodwill for Impairment

In September 2011, the FASB issued a standard, Intangible - Goodwill and other: Testing Goodwill for Impairment. This guidance provides TJUH the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The adoption of this standard is not expected to have a material impact on our consolidated financial position or results of operations. This guidance will become effective for TJUH on July 1, 2012.

APPENDIX B-4

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THOMAS JEFFERSON UNIVERSITY AND TJUH SYSTEM

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The merger between TJU and TJUH System (referred to as "TJUH" within this Appendix B-4) was completed on June 30, 2014. The unaudited pro forma consolidating financial information included within this Appendix B-4 has been prepared using the merger method of accounting under existing GAAP. The unaudited pro forma consolidating financial information does not reflect the cost of any integration activities or benefits from synergies that may be derived from any integration activities.

Thomas Jefferson University
Unaudited Pro Forma Consolidating Statement of Activities
For the Year Ended June 30, 2014
(in thousands)

	Pre-merger TJUH 2014 (1)	Pre-merger TJU 2014 (1)	Eliminations & Reclassifications		Post-merger Activity		Pro Forma Consolidated 2014
Unrestricted revenues, gains and other support:							
Patient service revenue, net of contractual allowance	$1,519,442	$299,714	$0				$1,819,156
Provision for bad debts	(61,986)	(20,383)					(82,369)
Net patient service revenue less provision for bad debts	1,457,456	279,331	-		-		1,736,787
Grants and contracts		93,495					93,495
Tuition and fees, net		110,124					110,124
Sales and services of auxiliary activities		72,159	(54,973)	a			17,186
TJUH reimbursement for physician services		170,768	(170,768)	a			-
Investment income	2,601	11,496	2,676	e			16,773
Contributions		1,803	619	e			2,422
Other revenue clinical operations	98,188		(24,489)	a			73,699
Other		16,315	(383)	a			15,932
Net assets released from restrictions	3,577	21,308					24,885
Total unrestricted revenues, gains and other support	1,561,822	776,799	(247,318)		0		2,091,303
Expenses by natural classification:							
Salaries and employee benefits	628,780		(628,780)	b			-
Pension	28,108		(28,108)	b			-
Supplies	313,996		(313,996)	b			-
Purchased services	272,437		(272,437)	b			-
Depreciation and amortization	69,043		(69,043)	b			-
Interest	10,075		(10,075)	b			-
Insurance	24,748		(24,748)	b			-
Utilities	19,516		(19,516)	b			-
Other	166,873		(166,873)	b			-
Expenses by functional classification:							
Clinical operations		365,892	1,331,737	a,b,e	(2,275)	d	1,695,354
Instruction		135,163	(1,149)	a			134,014
Research and other sponsored programs		89,800					89,800
Auxiliary activities		74,436	(51,373)	a			23,063
Student services		9,731					9,731
Institutional support		33,956					33,956
Operations and maintenance		18,357					18,357
Academic support		26,690					26,690
Other		2,946	(1)	a			2,945
Total expenses	1,533,576	756,971	(254,362)		(2,275)		2,033,910
Income from operations before extinguishment of debt	28,246	19,828	7,044		2,275		57,393
Extinguishment of debt	(26,119)						(26,119)
Income from operations	2,127	19,828	7,044		2,275		31,274
Nonoperating changes in unrestricted net assets, net:							
Gain on investments and swaps, net	13,902	27,188					41,090
Investment income, net of amounts classified as operating revenue		(9,150)	(2,674)	e			(11,824)
Contributions	619		(619)	e			-
Contribution expense	(1,217)		1,217	e			-
Reclassification of net assets		(400)					(400)
Government grants for capital projects		2,174	(1)	a			2,173
Donated capital received	2,634						2,634
TJUH capital transfers		4,966	(4,966)	a			-
Change in noncontrolling interest in joint venture	882		781	a			1,663
Net assets released from restriction for capital expenditures	251						251
Transfers from JHS					73,272	d	73,272
Defined benefit plan, net actuarial loss	(22,643)	(14,799)					(37,442)
Increase (decrease) in unrestricted net assets from nonoperating items	(5,572)	9,979	(6,262)		73,272		71,417
Increase (decrease) in unrestricted net assets	($3,445)	$29,807	$782		$75,547		$102,691

(1) Derived from the audited financial statements contained herein

See accompanying Notes to the Unaudited Pro Forma Consolidating Financial Information

Thomas Jefferson University
Unaudited Pro Forma Consolidating Balance Sheet
June 30, 2013
(in thousands)

Assets	TJUH (1)	TJU (1)	Eliminations		Pro Forma June 30, 2013 Consolidated Total
Current assets:					
Cash and cash equivalents	$20,892	$68,244	$0		$89,136
Short-term investments	236,681	96,454	-		333,135
Accounts receivable, less allowance for doubtful accounts			-		
of $40,255	218,039	44,690	-		262,729
Due from TJUH	-	19,662	(19,662)	a	-
Inventory	27,024	531	-		27,555
Pledge receivables	-	5,822	-		5,822
Assets whose use is limited, current	19,258	-	-		19,258
Other current assets	10,364	3,465	-		13,829
Total current assets	532,258	238,868	(19,662)		751,464
Long-term investments	204,908	468,280	-		673,188
Assets whose use is limited, noncurrent	75,512	15,314	-		90,826
Assets held by affiliated foundation	7,787	-	-		7,787
Due from TJUH	-	7,730	(7,730)	a	-
Pledge receivables	-	6,086	-		6,086
Goodwill, net	11,418	-	-		11,418
Insurance recoverable	89,660	87,023	(53,923)	a	122,760
Loans receivable from students, net	-	26,486	-		26,486
Land, buildings and equipment, net	532,688	336,017	-		868,705
Other noncurrent assets	4,904	9,168	-		14,072
Total assets	$1,459,135	$1,194,972	($81,315)		$2,572,792
Liabilities and Net Assets					
Current liabilities:					
Current portion of:					
Long-term obligations	$2,557	$7,029	$96	a	$9,682
Due to Jefferson Health System	5,824	-			5,824
Due to Thomas Jefferson University	19,735	-	(19,735)	a	-
Accrued pension liability	-	-	-		-
Accrued professional liability claims	12,956	8,977	-		21,933
Accrued workers' compensation claims	5,487	1,311	-		6,798
Deferred revenues	468	8,824	-		9,292
Accounts payable and accrued expenses	124,538	47,276	-		171,814
Accrued payroll and related costs	61,479	47,908	-		109,387
Grant and contract advances	-	17,189	-		17,189
Notes payable	-	-	-		-
Other liabilities	753	2,957	-		3,710
Total current liabilities	233,797	141,471	(19,639)		355,629
Long-term obligations	7,934	261,448	-		269,382
Due to Jefferson Health System	305,497	-	-		305,497
Due to Thomas Jefferson University	7,753	-	(7,753)	a	-
Accrued pension liability	92,147	15,029	-		107,176
Federal student loan advances	-	18,109	-		18,109
Deferred revenues	-	9,523	-		9,523
Accrued professional liability claims	191,865	145,047	(53,923)	a	282,989
Accrued workers' compensation claims	9,168	1,440	-		10,608
Interest rate swap contracts	21,692	6,844	-		28,536
Other noncurrent liabilities	1,859	2,882	-		4,741
Total liabilities	871,712	601,793	(81,315)		1,392,190
Net assets:					
Unrestricted	540,905	317,300	-		858,205
Unrestriced net assets related to noncontrolling interests	2,193	-	-		2,193
Temporarily restricted	32,027	124,204	-		156,231
Permanently restricted	12,298	151,675	-		163,973
Total net assets	587,423	593,179	-		1,180,602
Total liabilities and net assets	$1,459,135	$1,194,972	($81,315)		$2,572,792

(1) Derived from the audited financial statements contained herein

See accompanying Notes to the Unaudited Pro Forma Consolidating Financial Information

Thomas Jefferson University
Unaudited Pro Forma Consolidating Statement of Activities
For the Year Ended June 30, 2013

(in thousands)

	TJUH 2013 (1)	TJU 2013 (1)	Eliminations & Reclassifications		Pro Forma Consolidated 2013
Unrestricted revenues, gains and other support:					
Patient service revenue, net of contractual allowance	$1,492,461	$284,863	($1,261)	a	$1,776,063
Provision for bad debts	(61,574)	(19,068)			(80,642)
Net patient service revenue less provision for bad debts	1,430,887	265,795	(1,261)		1,695,421
Grants and contracts		100,494			100,494
Tuition and fees, net		107,183			107,183
Sales and services of auxiliary activities		63,634	(47,741)	a	15,893
TJUH reimbursement for physician services		152,431	(152,431)	a	-
Investment income	8,848	11,676	2,688	e	23,212
Contributions		2,242	880	e	3,122
Other revenue clinical operations	103,658		(24,416)	a	79,242
Other		14,748	(402)	a	14,346
Net assets released from restrictions	2,928	19,570			22,498
Total unrestricted revenues, gains and other support	1,546,321	737,773	(222,683)		2,061,411
Expenses by natural classification:					
Salaries and employee benefits	610,121		(610,121)	b	-
Pension	31,053		(31,053)	b	-
Supplies	300,738		(300,738)	b	-
Purchased services	253,881		(253,881)	b	-
Depreciation and amortization	68,086		(68,086)	b	-
Interest	9,437		(9,437)	b	-
Insurance	23,072		(23,072)	b	-
Utilities	21,155		(21,155)	b	-
Other	154,773		(154,773)	b	-
Expenses by functional classification:					
Clinical operations		344,951	1,289,991	a,b,e	1,634,942
Instruction		135,148	(1,059)	a	134,089
Research and other sponsored programs		95,057			95,057
Auxiliary activities		66,636	(44,599)	a	22,037
Student services		8,674			8,674
Institutional support		30,946			30,946
Operations and maintenance		20,622			20,622
Academic support		24,716			24,716
Other		2,878			2,878
Total expenses	1,472,316	729,628	(227,983)		1,973,961
Income from operations	74,005	8,145	5,300		87,450
Nonoperating changes in unrestricted net assets, net:					
Gain on investments and swaps, net	14,459	25,270			39,729
Investment income, net of amounts classified as operating revenue		(8,578)	(2,689)	e	(11,267)
Contributions	880		(880)	e	-
Contribution expense	(1,936)		1,936	e	-
Reclassification of net assets		(1,317)			(1,317)
Government grants for capital projects		4,473			4,473
TJUH capital transfers		3,667	(3,667)	a	-
Change in noncontrolling interest in joint venture	40				40
Net assets released from restriction for capital expenditures	399				399
Defined benefit plan, net actuarial gain	30,401	14,701			45,102
Increase (decrease) in unrestricted net assets from nonoperating items	44,243	38,216	(5,300)		77,159
Increase in unrestricted net assets	$118,248	$46,361	$0		$164,609

(1) Derived from the audited financial statements contained herein

See accompanying Notes to the Unaudited Pro Forma Consolidating Financial Information

Thomas Jefferson University
Unaudited Pro Forma Consolidating Balance Sheet
June 30, 2012
(in thousands)

Assets	TJUH (1)	TJU (1)	Reclassifications		Eliminations		Pro Forma June 30, 2012 Consolidated Total
Current assets:							
Cash and cash equivalents	$8,978		$68,476	c	-		$77,454
Short-term investments	209,397		95,113	c	-		304,510
Accounts receivable, less allowance for doubtful accounts	230,263		45,102	c			275,365
Due from TJUH	-		13,713	c	(13,713)	a	-
Due from JUP	-		-		-		-
Other receivables, net	-		-		-		-
Inventory	26,661		1,105	c	-		27,766
Pledge receivables	-		3,764	c	-		3,764
Assets whose use is limited, current	19,467		2,027	c	-		21,494
Other current assets	11,069		7,284	c			18,353
Total current assets	505,835		236,584		(13,713)		728,706
Long-term investments	188,093		439,193	c	-		627,286
Assets whose use is limited, noncurrent	50,260		-		-		50,260
Assets held by affiliated foundation	7,199		-		-		7,199
Due from TJUH	-		12,000	c	(12,000)	a	-
Pledge receivables	-		2,121	c	-		2,121
Goodwill, net	11,418		-		-		11,418
Insurance recoverable	103,039		97,021	c	(58,809)	a	141,251
Loans receivable from students, net	-		28,335	c	-		28,335
Land, buildings and equipment, net	539,328		305,257	c	-		844,585
Other noncurrent assets	5,214		8,392	c	-		13,606
Total noncurrent assets	904,551		892,319		(70,809)		1,726,061
Cash and cash equivalents		$68,476	(68,476)	c			
Patient receivables, less allowance for doubtful accounts		25,837	(25,837)	c			
Due from TJUH		25,216	(25,216)	c			
Other receivables, net		19,762	(19,762)	c			
Inventory		1,105	(1,105)	c			
Prepaid expenses		877	(877)	c			
Pledges receivable, net		5,885	(5,885)	c			
Cash collateral		6,407	(6,407)	c			
Assets whose use is limited		2,027	(2,027)	c			
Investments		534,306	(534,306)	c			
Insurance receivable, net		97,021	(97,021)	c			
Loans receivable from students, net		28,335	(28,335)	c			
Deferred financing costs, net		2,763	(2,763)	c			
Land, buildings and equipment, net		305,257	(305,257)	c			
Other assets		5,629	(5,629)	c			
Subtotal		1,128,903	(1,128,903)				
Total assets	$1,410,386	$1,128,903	$0		($84,522)		$2,454,767

(1) Derived from the audited financial statements contained herein

See accompanying Notes to the Unaudited Pro Forma Consolidating Financial Information

Thomas Jefferson University
Unaudited Pro Forma Consolidating Balance Sheet
June 30, 2012
(in thousands)

Liabilities and Net Assets	TJUH (1)	TJU (1)	Reclassifications		Eliminations		Pro Forma June 30, 2012 Consolidated Total
Current liabilities:							
Current portion of:							
Long-term obligations	$2,683		$6,520	c	-		$9,203
Due to Jefferson Health System	4,940		-		-		4,940
Due to Thomas Jefferson University	13,713		-		(13,713)	a	-
Accrued pension liability	16,789		-		-		16,789
Accrued professional liability claims	12,023		9,910	c	-		21,933
Accrued workers' compensation claims	6,814		1,707	c	-		8,521
Deferred revenues	-		6,708	c	-		6,708
Accounts payable and accrued expenses	133,313		48,295	c			181,608
Accrued payroll and related costs	61,844		43,080	c	-		104,924
Grant and contract advances	-		18,715	c	-		18,715
Notes payable	-		-		-		-
Other liabilities	2,678		6,407	c	-		9,085
Total current liabilities	254,797		141,342		(13,713)		382,426
Long-term obligations	25,530		231,880	c			257,410
Due to Jefferson Health System	292,006		-		-		292,006
Due to Thomas Jefferson University	12,000		-		(12,000)	a	-
Accrued pension liability	109,317		29,561	c	-		138,878
Federal student loan advances	-		18,061	c	-		18,061
Deferred revenues	-		6,575	c	-		6,575
Accrued professional liability claims	205,693		158,862	c	(58,809)	a	305,746
Accrued workers' compensation claims	9,993		1,879	c	-		11,872
Interest rate swap contracts	33,119		10,369	c	-		43,488
Other liabilities	-		-		-		-
Other noncurrent liabilities	1,773		4,288	c	-		6,061
Total noncurrent liabilities	689,431		461,475		(70,809)		1,080,097
Accounts payable and accrued expenses		$71,830	(71,830)	c			
Cash collateral payable		6,407	(6,407)	c			
Accrued vacation		19,545	(19,545)	c			
Grant and contract advances		18,715	(18,715)	c			
Accrued professional liability claims		168,772	(168,772)	c			
Federal student loan advances		18,061	(18,061)	c			
Accrued pension cost		29,561	(29,561)	c			
Long-term obligations		238,400	(238,400)	c			
Other liabilities		31,526	(31,526)	c			
Subtotal		602,817	(602,817)				
Total liabilities	944,228	602,817	-		(84,522)		1,462,523
Net assets:							
Unrestricted	422,698	270,938	-		-		693,636
Unrestriced net assets related to noncontrolling interests	2,153	-	-		-		2,153
Temporarily restricted	29,118	114,205	-		-		143,323
Permanently restricted	12,189	140,943	-		-		153,132
Total net assets	466,158	526,086	-		-		992,244
Total liabilities and net assets	$1,410,386	$1,128,903	$0		($84,522)		$2,454,767

(1) Derived from the audited financial statements contained herein

See accompanying Notes to the Unaudited Pro Forma Consolidating Financial Information

Thomas Jefferson University
Unaudited Pro Forma Consolidating Statement of Activities
For the Year Ended June 30, 2012
(in thousands)

	TJUH 2012 (1)	TJU 2012 (1)	Eliminations & Reclassifications		Pro Forma Consolidated 2012
Unrestricted revenues, gains and other support:					
Patient service revenue, net of contractual allowance	$1,464,348	$271,503			$1,735,851
Provision for bad debts	(42,257)	(17,351)			(59,608)
Net patient service revenue less provision for bad debts	1,422,091	254,152	-		1,676,243
Grants and contracts		115,795			115,795
Tuition and fees, net		104,273			104,273
Sales and services of auxiliary activities		60,923	(46,819)	a	14,104
TJUH reimbursement for physician services		144,104	(144,104)	a	-
Investment income	2,561	11,628	2,682	e	16,871
Contributions		4,134	806	e	4,940
Other revenue clinical operations	85,713		(21,254)	a	64,459
Other		16,595			16,595
Net assets released from restrictions	2,149	19,748			21,897
Total unrestricted revenues, gains and other support	1,512,514	731,352	(208,689)		2,035,177
Expenses by natural classification:					
Salaries and employee benefits	616,431		(616,431)	b	-
Pension	25,608		(25,608)	b	-
Supplies	308,034		(308,034)	b	-
Purchased services	241,295		(241,295)	b	-
Depreciation and amortization	62,312		(62,312)	b	-
Interest	9,936		(9,936)	b	-
Insurance	38,404		(38,404)	b	-
Utilities	19,504		(19,504)	b	-
Other	144,278		(144,278)	b	-
Expenses by functional classification:					
Clinical operations		333,259	1,299,644	a,b,e	1,632,903
Instruction		135,941	(1,033)	a	134,908
Research and other sponsored programs		105,557			105,557
Auxiliary activities		65,603	(42,214)	a	23,389
Student services		8,556			8,556
Institutional support		31,033			31,033
Operations and maintenance		19,269			19,269
Academic support		22,219			22,219
Other		2,999			2,999
Total expenses	1,465,802	724,436	(209,405)		1,980,833
Income from operations before extinguishment of debt	46,712	6,916	716		54,344
Extinguishment of debt	(470)				(470)
Income from operations	46,242	6,916	716		53,874
Nonoperating changes in unrestricted net assets, net:					
Gain on investments and swaps, net	(23,403)	(11,614)			(35,017)
Investment income, net of amounts classified as operating revenue	1,234	(8,239)	(2,682)	e	(9,687)
Contributions	806		(806)	e	-
Contribution expense	(2,772)		2,772	e	-
Reclassification of net assets		(1,321)			(1,321)
Government grants for capital projects		6,933			6,933
Donated capital received	4,763				4,763
Change in noncontrolling interest in joint venture	1,087				1,087
Net assets released from restriction for capital expenditures	1,798				1,798
Defined benefit plan, net actuarial loss	(41,151)	(18,903)			(60,054)
Decrease in unrestricted net assets from nonoperating items	(57,638)	(33,144)	(716)		(91,498)
Decrease in unrestricted net assets	($11,396)	($26,228)	$0		($37,624)

(1) Derived from the audited financial statements contained herein

See accompanying Notes to the Unaudited Pro Forma Consolidating Financial Information

Thomas Jefferson University
Unaudited Pro Forma Consolidated Statement of Activities
For the Six Month Period Ended December 31, 2013
(in thousands)

	Clinical Dec 2013	Academic Dec 2013	Eliminations & Reclassifications		Pro Forma Consolidated Dec 2013
Unrestricted revenues, gains and other support:					
Patient service revenue, net of contractual allowance	$910,897	$35	$0		$910,932
Provision for bad debts	(43,561)	-	-		(43,561)
Net patient service revenue less provision for bad debts	867,336	35	-		867,371
Grants and contracts	-	43,474	-		43,474
Tuition and fees, net	-	53,920	-		53,920
Sales and services of auxiliary activities	-	49,327	(39,517)	a	9,811
TJUH reimbursement for physician services	-	16,444	(16,444)	a	(0)
Investment income	3,436	4,930	1,646	e	10,012
Contributions	-	784	469	e	1,253
Other revenue clinical operations	43,021	-	(9,585)	a	33,436
Other	-	9,601	-		9,601
Net assets released from restrictions	1,348	10,165	-		11,513
Total unrestricted revenues, gains and other support	915,141	188,680	(63,431)		1,040,391
Expenses:					
Clinical operations	885,506	-	(36,465)	a,e	849,041
Instruction	-	53,476	-		53,476
Research and other sponsored programs	-	36,902	-		36,902
Auxiliary activities	-	36,967	(27,615)	a	9,352
Student services	-	14,613	-		14,613
Institutional support	-	14,726	-		14,726
Operations and maintenance	-	8,630	-		8,630
Academic support	-	16,724	-		16,724
Other	-	1,638	-		1,638
Total expenses	885,506	183,676	(64,080)		1,005,101
Income from operations	29,635	5,004	649		35,290
Nonoperating items and other:					
Change in net assets	10,604	10,610	(649)	e	20,565
Increase (decrease) in unrestricted net assets	$40,239	$15,614	$0		$55,855

See accompanying Notes to the Unaudited Pro Forma Consolidating Financial Information

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATING FINANCIAL INFORMATION

Note #1 – Basis of Presentation

The accompanying unaudited pro forma consolidating balance sheet and consolidating statement of activities were prepared in accordance with the provisions of the authoritative guidance for business combinations using the merger method of accounting.

The accompanying unaudited pro forma consolidating financial information presents the pro forma consolidated financial position and results of operations based on historical audited financial statements as of and for the year ended June 30, 2014, 2013 and 2012.

The accompanying unaudited pro forma consolidating financial information gives effect to the merger between TJU and TJUH as of the beginning of each fiscal year.

The accompanying unaudited pro forma consolidating statement of activities does not include the consolidating pro forma statement of changes in net assets.

Note #2 – Elimination, Reclassification and Post Merger Activity Adjustments

The unaudited pro forma consolidating financial information includes the following eliminations and reclassification adjustments and post-merger activity:

a. to eliminate inter-company revenue, expenses and payables and receivables between TJU and TJUH;
b. to reclassify TJUH natural classification of expenses to TJU functional classification of expenses;
c. to reclassify TJU balance sheet to a classified balance sheet showing current assets and liabilities;
d. to give effect to the contribution of the net assets of Jefferson Health System's interest in the insurance captive and accountable care organization as of June 30, 2014; and
e. To reclassify certain items to the TJU presentation.

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APPENDIX C

DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE INDENTURE, THE LOAN AGREEMENT AND THE CONTRIBUTION AGREEMENTS

APPENDIX C

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CERTAIN CHANGES TO APPENDIX C

The following is a summary of certain clarifications and changes made to the "DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT, THE INDENTURE AND THE CONTRIBUTION AGREEMENT" after distribution of the Preliminary Official Statement dated February 2, 2015.

Clarifying changes to the language were made throughout to clarify that (i) each University Entity has granted directly to the Trustee a security interest in its Gross Revenues under its respective Contribution Agreement, (ii) each University Entity's grant to TJU of a security interest in its Gross Revenues under its respective Contribution Agreement has been assigned to the Trustee, and (iii) such grant to TJU of its Gross Revenues is subordinate to the grant to the Trustee of its Gross Revenues.

Under "DEFINITIONS OF CERTAIN TERMS":

The definitions of "Additional Parity Obligations", "Senior Secured Obligation", and "Subordinated Obligations" include sentences at the end of each definition clarifying which obligations are "Parity Obligations", "Senior Secured Obligations", and "Subordinated Obligations", respectively.

Under "SUMMARY OF LOAN AGREEMENT":

The section titled "**Security Interest in Gross Revenues; Rights under Contribution Agreements**" was modified to incorporate the 2006 Bonds, the 2010 Bonds and the 2012 Bonds in reference to Senior Secured Obligation Documents.

The section titled "**Maintaining Debt Service Coverage**" was modified to change the Debt Service Coverage Ratio requirement for which TJU would be required to engage an Independent Consultant from less than 1.10 to 1.00 for two consecutive Fiscal Years to less than 1.0 in any Fiscal Year.

An additional Event of Default, a breach of representations and warranties, was added as (i) under the section titled "**Events of Default**."

Under "SUMMARY OF CONTRIBUTION AGREEMENT":

Language under the sections titled "**Pledge of Gross Revenues**" and "**Remedies**" was modified to clarify that (i) each University Entity has granted directly to the Trustee a security interest in its Gross Revenues under its respective Contribution Agreement, (ii) each University Entity's grant to TJU of a security interest in its Gross Revenues under its respective Contribution Agreement has been assigned to the Trustee, and (iii) such grant to TJU of its Gross Revenues is subordinate to the grant to the Trustee of its Gross Revenues.

An additional Event of Default, a breach of representations and warranties, was added as (f) under the section titled "**Events of Default**."

The section titled "Additional Obligations" was adjusted to account for the inclusion of new Bonds, Senior Secured Obligations and/or Subordinated Obligations subsequently issued to be entitled to the benefits of the Contribution Agreement.

DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT, THE INDENTURE AND THE CONTRIBUTION AGREEMENT

The following are summaries of certain provisions of the Loan Agreement, the Indenture and the Contribution Agreement. The summaries should not be regarded as full statements of the documents themselves or of the portions summarized. For complete statements of the provisions thereof, reference is made to the documents in their entireties, copies of which will be available for inspection at the designated corporate trust office of the Trustee.

DEFINITIONS OF CERTAIN TERMS

The following definitions apply to the summaries of the Indenture and the Loan Agreement, and to terms not otherwise defined in the Official Statement. Terms used but not defined in this Appendix C may be found in the Indenture or the Loan Agreement.

"**2006 Bonds**" means (i) the Authority's Revenue Bonds (Thomas Jefferson University) Series 2006A issued for the benefit of TJU in the original principal amount of $25,500,000 and (ii) the Authority's Revenue Bonds (Thomas Jefferson University) Series 2006B issued for the benefit of TJU in the original principal amount of $60,420,000.

"**2008 Bonds**" means (i) the Authority's Revenue Bonds (Thomas Jefferson University) Series 2008A issued for the benefit of TJU in the original principal amount of $25,000,000, and (ii) the Authority's Revenue Bonds (Thomas Jefferson University) Series 2008B, issued for the benefit of TJU in the original principal amount of $46,935,000.

"**2010 Bonds**" means the Authority's Revenue Bonds (Thomas Jefferson University) Series 2010 issued for the benefit of TJU in the original principal amount of $75,000,000.

"**2012 Bonds**" means the Authority's Revenue Bonds (Thomas Jefferson University) Series 2012 issued for the benefit of TJU in the original principal amount of $42,195,000.

"**2015A Bonds**" means the Authority's Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A issued pursuant to the First Supplemental Indenture.

"**2015 Bonds**" means the Authority's Thomas Jefferson University Revenue Bonds, Series 2015A, Series 2015B, Series 2015C, Series 2015D, Series 2015E, Series 2015F, Series 2015G and Series 2015H.

"**2015 Project**" means the project consisting generally of (i) the current refunding of the outstanding 2008 Bonds and the Notes; (ii) the payment of (or the reimbursement to the University and its Affiliates for) the costs of the acquisition, construction and development of various capital assets and the making of other capital improvements in various research, education and clinical care programs of the University and its Affiliates and the acquisition of real property currently planned to be used and developed in furtherance of the academic health care, education, research, clinical care and related missions of the University and its Affiliates; (iii) the payment of all or a portion of the termination costs of certain interest rate hedging agreements previously entered into for the benefit of the University, and the entry by the University into certain other interest rate hedging arrangements and/or the amendment of existing interest rate hedging arrangements; (iv) the funding of any necessary reserves and the funding of interest; and (iv) the payment of certain costs and expenses incident to the issuance of the 2015 Bonds.

“**2015 Project Facilities**” means the facilities being financed in whole or in part with the proceeds of the 2015 Bonds.

“**Act**” means the Pennsylvania Higher Educational Facilities Authority Act of 1967 (Act of December 6, 1967, P.L. 678, as amended).

“**Additional Parity Obligation**” or “**Parity Obligation**” means any Obligation (other than obligations with respect to a Series of Bonds) incurred by TJU or another University Entity (and including Guarantees), which is secured by (i) a Lien on the Gross Revenues of TJU on a parity with the Lien on the Gross Revenues of TJU granted to the Authority and to the Trustee (as assignee of the Authority) pursuant to the Loan Agreement, (ii) a Lien on the Gross Revenues of each other University Entity on a parity with the Lien on the Gross Revenues granted to the Trustee (directly and as assignee of TJU) pursuant to each Contribution Agreement, (iii) a Lien on TJU’s rights under each Contribution Agreement, including its right to cause the University Entities to pay such amounts as are necessary for the University Entities to comply with the provisions of each Contribution Agreement and the Loan Agreement, and (iv) in each case whose terms conform with the provisions in the Loan Agreement governing Parity Obligations. For the avoidance of doubt, the obligations with respect to the 2006 Bonds, the 2010 Bonds and the 2012 Bonds are Parity Obligations.

“**Additional Parity Obligation Agreement**” or “**Parity Obligation Agreement**” means (i) any agreement evidencing, or providing for the repayment of and security for an Additional Parity Obligation, and (ii) any agreement executed in connection with a Series of Bonds designated as a Senior Secured Obligation setting forth additional obligations or covenants of a University Entity, such as a Continuing Covenant Agreement entered into in connection with a Series of Bonds designated as a Senior Secured Obligation and placed with a commercial bank or other financial institution or an agreement entered into with an insurer of a Series of Bonds designated as a Senior Secured Obligation.

“**Additional Payments**” means all additional amounts required to be paid by TJU under the Indenture and the Loan Agreement.

“**Adjusted Unrestricted Expenses**” with respect to a Person, means such Person’s Total Unrestricted Expenses, exclusive of depreciation, amortization, and interest on Long-Term Indebtedness and Extraordinary Items; or the equivalent as estimated by TJU if the Audit Group’s accounting presentation format changes materially in the future.

“**Adjusted Unrestricted Revenues**” with respect to a Person, means such Person’s Total Unrestricted Revenues, including net assets released from restriction; provided that revenues derived from specific Property that is pledged as security for Non-Recourse Indebtedness incurred for the acquisition and/or construction of such Property shall be excluded from the definition of “Adjusted Unrestricted Revenues” during the period that such Non-Recourse Indebtedness shall be outstanding; or the equivalent as estimated by TJU if the Audit Group’s accounting presentation format changes materially in the future.

“**Administrative Expenses**” means all expenses of the Authority which are properly chargeable as administrative expenses under Generally Accepted Accounting Principles, including, without limitation, (i) fees and expenses, including Ordinary Expenses and Extraordinary Expenses of the Trustee, including annual fees and the fees and expenses of its counsel; (ii) fees and expenses of the Authority (including any initial Authority fee) reasonably necessary and fairly attributable directly or indirectly to a Series of Bonds, a Project and the administration thereof, including, without limiting the generality of the foregoing, fees and expenses of the Authority’s employees, consultants, Certified Public Accountant, Counsel and other professional advisors; and (iii) reasonable fees and expenses of counsel to the Authority and the Trustee.

“**Affiliate**” means, each Person that, directly or indirectly, controls or is controlled by or is under common control with TJU. For the purposes of this definition, the term “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”), as used with respect to any Person, means the power, directly or indirectly, either to (i) vote 50% or more of the securities having ordinary voting power for the election of directors, trustees or similar governing body of such Person, or (ii) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

“**Annual Administrative Fee**” means the annual fee for the general administrative services of the Authority as set forth in the Loan Agreement.

“**Audit Group**” means TJU and any other Person whose financial results are set forth in the TJU Financial Statements. For the avoidance of doubt, the financial results of any Person that is an Excluded Affiliate are not to be included in any calculations of the Audit Group unless otherwise provided for in the Loan Agreement.

“**Authenticating Agent**” means the Trustee, the Bond Registrar, and any agent so designated in and appointed pursuant to the Indenture.

“**Authority**” means the Pennsylvania Higher Educational Facilities Authority.

“**Authority Representative**” means the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, any Assistant Executive Director, or the Controller or any Assistant Controller, any other officer of the Authority or other person designated by Certified Resolution of the governing body of the Authority to act for any of the foregoing, either generally or with respect to the execution of any particular document or other specific matter.

“**Balloon Indebtedness**” means any Long Term Indebtedness other than a Demand Obligation, 25% or more of the principal amount of which is payable in the same year (after taking into account all scheduled mandatory redemptions or prepayments payable over the life of the indebtedness), such year being referred to as a “balloon payment year” and the principal amount payable in such balloon payment year being referred to in the Loan Agreement as a “balloon payment.”

“**Book Value**” means, when used in connection with Property, the value of such Property, net of accumulated depreciation and amortization.

“**Bond Counsel**” means an attorney-at-law or a firm of attorneys of nationally recognized standing in matters pertaining to the exclusion from gross income for federal income tax purposes of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America, and, except as otherwise provided in the Indenture, selected by TJU and not unsatisfactory to the Trustee and the Authority.

“**Bondholder**” or “**holder**” or “**Owner**” or “**Holder**” (when used with respect to Bonds) means the Person in whose name any Bond is registered pursuant to the Indenture.

“**Bond Register**” means the registration books of the Authority kept by the Trustee to evidence the registration and transfer of Bonds.

"**Bond Registrar**" means the Person designated by the Authority to act as Bond Registrar for the Bonds, which Person shall be either the Trustee or a Person which would meet the requirements for qualification as a Trustee imposed under the Indenture.

"**Bonds**" means the 2015 Bonds and any other Series of Bonds hereafter issued within the terms, restrictions and conditions contained in the Indenture.

"**Bond Year**" means the annual period beginning on the date of delivery of and payment for a Series of Bonds and ending on the one year anniversary thereof and each one year period thereafter.

"**Business Day**" means any day other than a Saturday, a Sunday, a legal holiday, or a day on which banking institutions in the Commonwealth or in the city in which the designated corporate trust office of the Trustee is located are authorized or required by law or executive order to close.

"**Certificate**" means a certificate or report, in form and substance satisfactory to the Authority and the Trustee, executed: (a) in the case of a Certificate of the Authority, by an Authority Representative; (b) in the case of a Certificate of TJU, by a TJU Representative; (c) in the case of a Certificate of a University Entity, by a University Entity Representative; and (d) in the case of a Certificate of any other Person, by such Person, if an individual, and otherwise by an officer, partner or other authorized representative of such Person; provided that in no event shall any individual be permitted to execute any Certificate in more than one capacity. Notwithstanding the foregoing, a Certificate of the Authority or TJU may be executed by any individual designated by the Authority or TJU, respectively, to execute such Certificate, as set forth in a Certified Resolution of the Authority or TJU, respectively, filed with the Trustee.

"**Certified Public Accountant**" means an independent accounting firm which is appointed by TJU for the purpose of examining and reporting on or passing on questions relating to its financial statements, has all certifications necessary for the performance of such services and, in the Authority's reasonable judgment, is not unsatisfactory to the Authority.

"**Certified Resolution**" means, as the context requires: (a) one or more resolutions of the governing body of the Authority, certified by the Secretary, Assistant Secretary, Executive Director or Assistant Executive Director of the Authority to have been duly adopted or enacted and to be in full force and effect as of the date of certification; (b) one or more resolutions of the governing body of TJU or a duly authorized committee thereof, certified by the Secretary or Assistant Secretary of TJU or other officer serving in a similar capacity, to have been duly adopted and to be in full force and effect as of the date of certification; or (c) one or more resolutions of the governing body of any other Person or a duly authorized committee thereof, certified by the Secretary or Assistant Secretary of such Person or other Person serving in a similar capacity to have been duly adopted and to be in full force and effect as of the date of certification.

"**Collateral**" means the pledges, assignments, security interests and covenants granted to the Authority and the Trustee pursuant to the Loan Agreement and assigned to the Trustee.

"**Code**" or "**Internal Revenue Code**" means the Internal Revenue Code of 1986, as amended, and, when appropriate, any statutory predecessor or successor thereto, and all applicable regulations (whether proposed, temporary or final) thereunder and any applicable official rulings, announcements, notices, procedures and judicial determinations relating to the foregoing.

"**Commercial Paper Program**" means notes of the Authority, with a maturity specified in the applicable Supplemental Indenture and which are issued and reissued from time to time pursuant to a commercial paper program adopted by the Authority.

"**Commonwealth**" means the Commonwealth of Pennsylvania.

"**Construction Fund**" means a fund of such name established pursuant to the Indenture.

"**Consultant**" means a firm which (i) is Independent and (ii) is a public accounting firm, a nationally recognized investment banker or a nationally recognized professional management consultant, designated by TJU qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the University and/or members of the Audit Group and having the skill and experience necessary to render the particular opinion or report required by the provision of the Loan Agreement in which such requirement appears. Whenever a Certificate or report or opinion is furnished to the Trustee by a Consultant, such opinion, report or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning in the Loan Agreement.

"**Continuing Covenant Agreement**" means any continuing covenant agreement or similarly named agreement between TJU or any other University Entity and a Purchaser or Purchasers of Senior Secured Obligations pursuant to a private placement transaction.

"**Contribution Agreements**" means, collectively, each Contribution Agreement, each dated as of the date of issuance of the Series 2015A Bonds, between TJU and the System, the Hospital and JUP, respectively, and includes any amendments or supplements thereto and any other contribution agreement executed and delivered in connection with a Person that becomes a University Entity under the Loan Agreement.

"**Counsel**" means an attorney-at-law or law firm (which may be internal counsel for TJU, a University Entity or for the Authority) not unsatisfactory to the Trustee.

"**DTC**" means The Depository Trust Company, New York, New York and its successors and assigns.

"**Days Cash on Hand Ratio**" means, as of the date of calculation, the ratio of (a) the product of (i) total cash, cash equivalents and marketable securities of the Audit Group (not restricted as to use) multiplied by (ii) 365 to (b) Adjusted Unrestricted Expenses of the Audit Group incurred during the 12-month period ending on such date of calculation. In calculating the Days Cash on Hand Ratio, TJU (A) may include cash, cash equivalents and marketable securities constituting Board-designated funds of the Audit Group which are not restricted by the donor, by contract, by court order or by governmental restrictions as to use, and (B) may not include (1) self-insurance funds, (2) trustee-held funds, (3) any portion of cash, cash equivalents or marketable securities which have been derived from proceeds of any short-term borrowings including, without limitation, internal affiliate loans and draws on lines of credit regardless of the maturity date of the line of credit, (4) proceeds of accounts receivable financings or factoring, (5) proceeds of Demand Obligations not supported by a Loan Commitment with term-out features, and (6) funds or investments subject to a lien (other than the Liens permitted in the Loan Agreement or the Contribution Agreements, as applicable, on the Gross Revenues) or any donor restrictions, permanent or temporary, regardless of whether such funds or investments are considered restricted for purposes of Generally Accepted Accounting Principles.

"**Debt Service**" means, for any period or payable at any time, the principal of, premium, if any, and interest on a Series of Bonds or Indebtedness for that period or payable at the time whether due on a scheduled interest payment date, at maturity or upon acceleration, scheduled mandatory redemption or a mandatory prepayment of principal.

"**Debt Service Coverage Ratio**" means, for any period of time, the ratio obtained by dividing Net Revenues during such period by the Debt Service Requirements for such period.

"**Debt Service Requirements**" means, for any specified period, the amounts payable to any or all holders of Indebtedness (or to any trustee or paying agent for such holders) in respect of the principal of such Indebtedness (including acceleration, scheduled mandatory redemptions or mandatory prepayments of principal) and the interest on such Indebtedness; provided, however, that:

(a) the amounts deemed payable in respect of interest will not include interest on any Indebtedness which is funded from the proceeds thereof;

(b) the Debt Service Requirements on any Indebtedness in the form of capitalized leases or construction contracts will be equal to the lease rentals or construction contract payments due and payable in accordance with the terms thereof;

(c) the foregoing is subject to adjustment and recalculation as and to the extent permitted or required by the Loan Agreement; and

(d) the amounts deemed payable in respect of any Indebtedness will not include any amounts payable from funds available (without reinvestment) in a Qualified Escrow (other than amounts so payable solely by reason of TJU's failure to make payments from other sources).

"**Debt Service Reserve Fund**" means a fund by that name established for a Series of Bonds pursuant to the Indenture.

"**Debt Service Reserve Requirement**" means, with respect to a Series of Bonds which are to be secured by a Debt Service Reserve Fund, the debt service reserve fund requirement established therefor set forth in the pertinent Supplemental Indenture.

"**Demand Obligation**" means any Long Term Indebtedness which is subject to repurchase or repayment as to principal upon demand by the holder thereof.

"**Electronic Methods**" means instructions or directions sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods.

"**Event of Default**" means any of the events described in "Events of Default" under the Indenture or the Loan Agreement.

"**Excluded Affiliate**" means a Material Affiliate or any other Person that (i) is designated by TJU as an "Excluded Affiliate" on the date on which such Person otherwise would be required to execute a Contribution Agreement pursuant to "SUMMARY OF THE LOAN AGREEMENT—TJU Covenants—University Entities; Excluded Affiliates" or "SUMMARY OF THE LOAN AGREEMENT—TJU Covenants—Additional University Entities" but is exempted from doing so pursuant to "SUMMARY OF THE LOAN AGREEMENT—TJU Covenants—University Entities; Excluded Affiliates", or (ii), has previously executed a Contribution Agreement but such Contribution Agreement has been terminated in conformity with the provisions of "SUMMARY OF THE LOAN AGREEMENT—TJU Covenants—Release of a University Entity."

"**Excluded Property**" means (i) any assets of "employee pension benefit plans," including "multi-employer plans", as defined in the Employee Retirement Income Security Act of 1974, as amended, or any similar funds established for provision of pension or other post-retirement benefits, (ii) any assets of a self-insurance trust which prohibits any application of such assets for purposes which are not related to claims as defined in the governing trust document, and (iii) all endowment funds and property derived from gifts, grants, research contracts, bequests, donations and contributions heretofore or hereafter made to or with any University Entity which are specifically restricted by the donor, testator or grantor to a particular purpose inconsistent with the payment of debt service on Obligations, and the income and gains derived therefrom, if so restricted.

"**Existing Swaps**" means interest rate swap transactions of certain of the University Entities with: (i) Bank of America, National Association evidenced by the Master Agreement dated June 7, 2011, the Schedule dated June 7, 2011, the Credit Support Annex dated June 7, 2011, the Amended and Restated Confirmation # 4614777 dated June 30, 2014 and the Amended and Restated Confirmation # 59513577 and # 59516957 dated June 30, 2014; (ii) PNC Bank National Association evidenced by the Master Agreement dated as of June 30, 2014, the Schedule dated as of June 30, 2014, the Credit Support Annex dated as of June 30, 2014, and Transaction Reference Number MX_32998, with a trade date of February 28, 2012, and Transaction Reference Number MX_33000 with a trade date of February 28, 2012; and (iii) Wells Fargo Bank, N.A. evidenced by the Master Agreement dated as of June 30, 2014, the Schedule dated as of June 30, 2014, the Credit Support Annex dated as of June 30, 2014, and the Confirmation # 13545519 dated June 30, 2014 and Confirmation # 13545520 dated June 30, 2014.

"**Extraordinary Item**" means any material expense in the nature of an operating cost or revenue that does not occur in the ordinary course of business (such as a significant uninsured judgment) which TJU, in a Certificate, states is extraordinary in nature and is unlikely to occur again.

"**Extraordinary Redemption**" means, for any Bond, any extraordinary redemption as set forth in the form of such Bonds.

"**Extraordinary Services**" and "**Extraordinary Expenses**" means all services rendered and all reasonable expenses (including, without limitation, attorneys' fees and expenses) properly incurred by the Trustee or any of its agents under the Indenture, other than Ordinary Services and Ordinary Expenses.

"**Fair Market Value,**" when used in connection with Property, shall mean the fair market value of such Property as determined by either:

(a) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a "Member of the Appraisal Institute" (MAI) and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert, provided that any such appraisal shall be performed by a person or firm which (A) is Independent, (B) does not have any direct financial interest or any material indirect financial interest in TJU or any other University Entity or an affiliate of such University Entity and (C) is not connected with TJU or any University Entity or an affiliate thereof as an officer, employee, promoter, trustee, partner, director or person performing similar functions; adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in a Certificate of TJU delivered to the Trustee; or

(b) a bona fide offer for the purchase of such Property made on an arm's-length basis.

“**Financial Consultant**” means a firm of investment bankers, a financial consulting firm, a nationally recognized arbitrage calculation firm, or a firm of certified public accountants, not unsatisfactory to the Trustee and the Authority, which is experienced in the calculation of amounts required to be rebated to the United States under Section 148(f) of the Code.

“**First Supplemental Indenture**” means the First Supplemental Trust Indenture dated as of February 1, 2015 between the Authority and the Trustee, as the same may be amended or supplemented in accordance with the provisions of the Indenture from time to time.

“**Fiscal Year**” means the period of twelve months beginning July 1 of each year, or such other period of twelve months hereafter established by TJU as its fiscal year.

“**Generally Accepted Accounting Principles**” means and includes definitions of concepts and principles as well as industry specific rules applicable in the preparation of financial statements in the United States, as contained within the Financial Accounting Standards Board Accounting Standards Codification or any successor authoritative guidance of generally accepted accounting principles.

“**Government Obligations**” means (a) cash, and (b) obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States including: United States Treasury Obligations; all direct or fully guaranteed obligations; Rural Economic Community Development Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and United States Treasury Obligations, State and Local Government Series. Any Government Obligation used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

“**Gross Revenues**” means all receipts, revenues, income and other moneys received by or on behalf of TJU, and where applicable, another University Entity, and all rights to receive the same, whether in the form of accounts, accounts receivable, deposit accounts, contract rights, chattel paper, instruments, documents, general intangibles, letter of credit rights, investment property or other rights, and the proceeds thereof, and insurance thereon (all terms which are used in this definition which are defined in the Uniform Commercial Code of the Commonwealth of Pennsylvania as in effect from time to time (the “UCC”) shall have the same meanings herein as such terms are defined in the UCC, unless the Loan Agreement shall otherwise specifically provide), whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by TJU, and where applicable, another University Entity and including all Swap Receipts and Swap Termination Payments payable to TJU or another University Entity; provided, however, that there shall be excluded from Gross Revenues any Excluded Property.

“**Guarantee**” shall mean a loan commitment and all obligations of TJU or another University Entity guaranteeing in any manner whatever, whether directly or indirectly, any obligation (including an Obligation of any other Person (including any Excluded Affiliates) which would, if such other Person were TJU or another University Entity, constitute an Obligation under the Loan Agreement.

“**Holder,**” “**holder,**” “**owner**” or any similar term, when used with reference to a 2015A Bond, means the registered owner of such 2015A Bond.

"**Hospital**" means the Thomas Jefferson University Hospitals, Inc., a non-profit corporation organized and existing under the laws of the Commonwealth that currently owns and operates an academic teaching hospital, and its permitted successors and assigns.

"**Immaterial Affiliate**" means any Affiliate which is not a Material Affiliate. For the avoidance of doubt, an Immaterial Affiliate may be designated as a University Entity.

"**Indebtedness**" means all indebtedness of a Person for borrowed moneys or credit extended, including Guarantees, whether long-term or short-term, parity or subordinate, secured or unsecured, including any leases required to be capitalized in accordance with Generally Accepted Accounting Principles, installment purchase obligations, and any other extension of credit by a third party which are properly treated as liabilities under Generally Accepted Accounting Principles. Indebtedness does not include:

(a) current obligations payable out of current revenues, including current payments for the funding of pension plans;

(b) obligations under contracts for supplies, services and pensions, allocable to the current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pensions paid;

(c) obligations of a member of the University to another member of the University;

(d) rentals payable under leases which are not properly capitalized under Generally Accepted Accounting Principles; and

(e) Non-Recourse Indebtedness; and

(f) obligations payable from funds available (without reinvestment) in a Qualified Escrow.

Nothing in this definition or otherwise shall be construed to count Indebtedness more than once, and Indebtedness incurred pursuant to a Loan Commitment shall be counted only to the extent the reimbursement obligation on amounts drawn or, in the reasonable judgment of TJU, likely to be drawn, on the Loan Commitment exceeds the obligation on the Indebtedness for which such Loan Commitment is provided.

"**Indenture**" means the Trust Indenture dated as of February 1, 2015 between the Authority and the Trustee, as amended and supplemented from time to time.

"**Independent**" means a Person who is: (i) not a member or employee of the Authority or the governing body or an officer or employee of TJU or an Affiliate thereof or another University Entity or an Affiliate thereof; (ii) is in fact independent; and (iii) does not have any direct financial interest or any material indirect financial interest in any member of the Audit Group.

"**Industry Restrictions**" means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by any member of the Audit Group.

"**Interest Payment Date**" means, with respect to each Series of Bonds, such dates as are set forth in the Supplemental Indenture authorizing the issuance thereof.

"**Investment Securities**" means the following (to the extent that the same are legal investments for funds held under the Indenture):

(a) Government Obligations;

(b) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

i. Export-Import Bank
ii. Rural Economic Community Development Administration (formerly the Farmers Home Administration)
iii. Federal Financing Bank
iv. Federal Housing Administration
v. Small Business Administration
vi. U.S. Maritime Administration
vii. U.S. Department of Housing & Urban Development (PHAs);

(c) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

i. Senior debt obligations issued by Fannie Mae or the Federal Home Loan Mortgage Corporation (FHLMC)
ii. Obligations of the Resolution Funding Corporation (REFCORP)
iii. Senior debt obligations of the Federal Home Loan Bank System
iv. Senior debt obligations of other Government Sponsored Agencies;

(d) U.S. dollar denominated trust deposit and demand accounts, federal funds, time deposits, trust funds, interest-bearing deposits and bankers' acceptances with domestic commercial banks, including the Trustee and any of its affiliates, which have a rating on their short term certificates of deposit on the date of purchase of P-1 by Moody's and A-1 or A-1+ by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(e) commercial paper, which is rated at the time of purchase in the single highest classification, P-1 by Moody's and A-1 by S&P and which matures not more than 270 calendar days after the date of purchase;

(f) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating at the time of purchase by S&P of AAAm-G or AAA-m and if rated by Moody's rated Aaa or Aa1; including, without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding, that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates;

(g) Pre-refunded Municipal Obligations, which are any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, at the time of purchase, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or (ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in United States Treasury obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a Financial Consultant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) certificates of deposit, including those placed by a third party pursuant to an agreement between the Trustee and TJU, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation, including those issued by the Trustee or its affiliates; and

(i) bonds or notes issued by any state or municipality which are rated at the time of purchase Aaa/AAA by Moody's and S&P, respectively, in the highest rating category assigned by such rating agencies or general obligations of a state of the United States with a rating of A2/A or higher by both Moody's and S&P.

"**Joinder Agreement**" means any Joinder Agreement, in the form attached to the Loan Agreement, entered into by the Trustee, the University and any additional Senior Secured Party or Subordinated Secured Party in connection with the incurrence of any Senior Secured Obligations and Subordinated Obligations, respectively, pursuant to which such Secured Party agrees to be subject to and bound by the Loan Agreement.

"**JUP**" means Jefferson University Physicians, a non-profit corporation organized and existing under the laws of the Commonwealth that currently operates a multi-specialty physician practice group, and its permitted successors and assigns.

"**Lien**" means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, excluding Liens applicable to Property in which any University Entity has only a leasehold interest, unless the Lien is with respect to such leasehold interest.

"**Liquid Unrestricted Net Assets**" means an amount equal to (i) the Unrestricted Net Assets of the Audit Group, minus (ii) Net Investment in Plant of the Audit Group, all as set forth in the most recent applicable TJU Financial Statements.

"**Loan Agreement**" means the Loan and Security Agreement dated as of February 1, 2015 between the Authority and TJU, as amended and supplemented from time to time.

"**Loan Commitment**" means an unconditional irrevocable letter of credit, a bond insurance policy, a bond purchase agreement, a guaranty, a line of credit that is revocable only upon the insolvency of TJU or another University Entity, a binding long term loan commitment or other similar extension of credit which is issued (i) for the purpose of providing a source of funds for the payment of all or any portion of TJU's or such University Entity's payment obligations under any Indebtedness, including

Balloon Indebtedness or Demand Obligation or the purchase thereof, and (ii) by a bank, trust company, savings and loan association, insurance company or other institutional lender.

"**Loan Payments**" means the payments made to repay each loan made to TJU pursuant to the Loan Agreement.

"**Long Term Indebtedness**" means any or all Indebtedness of a Person, except Short Term Indebtedness and Subordinated Indebtedness.

"**Mandatory Redemption**" means, for any Bond, any mandatory sinking fund redemption as set forth in the form of such Bond.

"**Material Affiliate**" shall mean an Affiliate (other than an Excluded Affiliate or an Immaterial Affiliate), whose Total Unrestricted Revenues are equal to at least 5% of the consolidated Total Unrestricted Revenues of the Audit Group or whose Net Assets are equal to at least 5% of the consolidated Net Assets of the Audit Group.

"**Maximum Annual Debt Service Requirements**" means, as of the date of calculation, the highest annual Debt Service Requirements payable on any Long Term Indebtedness during the then current or any succeeding Fiscal Year over the remaining term of all Series of Bonds.

"**Moody's**" means, as long as any Series of Bonds are rated by Moody's, Moody's Investors Service, Inc., a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by TJU.

"**Net Assets**" shall be defined in accordance with Generally Accepted Accounting Principles.

"**Net Revenues**" means, for any period, Adjusted Unrestricted Revenues (or the equivalent as permitted) less Adjusted Unrestricted Expenses (or the equivalent as permitted).

"**Net Investment in Plant**" shall be defined in accordance with Generally Accepted Accounting Principles.

"**Non-Recourse Indebtedness**" means any indebtedness, the holder of which has no claim for any payments in respect thereof against the general credit of the University or against any properties (except for Permitted Encumbrances) or the Gross Revenues of the University and the other assets on which there are Liens securing any Senior Secured Obligations or Subordinated Obligations under the Loan Agreement.

"**Notes**" means, collectively, the Authority's Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014A and Taxable Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014B.

"**Obligations**" means any obligation of a Person in respect of Indebtedness (including a Series of Bonds, Parity Indebtedness and Subordinated Indebtedness) and any obligations of a Person with respect to Swap Payments and Swap Termination Payments. Any calculations under the Loan Agreement such as those covering Debt Service Requirements on Obligations will be made without duplication.

"**Operating Assets**" means all tangible Property of any Person owned by such Person.

“**Opinion of Bond Counsel**” means an Opinion of Bond Counsel to the effect that an action proposed to be taken would not adversely affect the validity of the Bonds or, in the case of Tax-Exempt Bonds, the exclusion from Gross Income for Federal Income Tax purposes to which interest on such Bonds would otherwise be entitled.

“**Opinion of Counsel**” means an opinion in writing signed by legal counsel acceptable to TJU, the Trustee and the Authority, who may be an employee of or counsel to TJU or an Affiliate of TJU.

“**Optional Redemption**” means, for any Bond, any optional redemption as set forth in the form of such Bond.

“**Ordinary Services**” and “**Ordinary Expenses**” means those services normally rendered and those expenses normally incurred, by a trustee under instruments similar to the Indenture, but not those services rendered and those expenses incurred in anticipation of and following the occurrence and during the continuation of an Event of Default under the Indenture.

“**Original Indenture**” means the Trust Indenture dated as of February 1, 2015 between the Authority and the Trustee.

“**Outstanding**” means, with respect to the Bonds, all Bonds authenticated and delivered under the Indenture as of the time in question, except:

(a) All Bonds theretofore cancelled or required to be cancelled under the Indenture

(b) Bonds for which provision for payment or redemption has been made in accordance with the Indenture; provided that, if such Bonds are being redeemed, the required notice of redemption shall have been given or provision satisfactory to the Trustee shall have been made therefor, and that if such Bonds are being purchased, there shall be a firm commitment for the purchase and sale thereof; and

(c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Indenture.

In determining whether the Owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the Loan Agreement, Bonds which an officer of the Trustee who is responsible for the administration of this issue actually knows are held by or on behalf of TJU (unless all of the Outstanding Bonds are then owned by TJU) shall be disregarded for the purpose of any such determination.

“**Parent Corporation**” means TJU, or any corporation which becomes the Parent Corporation as provided in the Loan Agreement.

“**Parity Indebtedness**” means Indebtedness secured (to the extent and in the manner provided in the Indenture and Loan Agreement) by a Lien on the Gross Revenues equally and ratably with the Bonds.

“**Parity Swap Payment**” means a Swap Payment (other than a Swap Termination Payment) secured (to the extent and in the manner provided in the Indenture and the Loan Agreement) by a Lien on the Gross Revenues equally and ratably with the Bonds; provided, however, that the Gross Revenues of TJU may not be pledged as security for any Swap Payment for so long as the 2006 Bonds, the 2010 Bonds or the 2012 Bonds are outstanding.

“**Paying Agent**” means the Trustee and any other commercial bank or trust company organized under the laws of any state of the United States of America or any national banking association designated by the Indenture or any Supplemental Indenture as paying agent for the Bonds at which the principal of and redemption premium, if any, and interest on such Bonds shall be payable.

“**Permitted Encumbrances**” means and includes the following:

(a) Any judgment Lien or notice of pending action against any University Entity so long as (i) such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed, (ii) the judgment has been paid, (iii) the judgment is covered by insurance or (iv) in the absence of such a contest and stay, such judgment Lien, in the judgment of TJU, will have no material adverse effect on the business, operation or general financial condition of TJU or the University (taken as a whole) and neither the pledge and security interest of the Loan Agreement nor any property of TJU or the University (taken as a whole) will be subject to material impairment, loss or forfeiture.

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any Property to (A) terminate such right, power, franchise, grant, license or permit (provided that the exercise of such a right would not materially and adversely affect the value thereof) or (B) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges and other governmental and similar charges, and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than 90 days; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof; and (v) to the extent that it affects title to any Property, the Loan Agreement.

(c) Liens arising by reason of good faith deposits with any University Entity in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any University Entity to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges.

(d) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any University Entity to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers’ compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements.

(e) Any Lien arising by reason of any irrevocable escrow established to pay debt service with respect to Indebtedness, provided the related Indebtedness is defeased and no longer outstanding.

(f) Any Lien in favor of a trustee, a similar creditor or its agent on the proceeds of Indebtedness prior to the application of such proceeds.

(g) Liens on moneys deposited by patients or others with any University Entity as security for or as prepayment for the cost of patient care, and any rights of residents of life care, elderly housing or similar facilities to entrance fees, endowment or similar funds deposited by or on behalf of such residents.

(h) Liens on Property received by any University Entity through gifts, grants or bequests; provided, that no such Lien (or the amount of Indebtedness secured thereby) may be increased or modified so as to apply to any Property of any University Entity not previously subject to such Lien unless such Lien following such increase or modification otherwise qualifies as a Permitted Encumbrance under the Loan Agreement.

(i) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(j) Liens on funds established pursuant to the terms of any Supplemental Loan Agreement, any Supplemental Indenture or related document in favor of the Trustee, or the registered owner of the Indebtedness issued pursuant to such related Supplemental Loan Agreement, Supplemental Indenture or related document and permitted by the Original Indenture or the Loan Agreement.

(k) Liens constituting reservations contained in patents granted by the United States of America or any state thereof.

(l) Liens constituting rights of third-party payors to recoup excess reimbursement to any University Entity.

(m) Liens granted to insurance companies on the proceeds of insurance policies (provided that such lien shall secure an amount not exceeding the premium owed to any such insurance company by a University Entity).

(n) Liens required by any federal, state or local government as a condition to its making a grant or loan (except loans made solely from the proceeds derived from the sale of the related Series of Bonds) to, or its guaranteeing or insuring part or all of Indebtedness of, a University Entity, but only if such Lien is limited to Property the acquisition of which has not been financed, directly or indirectly, with proceeds of a related Series of Bonds.

(o) Statutory rights of landlords with respect to the personal property of a University Entity that are its tenants.

(p) Liens which are existing on the date of execution of the Loan Agreement or existing on the date any Person becomes a University Entity, provided that no such Lien (or the amount of an Obligation secured thereby) may be increased, modified or renewed (which terms shall not apply to the filing of any continuation statements under the Uniform Commercial Code) to apply to any Property of any University Entity not subject to such Lien on such date, unless such Lien following such increase, modification or renewal or otherwise qualifies as a Permitted Encumbrance under the Loan Agreement.

(q) Liens on Property of a Person at the time such Person engages in a merger, consolidation, sale or conveyance pursuant to the Loan Agreement; provided that no such lien (or the amount of an Obligation secured thereby) may be increased, modified or renewed (which terms shall not apply to the filing of any continuation statements under the Uniform Commercial Code) to apply to any Property of any University Entity not subject to such Lien on such date, unless such Lien following such increase, modification or renewal or otherwise qualifies as a Permitted Encumbrance under the Loan Agreement.

(r) Liens granted by a University Entity to another University Entity.

(s) Any lease which, in the judgment of TJU as set forth in a Certificate of TJU, is reasonably necessary or appropriate for or incidental to the proper and economical operation of the business, operations or property of a University Entity, taking into account the nature and terms of the lease and the nature and purpose of the property subject thereto.

(t) Utility, access and other easements, rights-of-way, restrictions and other minor defects, encumbrances, agreements for the joint or common use of property, and irregularities in the title to any property which do not materially impair the use of such property for its intended purpose or materially and adversely affect the value thereof.

(u) Liens on the Gross Revenues of the University Entities (excluding, however, for so long as the 2006 Bonds, the 2010 Bonds and the 2012 Bonds are Outstanding, the Gross Revenues of TJU) given to secure their obligations with respect to the Existing Swaps.

(v) Any Lien on the Gross Revenues granted by TJU or another University Entity as security for any Additional Parity Indebtedness, Parity Obligations, or Parity Swap Payments (including Parity Swap Payments on the Existing Swaps) given in accordance with the provisions of the Loan Agreement, and any subordinated Lien on the Gross Revenues given as security for obligations with respect to Subordinated Obligations or Subordinated Swap Payments, in each case given in accordance with the provisions of the Loan Agreement.

(w) Liens in the nature of purchase money security interests securing Indebtedness or Non-Recourse Indebtedness incurred in accordance with the provisions of the Loan Agreement for the purpose of financing the purchase price or the cost of constructing any Operating Assets subject to such Liens and not secured by any other Property of the University.

(x) Liens on money or securities owned by a University Entity which are posted as collateral to a Swap Counterparty required under a collateral support agreement or similar agreement executed in connection with a Swap in accordance with the Loan Agreement.

(y) Liens on the Gross Revenues of TJU granted to secure TJU's obligations with respect to the 2006 Bonds, 2010 Bonds and the 2012 Bonds as security for TJU's obligations with respect thereto.

(z) Liens on the Gross Revenues granted pursuant to the Loan Agreement.

(aa) Liens on Excluded Property.

(bb) Liens on Gross Revenues granted to the Trustee or TJU under the Contribution Agreements, and Liens granted by TJU in its rights under the Contribution Agreements.

"**Person**" means an individual, a corporation, a partnership, an association, a limited liability company, a joint stock company, a joint venture, a trust, any unincorporated organization, a governmental unit or agency, a political subdivision or instrumentality thereof, a municipality or a municipal authority, or any other group or organization of individuals.

"**Pledged Revenues**" means (a) all amounts payable to the Trustee with respect to the principal or redemption price of, or interest on the Bonds (i) upon deposit in the Debt Service Fund from the proceeds of the Bonds or of obligations issued by the Authority to refund the Bonds; and (ii) by TJU under the Loan Agreement; (b) any proceeds of Bonds originally deposited with the Trustee for the payment of interest accrued on the Bonds or otherwise, and (c) investment income with respect to any moneys held by the Trustee in the Debt Service Fund, the Construction Fund and any debt service reserve fund established pursuant to the Indenture. The term "Pledged Revenues" does not include any money in the Rebate Fund.

"**Prime Rate**" means the rate from time to time publicly announced by the Trustee's primary commercial banking affiliate as its "prime rate" or "base rate."

"**Project**" means any undertaking or facility which the Authority is authorized to acquire, construct, finance, improve, install, maintain or operate under the provisions of the Act.

"**Project Costs**" means costs of a Project permitted under the Act, including, but not limited to, the following:

(a) costs incurred in acquisition, construction, installation, equipment or improvement of the Project Facilities and the other portions of a Project, including costs incurred in respect of the Project Facilities and the other portions of a Project for preliminary planning and studies, architectural, engineering, accounting, consulting, legal and other professional fees and expenses; labor, services and materials;

(b) fees, charges and expenses incurred in connection with the authorization, sale, issuance and delivery of the Bonds, including without limitation bond discount, printing expense, title insurance, recording fees and the initial fees and expenses of the Trustee and the Authority;

(c) the Annual Administrative Fee and Administrative Expenses of the Authority and fees and expenses of the Trustee;

(d) payment of interest on the Bonds, to the extent permitted by the Act;

(e) any other costs, expenses, fees and charges properly chargeable to the cost of acquisition, construction, renovation, installation, equipment or improvement of a Project; and

(f) costs and expenses involved in repaying any Person that provided financing to the University in order to pay any of the costs described in clauses (a) through (e) above in connection with a Project.

"**Project Facilities**" means the 2015 Project Facilities and any other Property financed with the proceeds of a Series of Bonds which is set forth in the Supplemental Loan Agreement pursuant to which such Series of Bonds is being issued. A description of the Project Facilities set forth in Exhibit C to the

Loan Agreement will be amended and supplemented from time to time to reflect the financing of additional Project Facilities with proceeds of a Series of Bonds.

"**Property**" means, when used in connection with any Person, any and all rights, title and interests of such Person in and to any and all property (including cash) whether real, personal or mixed, or tangible or intangible, and wherever situated.

"**Purchaser**" means any bank or other similar financial institution which purchases all or a Series of Bonds in a private placement transaction pursuant to the terms of a Continuing Covenant Agreement.

"**Qualified Escrow**" means a segregated escrow fund or other similar fund or account which (a) is irrevocably established as security for Long Term Indebtedness previously incurred and then outstanding (referred to in the Loan Agreement as "Prior Indebtedness") or for Long Term Indebtedness, if any, then to be incurred to refund outstanding Prior Indebtedness (referred to in the Loan Agreement as "Refunding Indebtedness"), (b) is held in cash or invested in obligations described in subsections (i) or (ii) of the definition of Investment Securities by the holder of the Prior Indebtedness or Refunding Indebtedness secured thereby or by a trustee or agent acting on behalf of such holder and is subject to a perfected security interest in favor of such holder, trustee or agent, and (c) is required by the documents establishing such fund or account to be applied toward a University Entity's payment obligations in respect of the Prior Indebtedness, provided that, if the fund or account is funded in whole or in part with the proceeds of Refunding Indebtedness, the documents establishing the same may require specified payments of principal or interest (or both) in respect of the Refunding Indebtedness to be made from the fund or account prior to the date on which the Prior Indebtedness is repaid in full.

"**Qualified Financial Institution**" means a bank, trust company, national banking association, insurance company or other financial services company or entity, including the Trustee and any of its affiliates: (i) in the case of any long term investment held under the Indenture having a term greater than 365 days, whose unsecured long term debt obligations (in the case of a bank, trust company, national banking association or other financial services company or entity) or whose claims paying abilities (in the case of an insurance company) are rated in any of the two highest rating categories by Moody's or S&P; or (ii) in the case of any short term investment under the Indenture any of which institution's unsecured short term debt obligations or commercial paper are rated in either of the two highest rating categories by Moody's or S&P.

"**Rating Agency**" means each nationally recognized securities rating agency then maintaining a rating on the Bonds at the request of TJU, and initially means Moody's and S&P.

"**Redemption Price**" means the principal amount of any Bond to be redeemed pursuant to the Indenture or to a Supplemental Indenture, plus the applicable premium, if any, payable upon redemption.

"**Regular Record Date**" means the fifteenth day (whether or not a Business Day) of the calendar month immediately preceding such Regular Interest Payment Date.

"**Regulatory Body**" means any federal, state or local government, department, agency, authority or instrumentality (other than the Authority acting in its capacity as lender pursuant to the Loan Agreement) and any other public or private body, including accrediting organizations, having regulatory jurisdiction and authority over the University, a Project or the operations of the University.

"**Reserve Fund Credit Facility**" means a letter of credit, surety bond, insurance policy or other credit facility meeting the requirements under the Indenture and any applicable requirements of a Supplemental Indenture and deposited to a Debt Service Reserve Fund pursuant to the Indenture.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors and assigns, or, if such firm shall be dissolved or liquidated or shall no longer perform the functions of a securities rating service, S&P shall mean any other nationally recognized securities rating service designated by TJU, with written notice to the Authority and the Trustee.

"**Securities Depository**" means DTC, and any substitute for or successor to DTC that shall maintain a Book-Entry System with respect to the 2015A Bonds.

"**Senior Secured Obligation**" means any Obligation (including, without limitation, all obligations under all Continuing Covenant Agreements) secured by (i) a Lien on the Gross Revenues of TJU on a parity with the Lien on the Gross Revenues of TJU granted to the Authority and to the Trustee (as assignee of the Authority) pursuant to the Loan Agreement, (ii) a Lien on the Gross Revenues of each other University Entity on a parity with the Lien on the Gross Revenues granted to the Trustee (directly and as assignee of TJU) pursuant to each Contribution Agreement, (iii) a Lien on TJU's rights under each Contribution Agreement, including its right to cause the University Entities to pay such amounts as are necessary for the University Entities to comply with the provisions of each Contribution Agreement and the Loan Agreement, and (iv) in each case whose terms conform with the provisions in the Loan Agreement governing Senior Secured Obligations; provided, however, that the Gross Revenues of TJU may not be pledged as security for any Swap Payments or Swap Termination Payments for so long as the 2006 Bonds, the 2010 Bonds and the 2012 Bonds are Outstanding; provided further, that, the University Entities other than TJU are permitted to secure their obligations under the Swap Agreements with the Swap Counterparties with a pledge of their respective Gross Revenues. For the avoidance of doubt, Swap Payments, the 2006 Bonds, the 2010 Bonds and the 2012 Bonds are Senior Secured Obligations.

"**Senior Secured Obligation Documents**" means the Indenture, the Loan Agreement, the Contribution Agreements, the Tax Certificate, any Continuing Covenant Agreement, any agreements executed in connection with Senior Secured Obligations and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing.

"**Senior Secured Party**" means any Person (or its trustee, agent or fiduciary) with whom a University Entity enters into Senior Secured Obligation Documents in respect of a series of Bonds (other than a series of Bonds that are issued on a subordinated basis), a Parity Obligation or a Parity Swap Payment.

"**Series 2014A Notes**" means the Authority's Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014A.

"**Series 2014B Notes**" means the Authority's Taxable Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014B.

"**Short Term Indebtedness**" means Indebtedness that matures not later than 365 consecutive days after it is incurred or any obligation for the repayment of borrowed moneys which is payable upon demand within such period at the option of the holder; provided that the term Short Term Indebtedness shall not be deemed to include any Long Term Indebtedness, Demand Obligations or which the holder thereof does not have the option to demand payment within 365 days or Subordinated Indebtedness.

"**Special Record Date**" means such date established by the Trustee pursuant to the Indenture.

"**Subordinated Indebtedness**" means Indebtedness, including Guarantees if so provided in such Indebtedness, secured by a lien on the Gross Revenues that is by its terms expressly subordinated to the Lien on the Gross Revenues granted by TJU to the Authority pursuant to the Loan Agreement and the

Lien on the Gross Revenues granted by each other University Entity to the Trustee (directly and as assignee of TJU) pursuant to each Contribution Agreement, and whose terms conform with the provisions in the Loan Agreement governing Subordinated Indebtedness.

"**Subordinated Obligation Agreement**" means (i) any agreement evidencing, or providing for the repayment of and security for a Subordinated Obligation and (ii) any agreement executed in connection with a Series of Bonds designated as Subordinated Obligation setting forth additional obligations or covenants of a University Entity such as a Continuing Covenant Agreement entered into in connection with a Series of Bonds designated as a Subordinated Obligation placed with a commercial bank or other financial institution or an agreement entered into with an insurer of a Series of Bonds designated as a Subordinated Obligation.

"**Subordinated Obligation**" means any Obligation of TJU or another University Entity, including Guarantees if so provided in such Obligation, secured by a lien on the Gross Revenues that is by its terms expressly subordinated to the Lien on the Gross Revenues granted by TJU to the Authority pursuant to the Loan Agreement and the Lien on the Gross Revenues granted by each other University Entity to the Trustee (directly and as assignee of TJU) pursuant to each Contribution Agreement, and whose terms conform with the provisions in the Loan Agreement governing Subordinated Obligations. A Series of Bonds may be designated as a Subordinated Obligation. For the avoidance of doubt, Swap Termination Payments are Subordinated Obligations.

"**Subordinated Obligation Documents**" means any agreements executed in connection with Subordinated Obligations and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing.

"**Subordinated Secured Party**" means a Person (or the trustee, agent or other fiduciary of such Person) that enters into Subordinated Obligation Documents with the University in connection with the incurrence of Subordinated Obligations.

"**Subordinated Swap Payment**" means a Swap Payment secured by a lien on the Collateral that is by its terms expressly subordinated to the Liens on the Collateral granted by TJU to the Authority pursuant to the Loan Agreement and the Liens on the Collateral granted by each other University Entity to the Trustee (directly and as assignee of TJU) pursuant to each Contribution Agreement, and whose terms conform with the provisions in the Loan Agreement governing Subordinated Swap Payments; provided, however, that the Gross Revenues of TJU may not be pledged as security for any Swap Payment or Swap Termination Payment for so long as the 2006 Bonds, the 2010 Bonds or the 2012 Bonds are Outstanding.

"**Supplemental Indenture**" means any indenture amending or supplementing the Indenture which may be entered into in accordance with the provisions of the Indenture.

"**Supplemental Loan Agreement**" means any loan agreement supplemental to the Loan Agreement and entered into pursuant to the Loan Agreement.

"**Swap**" or "**Swap Agreement**" means (i) the Existing Swaps, and (ii) another agreement between TJU or another University Entity (or the Trustee, at the written direction of TJU or such other University Entity) and a Swap Counterparty providing for an interest rate swap, basis swap, forward rate transaction, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, corridor transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of the foregoing transactions) or any combination of these transactions entered into with respect to any Bonds or Indebtedness.

“**Swap Counterparty**” means a member of the International Swap and Derivatives Association, Inc. that is the counterparty on any Swaps entered into in accordance with the provisions of the Loan Agreement.

“**Swap Payments**” means as of each payment date specified in a Swap, the net amount, if any, payable to the Swap Counterparty pursuant to the Swap. Swap Payments do not include any Swap Termination Payments.

“**Swap Receipts**” means as of each payment date specified in a Swap, the net amount, if any, payable to TJU or such other University Entity (or, if applicable, to the Trustee) by the Swap Counterparty pursuant to the Swap. Swap Receipts do not include any Swap Termination Payments.

“**Swap Termination Payment**” means, with respect to any Swap, any settlement amount payable by the applicable Swap Counterparty or TJU (or another University Entity) by reason or on account of the early termination or modification of such Swap. The term “Swap Termination Payment” does not include net unpaid amounts which would have been payable by the Swap Provider or TJU (or another University Entity) pursuant to the terms of the applicable Swap irrespective of the early termination of such Swap.

“**System**” means TJUH System, a Pennsylvania non-profit corporation and currently the sole corporate member of the Hospital and JUP and its permitted successors and assigns.

“**Tax Certificate**” means the document so titled, executed by the Authority and TJU (and any other University Entity) in connection with, and dated the date of issuance of the corresponding Series of Tax-Exempt Bonds.

“**Tax-Exempt Bonds**” means, any Bonds, with respect to which Bond Counsel has delivered an opinion that the interest thereon is not includible in gross income of the holders thereof for federal income tax purposes.

“**Tax Exempt Organization**” means any organization described in Section 501(c)(3) of the Code, which is exempt from federal income tax under Section 501(a) of the Code.

“**TJU**” means Thomas Jefferson University, a non-profit corporation organized and existing under the laws of the Commonwealth, and its permitted successors and assigns.

“**TJU Financial Statements**” means the consolidated, audited financial statements of TJU and, if applicable (without duplication), the consolidated, audited financial statements of any Affiliate into whose financial statements the results of TJU are consolidated and (without duplication) the consolidated, audited financial statements of any Affiliate whose financial results are otherwise not consolidated with the consolidated, audited financial statements of TJU, adjusted in each case to exclude the results of each Excluded Affiliate.

“**TJU Representative**” means the Chairman, Vice Chairman, President, any Vice President or the Controller of TJU, the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer of TJU or any other person or persons at the time designated to act on behalf of TJU, either generally or with respect to the execution of any particular document or other specific matter, as set forth in the by-laws of TJU or a Certified Resolution of its governing body.

"**Total Unrestricted Expenses**" means the total consolidated unrestricted operating expenses as set forth in the applicable financial statements of the Person in question. For the avoidance of doubt, the financial results of any Excluded Affiliate will be excluded from any calculations measured by the financial results of the University or the Audit Group.

"**Total Unrestricted Revenues**" means total unrestricted revenues as set forth in the applicable financial statements of the Person in question. For the avoidance of doubt, the financial results of any Excluded Affiliate will be excluded from any calculations measured by the financial results of the University or the Audit Group.

"**Trust Estate**" means:

(a) All right, title and interest (but not the obligations) of the Authority under and pursuant to the terms of the Loan Agreement, all Loan Payments and all other payments, revenues and receipts receivable by the Authority thereunder except as provided therein; and

(b) All of the right, title and interest of the Authority in and to all Funds and Accounts established under the Indenture (except for the Rebate Fund, any Redemption Fund established for Bonds, any purchase fund or sinking fund established in connection with Bonds subject to purchase) and all moneys and investments now or hereafter held therein and all present and future Pledged Revenues.

"**Trustee**" means The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee under the Indenture, and its successors as trustee thereunder.

"**University**" means TJU and the other University Entities.

"**University Entity**" means TJU, the Hospital, JUP, the System and any other Person which has executed a Contribution Agreement as required by "SUMMARY OF THE LOAN AGREEMENT—TJU Covenants—University Entities; Excluded Affiliates", which Contribution Agreement has not been terminated as permitted by "SUMMARY OF THE LOAN AGREEMENT—TJU Covenants—Release of a University Entity."

"**University Entity Representative**" means the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, any Assistant Executive Director, or the Controller or any Assistant Controller, any other officer of a University Entity or other person designated by Certified Resolution of the governing body of such University Entity to act for any of the foregoing, either generally or with respect to the execution of any particular document or other specific matter.

"**Unrestricted Net Assets**" shall be defined in accordance with Generally Accepted Accounting Principles.

"**Value**" means, when used with respect to Property, shall mean the aggregate value of all such Property with each component of such Property valued, at the option of TJU or the applicable University Entity, at either its Fair Market Value or its Book Value.

"**Variable Rate Indebtedness**" means any Long Term Indebtedness, the rate of interest on which is subject to change prior to maturity.

SUMMARY OF THE LOAN AGREEMENT

The Loan

The Authority will lend to TJU the entire proceeds of all Bonds received by or on behalf of the Authority upon the issuance of each Series of Bonds for any purpose permitted by the Act. Each loan will be made, and TJU will be responsible for the payment of each such loan, when the proceeds of the respective Series of Bonds are deposited with the Trustee or otherwise applied to their purpose.

Agreement to Construct and Equip Improvements

TJU will cause each Project involving acquisition, construction, renovation, installation and equipment to be acquired, constructed, renovated, installed and equipped substantially in accordance with the plans and specifications therefor, as the same may be modified from time to time, and shall provide all other improvements, access roads, utilities equipment furnishings and other items required for a facility, fully operable for the purpose for which such improvement will be used. Such acquisition, construction, installation, renovation and equipping shall be completed with due diligence; provided, however, that if the progress thereof is delayed at any time, by changes ordered in the work contemplated by a construction contract or by any cause beyond the control of TJU or other University Entity, there will be no resulting liability of TJU or other University Entity. There will be no abatement or diminution in the Loan Payments required to be made by TJU under the Loan Agreement.

Disbursements from Construction Fund

Subject to the provisions described below, disbursements from the Construction Fund will be made to reimburse or pay TJU, or any Person designated by TJU, for Project Costs. TJU agrees that the sums so disbursed from the Construction Fund will be used only for the payment of Project Costs, and will not be used for any other purpose.

Any disbursements from the Construction Fund for the payment of the Project Costs shall be made by the Trustee only upon the written order of a TJU Representative delivered to the Trustee; provided that disbursements made for costs described in clause (b) and clause (f) of the definition of Project Costs, to pay costs of issuance may be made by the Trustee upon delivery to the Trustee of a closing statement signed by an Authority Representative and a TJU Representative. Each such written order shall be accompanied by invoices or other appropriate documentation supporting the payments or reimbursements requested; provided the Trustee shall have no duty or obligation to review such invoices or other documentation and may conclusively rely on such disbursement request. In case any contract provides for the retention by TJU or any other University Entity of a portion of the contract price, there shall be paid from the Construction Fund only the net amount remaining after deduction of any such portion, and only when that retained amount is due and payable, may it be paid from the Construction Fund.

Any moneys in a Construction Fund (including the earnings from investments therein) remaining after the completion date of a Project and payment, or provision for payment, in full of the Project Costs shall, at the written direction of a TJU Representative, be transferred to the Debt Service Fund and applied to pay the principal or redemption price of the Bonds which financed such deposit, or may otherwise be applied at the written direction of a TJU Representative as set forth in an Opinion of Bond Counsel; provided that (i) any such transfer and application shall be made only to the extent that such use or application will not, in the Opinion of Bond Counsel, cause the interest on any Tax-Exempt Bonds to become included in the gross income of the Holders thereof for federal income tax purposes, and (ii) unless there shall be delivered to the Trustee and the Authority a similar Opinion of Bond Counsel, such remaining moneys shall not be invested by TJU in "investment property" (as defined in Section 148 of the Code) at a yield in excess of the yield on such Tax-Exempt Bonds.

Payments by TJU

Loan Payments. In consideration of and in repayment of each loan made to TJU, TJU will make Loan Payments, which correspond, as to amounts and due dates, to the Debt Service on each Series of Bonds.

Rebate Fund. TJU agrees to make such payments to the Trustee as are required of TJU under the provisions of the Indenture concerning the Rebate Fund and the provisions of the Loan Agreement concerning rebatable arbitrage and to pay the costs and expenses of any Financial Consultant engaged in accordance with such provisions of the Indenture. The obligation of TJU to make such payments shall remain in effect and be binding upon TJU notwithstanding the release and discharge of the Indenture.

No Set-Off. The obligation of TJU to make the payments required by the Loan Agreement shall be absolute and unconditional. Such obligation is a general obligation of TJU and the full faith and credit of TJU is pledged to the payment of all sums due under the Loan Agreement. TJU will pay without abatement, diminution or deduction (whether for taxes, loss of use, in whole or in part, of the Project or otherwise) all such amounts regardless of any cause or circumstance whatsoever, which may now exist or may, hereafter arise, including, without limitation, any defense, set-off, recoupment or counterclaim which TJU may have or assert against the Authority, the Trustee, any Bondholder or any other Person. Except to the extent provided in this paragraph, nothing contained in the Loan Agreement shall be construed to prevent or restrict TJU from asserting any rights it may have under the Loan Agreement, or under any provision of law, against the Authority or the Trustee or any other Person in a separate proceeding.

Prepayments. TJU shall be permitted, at any time and from time to time, to prepay all or any part of the Loan Payments together with such other amounts as shall be sufficient to purchase or redeem all or a portion of the Series of Bonds in accordance with the provisions of the Indenture. All sums prepaid as described in this paragraph shall be applied to the redemption or purchase of the Series of Bonds in the manner and to the extent provided in the Indenture. At the request of TJU or the Trustee, the Authority shall take all steps required of it under the applicable provisions of the Indenture or the Series of Bonds to effect the redemption of all or a portion of the Series of Bonds.

Other Payments by TJU. TJU will pay the following additional amounts, when due:

(a) at closing for a Series of Bonds, the initial Authority fee specified in the Supplemental Loan Agreement pursuant to which such Series of Bonds are issued, with respect to the Series of Bonds, to the extent such fee is not paid with the proceeds of the Series of Bonds;

(b) any costs of issuance in respect of the Series of Bonds in excess of the amount of such costs which may be and are paid from proceeds of such Series of Bonds;

(c) at any time upon requisition therefor, all other Administrative Expenses and any other expenses of the Authority incurred in connection with the Project or a Series of Bonds; and

(d) commencing on and continuing on the dates set forth in a Supplemental Loan Agreement and on or before such date of each year thereafter to and including the earlier of (i) the date all of a Series of Bonds shall have become due and payable, or (ii) in the event such Series of Bonds are advanced refunded with the proceeds of bonds issued by the Authority or are prepaid with funds of TJU other than funds representing proceeds of bonds issued by a governmental issuer other than the Authority, the date such Series of Bonds shall no longer be Outstanding under the Indenture, directly to the Authority, an Annual Administrative Fee and, when due, the Authority's Administrative Expenses incurred from time to time in connection with the Project or such Series of Bonds, as provided in the Indenture.

TJU shall pay when due all additional amounts required to be paid by it under the Indenture or the Loan Agreement (together, "Additional Payments"), including without limitation costs and expenses incurred in connection with the arbitrage rebate provisions of the Indenture.

In addition, TJU shall pay directly to the Trustee, on behalf of the Authority, when due, the Trustee fees, expenses and disbursements as provided in the Indenture.

The foregoing sums shall be paid directly to the parties entitled thereto.

Secured Obligations

TJU agrees that it will not grant, or permit another University Entity to grant, a Lien on any of its Property or its Gross Revenues to secure its obligations with respect to any Obligation unless either: (i) the Lien is a Permitted Encumbrance; or (ii) TJU, and, if applicable, each other University Entity granting such Lien, grants an equal and ratable Lien in the same Property or its Gross Revenues to the Trustee (as assignee of the Authority), to secure TJU's obligations under the Loan Agreement and each other University Entity's Obligations under the Contribution Agreement to which it is a party; or (iii) the Lien is a subordinated Lien on Gross Revenues granted to secure Subordinated Obligations incurred and secured in accordance with provisions in the Loan Agreement related to Subordinated Obligations.

Any Lien in or on the Property and/or the Gross Revenues granted pursuant to clause (ii) of the immediately preceding paragraph shall be terminated if (i) TJU delivers to the Authority and the Trustee a Certificate of TJU to the effect that the Obligation in respect of which the Lien was granted no longer is outstanding and (ii) the Trustee or the holder of such Obligation provides written confirmation that such Obligation has been paid in full. Upon receipt of such Certificate of TJU and confirmation from the Trustee or such holder, the Authority and the Trustee agree to execute such documents and take such steps as may be reasonably required in order to evidence the termination of such Lien.

Notwithstanding anything in the preceding two paragraphs to the contrary, all amounts due and owing under a Continuing Covenant Agreement will be a Senior Secured Obligation or a Subordinated Obligation to the extent specified in such Continuing Covenant Agreement.

Security Interest in Gross Revenues; Rights under Contribution Agreements

As security for its obligation to make the payments required under the Loan Agreement and to make all other payments due, and to perform all other obligations required under the Loan Agreement, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement, the 2006 Bonds, the 2010 Bonds and the 2012 Bonds) and the Subordinated Obligation Documents, TJU, to the extent permitted by law, (i) assigns and pledges to the Authority, and grants to the Authority a lien on and security interest in its Gross Revenues, and (ii) assigns and pledges to the Trustee and grants to the Trustee a Lien on all of TJU's right, title and interest in and to each Contribution Agreement, including without limitation its right to require the other University Entities to make payments to or to the order of TJU in respect of the Senior Secured Obligations and Subordinated Obligations pursuant to each Contribution Agreement. TJU further agrees to cause each University Entity entering into a Contribution Agreement with TJU to secure its obligations thereunder by granting a Lien on its Gross Revenues to the Trustee and a subordinate Lien on its Gross Revenues to TJU. The pledges, assignments, security interests and covenants granted to the Authority and the Trustee pursuant to this section and assigned to the Trustee pursuant to this section are referred to collectively as the "Collateral".

Notwithstanding any other provision of the Loan Agreement, TJU may (i) grant a Lien on its Gross Revenues of equal rank and priority with the Lien and security interest granted in the Loan Agreement (in accordance with the provisions of the Loan Agreement relating to Additional Parity Obligations), or, solely with respect to Subordinated Obligations, on a junior and subordinate basis (in accordance with the provisions of the Loan Agreement relating to Subordinated Obligations), (ii) cause each other University Entity to grant a Lien on its Gross Revenues of equal rank and priority with the Lien granted to the Trustee in the Contribution Agreements (in accordance with the provisions of the Loan Agreement relating to Additional Parity Obligations) or, solely with respect to Subordinated Obligations on a junior and subordinated basis (in accordance with the provisions of the Loan Agreement relating to Subordinated Obligations) and (iii) grant a Lien on its rights under each Contribution Agreement. TJU further covenants and agrees to cause each University Entity entering into a Contribution Agreement to secure its obligations thereunder with respect to any Parity Obligations or Parity Swap Payment or, solely with respect to Subordinated Obligations, on a junior and subordinated basis (in accordance with the provisions of the Loan Agreement relating to Subordinated Obligations) by granting a Lien on its Gross Revenues.

The existence of the foregoing pledge and security interest shall not prevent the expenditure, deposit or commingling of any of the Gross Revenues by TJU or any other University Entity so long as an Event of Default has not occurred and is continuing under the Loan Agreement. If an Event of Default occurs under the Loan Agreement, and for so long as it continues to exist, the Gross Revenues then on hand and not yet commingled with other funds of TJU and any other University Entity, and any Gross Revenues thereafter received, shall not be so commingled or deposited, but shall immediately upon receipt be transferred to the Trustee, as assignee of the Authority (solely with respect to the Gross Revenues of TJU), to the extent necessary for the purpose of making any payments or deposits required under the Loan Agreement or under the Indenture.

The Loan Agreement constitutes a security agreement within the meaning of the Pennsylvania Uniform Commercial Code. In addition to all other rights and remedies under the Loan Agreement, the Authority and the Trustee shall have all rights and remedies of a secured party under the Pennsylvania Uniform Commercial Code. TJU shall join with the Authority and the Trustee in the execution and filing of all financing statements, continuation statements, modifications and other documents under the Pennsylvania Uniform Commercial Code or other applicable law as may be reasonably necessary from time to time to perfect or continue the perfection of the Lien granted under the Loan Agreement and will pay the cost of filing the same in such public offices as the Authority or the Trustee shall designate. TJU may execute such other instruments, intercreditor agreements and other agreements and take such other actions, including filing financing statements, continuation statements, modifications and other documents under the Pennsylvania Uniform Commercial Code or other applicable law as may be necessary or convenient from time to time to perfect or continue the perfection of the Lien on the Gross Revenues granted by TJU and the other University Entities in connection with other issues of Bonds or other Senior Secured Obligations, Parity Obligations and Subordinated Obligations.

Notwithstanding any other provision of the Loan Agreement or any other agreement executed in connection with the issuance of any Obligations, TJU may not grant, or permit to be granted, a Lien on its Gross Revenues to secure any Obligations consisting of or arising under a Swap Agreement until the 2006 Bonds, the 2010 Bonds and the 2012 Bonds have been paid in full, or provision for their payment in full has been made in accordance with the agreements pursuant to which they were issued.

Assignment of Loan Agreement to Trustee

The Authority assigns to the Trustee the Loan Agreement, all amounts payable under the Loan Agreement (other than the Authority's right to its Annual Administrative Fee, to be reimbursed for Administrative Expenses and its right to indemnification by TJU), and its interest as a secured party with respect to TJU's Gross Revenues, in trust, to be held and applied pursuant to the provisions of the Indenture. TJU: (a) consents to such assignment and accepts notice thereof; (b) agrees to pay directly to the Trustee all amounts payable under the Loan Agreement (except the Annual Administrative Fee, any Administrative Expenses of the Authority and any indemnification payments to the Authority), without any defense, set-off or counterclaim arising out of any default on the part of the Authority under the Loan Agreement or any transactions between TJU and the Authority; and (c) agrees that the Trustee may exercise all rights granted to the Authority under the Loan Agreement.

Additional Indebtedness

General. TJU may not incur, and covenants that it will not permit any other University Entity to incur, additional Indebtedness (whether through the creation of new indebtedness, the assumption of existing Indebtedness or the guaranteeing of any new or existing Indebtedness) unless it first delivers the following to the Trustee:

(a) a Certified Resolution of TJU, and, if applicable, of the other University Entities, approving the incurrence of the Indebtedness and the purpose thereof; and

(b) a Certificate of TJU stating that, (i) the proceeds of the Indebtedness, together with other available moneys, is expected to be sufficient for completion of the Project, and (ii) immediately following the incurrence of the Indebtedness and the application of the proceeds thereof, the University will not be in default in the performance or observance of any covenant or condition to be performed by it under the Loan Agreement or with respect to the applicable University Entity, under the pertinent Contribution Agreement and no Event of Default under the Loan Agreement, the Indenture or any Contribution Agreement shall exist.

Long Term Indebtedness. Except as provided in subsection (e) below, TJU may not incur, and covenants that it will not permit any other University Entity to incur, additional Long Term Indebtedness (whether through the creation of new Indebtedness, the assumption of existing Indebtedness or the guaranteeing of any new or existing Indebtedness) except it first delivers to the Trustee.

(a) the items specified under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—General" above; and

(b) a Certificate of TJU demonstrating that either: (1) immediately following the incurrence of the Long Term Indebtedness and the application of the proceeds thereof, the Liquid Unrestricted Net Assets of the Audit Group will be at least equal to 50% of the principal amount of all Long Term Indebtedness of the Audit Group to be Outstanding; or (2) the Net Revenues of the Audit Group for each of the two preceding Fiscal Years (assuming that the Long Term Indebtedness in question was incurred on the last day of such Fiscal Year in question and the proceeds of such Long Term Indebtedness were applied on the last day of such Fiscal Year in question), will be equal to at least 110% of the Maximum Annual Debt Service on all Outstanding Long Term Indebtedness of the Audit Group for such testing period; and

(c) a Certificate of TJU demonstrating that immediately following the incurrence of the Long Term Indebtedness and the application of the proceeds thereof, the Maximum Annual Debt Service

Requirements on all outstanding Long Term Indebtedness of the Audit Group will not exceed an amount equal to 10% of the Total Unrestricted Expenses of the Audit Group.

Short Term Indebtedness. TJU may not incur, and covenants that it will not permit any other University Entity to incur, additional Short Term Indebtedness (whether through the creation of new Indebtedness, the assumption of existing Indebtedness or the guaranteeing of any new or existing Indebtedness) unless it first delivers the following to the Trustee:

(a) the items specified in "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—General" above; and

(b) a Certificate of TJU demonstrating that either: (i) immediately following the incurrence of the Short Term Indebtedness and the application of the proceeds thereof, the aggregate outstanding principal amount of all such Short Term Indebtedness of the Audit Group as of such date, does not exceed 5% of the Net Assets of the Audit Group, as set forth in the most recent audited TJU Financial Statements, or (ii) such Short Term Indebtedness could be incurred if it were treated as Long Term Indebtedness incurred in accordance with (b) and (c) under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above.

Additional Long Term Indebtedness. Notwithstanding the provisions of "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above, TJU may incur and may permit any other University Entity to incur, additional Long Term Indebtedness in accordance with the provisions set forth below.

(a) Completion Indebtedness. Indebtedness may be incurred without satisfying the provisions of (b) and (c) under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above for the purpose of financing the completion of constructing, renovating, or equipping Operating Assets for which Long Term Indebtedness has theretofore been incurred in accordance with the provisions of the Loan Agreement, if: (A) the items in "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—General" above are delivered to the Trustee; and (B) a Certificate of TJU is delivered to the Trustee stating that the amount of such Indebtedness does not exceed the amount (including reserve funds and capitalized interest) necessary to provide a completed and equipped facility of the type and scope contemplated at the time that such other Indebtedness was originally incurred and that such other Indebtedness was estimated when incurred to be sufficient to provide such a completed and equipped facility.

(b) Refunding Debt. Indebtedness ("Refunding Debt") may be incurred without satisfying the provisions of (b) and (c) under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above to refund or defease any Indebtedness ("Refunded Debt") if: (A) the items in "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—General" above are delivered to the Trustee; and (B) a Certificate of TJU is delivered to the Trustee demonstrating that Maximum Annual Debt Service on all Outstanding Long Term Indebtedness of the University will not increase by more than 10% in any Fiscal Year.

(c) Basket. Indebtedness may be incurred without satisfying the provisions of (b) and (c) under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above if: (A) the items in "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—General" above are delivered to the Trustee; and (B) a Certificate of TJU is delivered to the Trustee demonstrating that the principal amount of such Indebtedness to be incurred and Outstanding pursuant to this clause (iii), together with the principal amount of all other Indebtedness incurred and Outstanding pursuant to this clause (iii) since the University incurred Long Term Indebtedness that satisfied the provisions of (b) and (c) under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above does not exceed 5% of the Net Assets of the Audit Group for the preceding Fiscal Year end.

(d) In Connection with Becoming an Affiliate. For the avoidance of doubt, in connection with a Person becoming an Affiliate, TJU may secure any Indebtedness of such Person as Parity Indebtedness or Subordinated Indebtedness by an amendment and restatement of the Outstanding Indebtedness of such Person or the substitution of, or other change to, such Person's Outstanding Indebtedness or the evidence of and/or security therefor so long as the Indebtedness in question could be incurred in accordance with the other provisions of the Loan Agreement, and the applicable provisions in the Loan Agreement relating to Additional Parity Obligations and Subordinated Obligations are satisfied.

No Duplication for Loan Commitments. Nothing under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness" or otherwise shall be construed to count Indebtedness more than once and Indebtedness consisting of obligations pursuant to a Loan Commitment shall be counted as Indebtedness only to the extent the reimbursement obligation on obligations drawn, or in the reasonable judgment of TJU, likely to be drawn on the Loan Commitment exceeds the obligation of the Indebtedness for which such Loan Commitment is provided.

Additional Provisions Concerning Certain Forms of Obligations

For the purposes of the Loan Agreement, the Debt Service Requirements on, and the principal amount of, any Balloon Indebtedness, Variable Rate Indebtedness, Demand Obligations or any Long Term Indebtedness in the form of a Guarantee shall be determined as follows:

(a) Balloon Indebtedness. There shall be taken into account for the period under consideration in determining the Debt Service Requirements with respect to any Balloon Indebtedness an amount calculated using the following assumptions: the principal and interest payable in any Fiscal Year will be measured as if the Balloon Indebtedness were payable in level annual debt service payments which would be required to retire such Balloon Indebtedness over a term of 30 years following the date of calculation at (i) an interest rate certified in a Certificate of TJU to be the interest rate at which TJU or the University Entity, as applicable, could reasonably expect to borrow the same amount by issuing other Indebtedness the principal of which is amortized over a 30-year term, or (ii) the assumed interest rate determined pursuant to subsection (b) below if such Balloon Indebtedness is Variable Rate Indebtedness; provided, however, that if the date of calculation is within twelve months of a balloon payment year for such Balloon Indebtedness, the full amount of principal payable in such balloon payment year shall be included in such calculation, and provided, further, that if TJU or the University Entity, as applicable, has obtained a Loan Commitment under which funds are available for the payment of the balloon payment for any Balloon Indebtedness, the Debt Service Requirements for such Balloon Indebtedness will be calculated by using the debt service payable under such Loan Commitment during the period under consideration.

(b) Variable Rate Indebtedness. The Debt Service Requirements on Long Term Indebtedness in the form of Variable Rate Indebtedness shall be determined as follows:

> (i) For the purpose of determining whether the Variable Rate Indebtedness may be incurred pursuant to the Loan Agreement, the Debt Service Requirements thereon shall be deemed to include interest equal to (A) if the interest on such Indebtedness is intended to be excluded from the gross income of the beneficial owners thereof for federal income tax purposes, the 12-month average of the seven-day, high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by

Securities Industry and Financial Markets Association or its successor and (b) for all other Indebtedness, the 12-month average of the per annum rate of interest in U.S. Dollars equal to the Intercontinental Exchange Benchmark Administration Ltd. ("ICE", or the successor thereto if ICE is no longer making a London Interbank Offered Rate available) ("ICE LIBOR") interest settlement rates for an interest period of one month as published by Bloomberg (or such other commercially available source providing quotations of ICE LIBOR from time to time as designated by a qualified institution).

(ii) For the purpose of any other required calculation of the Debt Service Requirements on any outstanding Variable Rate Indebtedness, such Indebtedness shall be deemed to bear interest at a rate equal to the lesser of (A) the interest rate in effect on the last day of the preceding Fiscal Year, and (B) the average of the actual interest rates that were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

(c) Demand Obligations. Debt Service Requirements on Long Term Indebtedness in the form of Demand Obligations shall be determined in the same manner as provided in subsection (a) above with respect to Balloon Indebtedness.

(d) Calculating Debt Service With Swaps. If a Swap is entered into with respect to any Series of Bonds or other Indebtedness, the interest on such Series of Bonds or other Indebtedness shall be calculated as follows:

(i) when calculating interest payable for any Variable Rate Indebtedness for which a Swap is in effect, pursuant to which TJU or another University Entity, as applicable, has agreed to pay a fixed rate of interest and the Swap Counterparty has agreed to pay a variable rate of interest (which rate a TJU Representative (or other University Entity) has certified approximates or is intended to approximate the variable rate payable on such Variable Rate Indebtedness), such Variable Rate Indebtedness shall be deemed to bear interest at the fixed rate provided in such Swap; provided that such fixed rate may be utilized for such period as such Swap is contracted to remain in full force and effect.

(ii) when calculating interest payable on any Bonds or other Indebtedness which are issued with a fixed interest rate and with respect to which a Swap is in effect pursuant to which TJU or the University Entity, as applicable, has agreed to pay a variable rate of interest and the Swap Counterparty has agreed to pay a fixed rate of interest (which rate a TJU Representative (or other University Entity) has certified approximates or is intended to approximate the fixed rate payable on such Bonds or other Indebtedness), such Bonds or other Indebtedness shall be deemed to bear interest at a variable rate for such period as such Swap is contracted to remain in full force and effect and shall be calculated in accordance with subsection (b).

(e) Guarantees. The Debt Service Requirements in any Fiscal Year on any Guarantee shall be deemed equal to 20% of the maximum amount of principal (whether pursuant to stated maturity or a mandatory sinking fund or other redemption or mandatory purchase requirement) and interest scheduled to be paid on the debt or obligation which is guaranteed in such or any subsequent Fiscal Year; provided, however, that if TJU or another University Entity, as applicable, has made any payment of debt service requirements on the guaranteed obligation, 100% of the such scheduled maximum principal and interest shall be included in calculations of Debt Service Requirements for the Fiscal Year in which the payment is made and the succeeding Fiscal Year. The principal amount of a Guarantee shall be deemed equal to

20% of the principal amount of the guaranteed obligation; provided however, that if the University has made any payment of debt service requirements on the guaranteed obligation, 100% of the principal amount of such guaranteed obligation shall be used for the Fiscal Year in which the payment is made and in the succeeding Fiscal Year. For purposes of this subsection (e), the principal payments due in respect of any guaranteed obligation in the nature of Balloon Indebtedness or Demand Obligations shall be calculated in the same manner as specified in subsection (a) or (c) above.

Additional Parity Obligations

General. Any Additional Parity Obligations incurred from time to time in accordance with the Loan Agreement may be secured by the Gross Revenues on a parity with (but not prior to) the Bonds, all Senior Secured Obligations and with all other Additional Parity Obligation Agreements secured under the Loan Agreement, as expressly provided in the Loan Agreement or permitted by the Loan Agreement or any Supplemental Loan Agreement.

Terms of Additional Parity Obligations. Additional Parity Obligations may be secured, to the extent and in the manner provided in the Loan Agreement, by a lien on and security interest in the Gross Revenues and by TJU's rights under the Contribution Agreements at an equal rank and priority with the lien and security interest granted to the Bondholders, but only if the following conditions are satisfied.

(a) TJU shall have delivered to the Trustee the materials required under "Additional Indebtedness" above, taking into account the Debt Service Requirements on the Additional Parity Obligations, and the application of the proceeds thereof, together with (A) a copy of any Additional Parity Obligation Agreement for such Additional Parity Obligation, and (B) a schedule setting forth the debt service requirements on the Indebtedness, the dates on which scheduled debt service payments, on the Indebtedness are due, and the amounts due on each such date.

(b) The Additional Parity Obligations may not be secured by the proceeds of any Series of Bonds or by moneys and investments held in any account under the Indenture. Notwithstanding the foregoing, an Additional Parity Obligations Agreement may provide that such Additional Parity Obligations (other than a Swap) may be further secured by a separate debt service reserve fund not in excess of ten percent of the proceeds of such Obligation funded exclusively with loan proceeds from the lender of such Additional Parity Obligation at the time it is executed and delivered and held solely for the benefit of the holders of the Additional Parity Obligations secured thereby.

(c) For purposes of voting in connection with the exercise of remedies under the Indenture, the Loan Agreement and the Contribution Agreements, upon the occurrence of an Event of Default under the Loan Agreement, the holder of any Additional Parity Obligations (other than a Swap) shall be treated as if it were the Bondholder of a Bond in a principal amount equal to the amount of principal drawn or the amount owed to such holder, as applicable, on such Additional Parity Obligations as of such date.

(d) Any Additional Parity Obligations and any Additional Parity Obligation Agreement (and any intercreditor or other agreement entered into in connection therewith) shall provide:

> (i) except as provided in subsection (b) above, a grant to the Trustee of each lien, encumbrance and security interest granted to the holder of such Additional Parity Obligations to share on an equal and proportionate basis therewith;
>
> (ii) that any Event of Default under the Loan Agreement shall be an event of default thereunder;

(iii) that, if any event of default shall have occurred in respect of such Additional Parity Obligations, the holder or holders thereof shall be required to give prompt notice thereof to the Trustee and such holder or holders shall be entitled only to such remedies and rights to consent to or direct the taking of remedies with respect to the Gross Revenues as are available to the Trustee under the Loan Agreement;

(iv) that all remedies with respect to the Gross Revenues are, except as otherwise provided in the Loan Agreement, to be exercised solely by the Trustee for the equal and ratable benefit of all holders of Bonds and Additional Parity Obligations having a security interest in the Gross Revenues of equal rank and priority; and

(v) that the holder or holders of any Additional Parity Obligations may not take any action with respect to the Gross Revenues except as provided in the Loan Agreement.

(d) A Joinder Agreement executed by the new Senior Secured Party and TJU (on behalf of itself and the other University Entities) is delivered to the Trustee for execution, and the Trustee executes such Joinder Agreement.

Subordinated Obligations

(a) TJU may not incur, and, shall not permit any other University Entity to incur, Subordinated Obligations except as provided in the Loan Agreement.

(b) The documents pursuant to which any Subordinated Obligations are incurred shall provide, among other things, that so long as any Bonds are Outstanding or any Parity Obligations remain unsatisfied or any Parity Swap Payment remains unpaid:

(i) the maturity of the Subordinated Obligations (other than Swap Termination payments) may not be accelerated unless the maturity of the Bonds has been accelerated;

(ii) if an acceleration of the Bonds has been rescinded or annulled, then any acceleration of the Subordinated Obligations (other than Swap Termination payments) automatically shall be rescinded or annulled;

(iii) all payments in respect of any Subordinated Obligations shall be made by the Trustee solely from moneys available after all regular payments due or coming due through the next regularly scheduled interest payment date in respect of the Bonds or any Parity Obligations shall have been made or provided for;

(iv) any amendment to the Indenture, to the Loan Agreement or to a Contribution Agreement made by the holders of the Bonds in accordance with the provisions of the Loan Agreement shall be automatically binding upon the holders of any Subordinated Obligations (other than an amendment that would extend the fixed maturity of any Subordinated Obligations or reduce the rate of interest thereon or extend the time of payment of interest or reduce the amount of principal thereof or reduce any premium payable on the redemption thereof);

(v) upon the occurrence of any event of default with respect to any Subordinated Obligation, the holders of any Subordinated Obligations (or the Trustee on their behalf) may not exercise any remedies under the Loan Agreement or with respect to the Contribution Agreements except with the consent of the holders of a majority of the Bonds and the Additional Parity Obligations; and

(vi) A Joinder Agreement executed by the new Subordinated Secured Party and TJU (on behalf of itself and the other University Affiliates) is delivered to the Trustee for execution, and the Trustee executes such Agreement.

(c) TJU may not incur, and may not permit any other University Entity to incur, any Subordinated Obligations unless there shall have been delivered to the Trustee, with respect to such Subordinated Obligations: (i) the materials that would be required to be delivered to the Trustee in connection with the incurrence of Indebtedness pursuant to "Additional Indebtedness" above, (ii) a copy of any Subordinated Obligations Agreement for such Subordinated Obligations; and (iii) a schedule setting forth the Debt Service Requirements on the Subordinated Obligations, the dates on which scheduled debt service payments on the Subordinated Obligations are due, and the amounts due on each such date.

(d) The agreements executed in connection with the issuance of Subordinated Obligations may provide that such Subordinated Obligations may be further secured by a separate debt service fund and debt service reserve fund, held solely for the benefit of the holders of the Subordinated Obligations secured thereby.

Swaps

TJU may not enter, and covenants that it will not permit any other University Entity to enter, into any Swaps unless it first delivers the following to the Trustee:

(a) the items specified in "Additional Indebtedness" above, treating the entry into the Swap in question as if it were the incurrence of Indebtedness;

(b) the Swap Agreement related to such Swap, which by its terms (i) shall be limited as described by the applicable provisions of "Additional Parity Obligations" and "Subordinated Obligations" above and (ii) must provide that any Swap Termination Payments due thereunder will be treated as a Subordinated Obligation incurred pursuant to such provisions related to Subordinated Obligations in the Loan Agreement; provided, however, that notwithstanding anything to the contrary in this section or such provisions related to Subordinated Obligations in the Loan Agreement, clauses (b)(i) and (b)(ii) under "—Subordinated Obligations" above with respect to limits on the ability of holders of Subordinated Obligations to exercise certain remedies shall not apply to Swap Termination Payments;

(c) a Certificate of TJU stating whether TJU or the University Entity, as applicable, is required under the terms of the Swap Agreement to post collateral to the Swap Counterparty; and

(d) A Joinder Agreement executed by the Swap Counterparty and TJU (on behalf of itself and the other University Affiliates) is delivered to the Trustee for execution, and the Trustee executes such Joinder Agreement.

TJU Covenants

University Entities; Excluded Affiliates.

(a) The obligations, agreements, covenants and restrictions of the Loan Agreement shall constitute joint and several obligations, agreements and covenants of and restrictions relating to all University Entities. Unless otherwise specifically set forth in the Loan Agreement, each action taken under the Loan Agreement and under any Senior Secured Obligation Documents and Subordinated Obligation Documents by TJU shall be taken on behalf of all University Entities.

(b) In each Contribution Agreement, TJU shall cause each other University Entity to appoint TJU as its agent and attorney-in-fact to take all action necessary and deemed appropriate by TJU to assure compliance with the obligations, agreements, covenants and restrictions of the Loan Agreement, the Indenture and under any Senior Secured Obligation Documents and Subordinated Obligation Documents. This appointment may be withdrawn by any University Entity by the delivery (i) to TJU and the Trustee of a Certificate of such University Entity, consented to by TJU, withdrawing such appointment and stating that such University Entity is not in default under the applicable Contribution Agreement and (ii) to the Trustee of a Certificate of TJU stating that after giving effect to such withdrawal, TJU is not in default under the Loan Agreement.

(c) Without limiting the foregoing, TJU covenants and agrees to cause each University Entity to pay all amounts due under the Loan Agreement (whether through a loan, an advance, a transfer of funds, any combination thereof or through any other method) and under any Senior Secured Obligation Documents and Subordinated Obligation Documents, including amounts necessary to duly and punctually pay the principal of, premium, if any, and interest on the Bonds when and as the same become due and payable, whether at maturity, upon redemption, by acceleration or otherwise. TJU further covenants and agrees that it will cause each University Entity to comply with the applicable covenants and other provisions set forth in the Loan Agreement as if each such University Entity were a party to the Loan Agreement.

(d) TJU shall review its TJU Financial Statements and its unaudited annual financial statements to determine if any Immaterial Affiliate has become a Material Affiliate. TJU covenants and agrees that if any Immaterial Affiliate (other than an Excluded Affiliate) becomes a Material Affiliate, then, within 180 days of the date on which such TJU Financial Statements or unaudited annual financial statements are completed by TJU, TJU shall take such actions as may be necessary to cause such Material Affiliate to become a University Entity, including delivering the items required by the Loan Agreement; provided, however that such Material Affiliate may be designated as an Excluded Affiliate if TJU demonstrates that the conditions set forth in the provisions of the Loan Agreement relating to the release of a University Entity would be satisfied were such Material Affiliate not to execute and deliver a Contribution Agreement.

(e) If as a result of a merger, consolidation or similar affiliation between TJU and another Person, such Person meets the requirements to become a Material Affiliate on the date of the consummation of such merger, consolidation or affiliation, then TJU shall either (i) deem such Person an Excluded Affiliate without having to meet the requirements of the provisions of the Loan Agreement relating to the release of a University Entity or (ii) shall take such actions as may be necessary to cause such Person to become a University Entity, including delivering the items set forth in such provisions.

(f) TJU shall notify the Trustee and the Authority whenever a Material Affiliate or other Person executes and delivers a Contribution Agreement, and shall provide the Trustee and the Authority with a copy of each executed Contribution Agreement as soon as practicable following its execution. TJU shall notify the Trustee and the Authority whenever a Person that is a Material Affiliate is designated as an Excluded Affiliate.

(g) For the avoidance of doubt, an Excluded Affiliate is not liable with respect to any payments under the Loan Agreement or any other Obligations of the University, is not required to comply with any of the covenants in the Loan Agreement or in a Contribution Agreement, and is not required to pledge any of its Gross Revenues to secure any Obligations of the University. The financial results of each Excluded Affiliate shall be excluded from any calculations measured by the financial results of the University or the Audit Group. The University may issue Guarantees in respect of an Excluded Affiliate in accordance with the provisions of the Loan Agreement. The designation of a Person as an Excluded Affiliate does not prevent such Person from becoming a University Entity at a subsequent date.

Inspection of Facilities. TJU will permit, and will cause each University Entity to permit, the Trustee and the Authority and any duly authorized agent of the Trustee and the Authority at all reasonable times and at such reasonable intervals so as not to interfere with the operation of TJU or the University Entities, as applicable, to enter upon, examine and inspect the Property, including the Project Facilities.

Preservation of Tax-Exempt Status. TJU agrees, and will cause each University Entity to agree, for the benefit of the Authority, the Trustee and the Holders of any Tax-Exempt Bonds, that throughout the term of the Loan Agreement:

(a) Notwithstanding any provision of the Loan Agreement or of the Indenture to the contrary, it will not take any action or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, and will not carry on or permit to be carried on in Project Facilities financed with Tax-Exempt Bonds any trade or business (including, without limitation, any action or circumstance which would result in the revocation or modification of its status as an organization described in Section 501(c)(3) of the Code), if such action or circumstance or trade or business would adversely affect the validity of such Series of Tax-Exempt Bonds or cause the interest on such Series of Tax-Exempt Bonds to be included in the gross income of the Holders thereof for purposes of federal income taxation.

(b) Neither it nor any Person related to it within the meaning of Treas. Reg. §1.150-1 of the Code, pursuant to an arrangement, formal or informal, shall purchase bonds of the Authority in an amount related to the total amount payable under and secured by the Loan Agreement.

(c) TJU agrees to comply, and agrees to cause each University Entity to comply, with the provisions of the Loan Agreement and any certificate and agreement covering tax matters executed in connection with a Series of Tax-Exempt Bonds; provided however, that TJU and each University Entity shall not be required to comply with the provisions of the Loan Agreement or any such tax certificate and agreement if it causes to be delivered to the Authority and the Trustee an Opinion of Bond Counsel that such noncompliance will not adversely affect the exclusion from gross income of the interest on any Series of Tax-Exempt Bonds for purposes of federal income taxation.

Compliance With Laws. Except as otherwise provided in the Loan Agreement, TJU shall, and shall cause each University Entity, throughout the term of the Loan Agreement and at no expense to the Authority, to promptly comply in all material respects or cause compliance in all material respects with all laws, ordinances, orders, rules, regulations and requirements of any Regulatory Body which may be applicable to the Project or to the repair and alteration thereof, or to the use or manner of use of the Property of TJU or any other University Entity, including the Project Facilities.

Taxes, Charges and Assessments. TJU covenants and agrees, and shall cause each University Entity to covenant and agree, subject to the provisions of the Loan Agreement, to pay or cause to be paid (before the same shall become delinquent):

(a) all taxes and charges on account of the use, occupancy or operation of Property, or the income therefrom, including, but not limited to, all sales, use, occupation, real and personal property taxes, all permit and inspection fees, occupation and license fees and all water, gas, electric light, power or other utility charges assessed or charged on or against the Property of TJU or any other University Entity or on account of TJU's or any other University Entity's use or occupancy thereof or the activities conducted thereon or therein; and

(b) all taxes, assessments and impositions, general and special, ordinary and extraordinary, of every name and kind, which shall be taxed, levied, imposed or assessed during the term of the Loan Agreement upon all or any part of the Property, or the interest of the Authority and of TJU or University Entities or any of them in and to the Property, or upon the Authority's, TJU's and the University Entities' interest, or the interest of any of them, in the Loan Agreement or the Loan Payments payable under the Loan Agreement.

Operation of Facilities; Licensure and Accreditation. TJU covenants and agrees that during the term of the Loan Agreement, it will use its best efforts to continuously operate TJU as an institution of higher education, and will maintain such certifications for licensure and reimbursement and such accreditations as it deems reasonably necessary for the proper operation of TJU.

Tax-Exempt Bonds Not to Become Arbitrage Bonds. As provided in the Indenture, the Trustee will invest moneys held by the Trustee in the Funds and Accounts established thereunder as directed by a TJU Representative. The Authority and TJU covenant (and TJU shall cause the University Entities to covenant) with each other and with the Holders of each Series of Tax-Exempt Bonds that, notwithstanding any other provision of the Loan Agreement or any other instrument to the contrary, they will neither make or instruct the Trustee to make any investment or other use of the proceeds of such Tax-Exempt Bonds, nor take or omit to take any other action which would cause such Tax-Exempt Bonds to be arbitrage bonds under Section 148(a) of the Code, and that they will comply with the requirements of the Code throughout the term of such Tax-Exempt Bonds.

These provisions may be modified or may be deleted from the Loan Agreement, upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel that such modification or deletion will not adversely affect the exclusion from gross income of interest on any Tax-Exempt Bonds for purposes of federal income taxation.

Limitation of Certain Dispositions. TJU shall not and shall not permit any University Entity to sell, lease or otherwise dispose of any portion of the Property (other than Excluded Property) except as set forth in the Loan Agreement:

(a) TJU may not, and may not permit any other University Entity to, sell or otherwise dispose of, including any disposition by lease, any of the Operating Assets except for dispositions or transfers of Operating Assets: (i) that are obsolete or worn out, unprofitable or no longer necessary for the operation of its business; (ii) replaced by Operating Assets of similar type or of substantially equivalent function and value, which replacements shall be deemed to be incorporated immediately into and constitute an integral part of the Property, and be subject to the terms of the Loan Agreement and the Senior Secured Obligation Documents and Subordinated Obligation Documents; (iii) constituting leases in the ordinary course of business that are Permitted Encumbrances; and (iv) leases of real property by any of the University Entities, as lessor, in effect on the date of the execution and delivery of the Loan Agreement (or if later, the date on which such Person becomes a University Entity) with Affiliates of any of the University Entities, with commercial entities (e.g., a lease with a coffee shop) in insubstantial portions in the aggregate of the Property, and with other physicians or providers of medical services.

(b) Other Transfers. TJU may, and may permit any other University Entity to, transfer or convey its Property in accordance with the following:

(i) Fair Market Value: transfer or convey its Property without limit so long as the conveyance or transfer in question is, in the reasonable judgment of TJU, for fair market value.

(ii) Intercompany: the conveyance or transfer shall be to a University Entity.

(iii) Other Transfers; Limitation. the Book Value of the Property (which, for the avoidance of doubt, includes all Operating Assets and other assets, but not Excluded Property) being transferred pursuant to this clause (iii) and not otherwise permitted to be transferred pursuant to this section does not exceed 7% of the Liquid Unrestricted Net Assets of the Audit Group for the preceding Fiscal Year.

(c) Swaps. TJU may, and may permit any other University Entity to, transfer cash and securities from time to time to be posted as collateral to a Swap Counterparty if required under any collateral support agreement executed in connection with a Swap Agreement; provided, however that the aggregate amount of such transfers shall be limited to an amount, after giving effect to such transfer, that would meet the conditions described in (b) and (c) under "SUMMARY OF THE LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above for the incurrence of one dollar of additional Long Term Indebtedness. For the avoidance of doubt, any amounts included in such calculation shall include any Indebtedness outstanding under "Additional Indebtedness—Additional Long Term Indebtedness" above.

Permitted Encumbrances. Except as permitted by "Secured Obligations" above, TJU agrees that it will not, and agrees that it will not permit any University Entity to, create, assume or suffer to exist any Lien upon the Property of the University. TJU further covenants that if such a Lien is created or assumed by any University Entity, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any Indebtedness secured by such Lien.

Provisions Governing University Entities

Additional University Entities. Any Person may become a "University Entity" under the Loan Agreement upon compliance with the following conditions:

(a) TJU shall deliver to the Trustee a Certificate of TJU confirming that after the addition of such Person, the University would not be in default in the performance or observance of any covenant or condition to be performed by it under the Loan Agreement or under the pertinent Contribution Agreement and no Event of Default under the Loan Agreement or the Indenture shall exist.

(b) TJU shall deliver to the Trustee and the Authority an Opinion of Bond Counsel to the effect that under then existing law the addition of such Person shall not adversely affect the validity of any Bonds then Outstanding or the exemption from federal income taxation of interest payable on any Tax-Exempt Bonds.

(c) TJU shall deliver to the Trustee and the Authority an Opinion of Counsel to the effect that under then existing law the addition of such Person shall not cause any of the Bonds to become subject to registration under the Securities Act of 1933 (or that such registration, if required, has been made).

(d) Such Person shall deliver to the Trustee a Contribution Agreement or another agreement in form and substance satisfactory to the Trustee evidencing the assumption by such Person, jointly and severally with the other University Entities, of the due and punctual payment of the principal of, premium, if any, and interest on all Senior Secured Obligations and Subordinated Obligations and the due and punctual performance and observance of all other covenants and conditions to be kept and performed by such Person as a University Entity under the Loan Agreement, the pertinent Contribution Agreement and any other agreement or agreements pursuant to which a Senior Secured Obligation or Subordinated Obligation is issued and evidencing the pledge to the Trustee of such Person's Gross Revenues.

(e) Such Person shall deliver to the Trustee an Opinion of Counsel for such Person to the effect that the Contribution Agreement and any other agreements described in subsection (d) above have been duly authorized, executed and delivered by such Person and are the legal, valid and binding obligations of such Person, enforceable in accordance with their terms, except to the extent to which enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws or equitable principles affecting creditors' rights generally.

(f) TJU shall deliver to the Trustee a Certificate of TJU demonstrating that either: (i) the Debt Service Coverage Ratio of the Audit Group (calculated as if such Person were a University Entity) for the Fiscal Year immediately preceding the Fiscal Year in which such Person is proposed to be added as a University Entity was at least 1.50, or (ii) the Debt Service Coverage Ratio of the Audit Group (calculated as if such Person were a University Entity) for the two most recent Fiscal Years immediately preceding the Fiscal Year in which such Person is proposed to be added as a University Entity was in each such preceding Fiscal Year at least 1.10, and the Debt Service Coverage Ratio of the Audit Group (calculated as if such Person were a University Entity) is forecasted in a report prepared by a Consultant to be at least 1.40 for each of the two complete Fiscal Years succeeding the Fiscal Year in which such Person is proposed to be added as a University Entity.

(g) At any time within two years of the date of the proposed merger of TJU and Abington Health, a Pennsylvania non-profit corporation ("Abington"), the requirements of (f) above are inapplicable to the addition, as a University Entity, of Abington and/or any of its affiliates or subsidiaries.

Upon receipt of all documents required by this section, the Trustee shall deliver to such Person and each University Entity a Certificate stating that such Person shall become a University Entity under the Loan Agreement, effective upon delivery of such Certificate to such Person and each University Entity. Upon such addition, such new University Entity shall be jointly and severally liable for all obligations of the University Entities under the Loan Agreement and under its Contribution Agreement, including without limitation payment of the Loan Payments.

A Person may be designated by TJU as a University Entity even if such Person is not an Affiliate of TJU; provided that the provisions of this section are satisfied. The designation of such Person as a University Entity does not require that any Persons that would be affiliates of such Person become Affiliates of TJU under the Loan Agreement, and the results of any such Person that would be an affiliate of such Person shall not be included in calculations involving the University or the Audit Group.

Release of a University Entity. Any University Entity other than TJU may be released from its obligations and liabilities under the Loan Agreement, and upon such release shall cease to be a "University Entity" under the Loan Agreement, upon compliance with the following conditions:

(a) TJU shall deliver to the Trustee a Certificate of TJU confirming that after the release of such University Entity, the University would not be in default in the performance or observance of any covenant or condition to be performed by it under the Loan Agreement or under the pertinent Contribution Agreement and no Event of Default under the Loan Agreement or the Indenture shall exist.

(b) TJU shall deliver to the Trustee and the Authority an Opinion of Bond Counsel to the effect that under then existing law the release of such University Entity shall not adversely affect the validity of any Bonds then Outstanding or the exemption from federal income taxation of interest payable on any Tax-Exempt Bonds.

(c) TJU shall deliver to the Trustee and the Authority an Opinion of Counsel to the effect that under then existing law the release of such University Entity shall not cause any of the Bonds to become subject to registration under the Securities Act of 1933 (or that such registration, if required, has been made).

(d) TJU shall deliver to the Trustee a Certificate of TJU stating that the conditions set forth in this section have been satisfied, accompanied by evidence of such satisfaction in form and substance satisfactory to the Trustee, and stating that such University Entity is to be released from its obligations and liabilities under the Loan Agreement.

(e) TJU shall deliver to the Trustee a Certificate of TJU demonstrating that: (i) either the Debt Service Coverage Ratio (calculated assuming such Person was not a University Entity) for the two most recent Fiscal Years immediately preceding the Fiscal Year in which such Person is proposed to be removed as a University Entity is, in each such preceding Fiscal Year, greater than 1.10; or (B) the Debt Service Coverage Ratio (calculated assuming that such Person is not a University Entity) for the next two succeeding Fiscal Years immediately subsequent to the Fiscal Year in which such Person is proposed to be removed as a University Entity is forecasted by TJU in a Certificate of TJU to be at least equal to 1.25; and (ii) for the Fiscal Year immediately preceding the Fiscal Year in which such Person is proposed to be removed as a University Entity (calculated assuming that such person was not a University Entity) the Days Cash on Hand Ratio was not less than 75 days.

Upon request and assuming compliance with the other provisions of this section, the Trustee shall deliver to such University Entity any instrument reasonably requested to evidence that such University Entity is released from its obligations and liabilities under the Loan Agreement and under the pertinent Contribution Agreement (including any Uniform Commercial Code termination statements); provided that, notwithstanding the date of delivery of any such instrument, the release of such University Entity shall be effective as of the date of compliance with this section. Upon the release of any University Entity under this section, such University Entity shall no longer be obligated to pay any principal of, premium, if any, or interest on any Senior Secured Obligation and Subordinated Obligation and shall not be required to comply with any other provision of the Loan Agreement or its Contribution Agreement.

Substitution of New Parent Corporation. In the event that a new parent corporation is created which holds the controlling interest in TJU, and also holds, directly or indirectly, the controlling interest in all Affiliates of TJU (determined at the time that the new parent corporation acquires the controlling interest in TJU), the new Parent Corporation may be substituted for TJU under, and TJU may be released from its obligations under the Loan Agreement. Such substitution and release shall be effective only upon receipt by the Trustee and the Authority of the following:

(a) A written agreement by which the new Parent Corporation assumes the obligations of TJU under the Loan Agreement and the Contribution Agreements, together with an Opinion of Counsel to the effect that the assumption is a valid, binding and enforceable obligation of the new Parent Corporation;

(b) An Opinion of Bond Counsel to the effect that the assumption by the new Parent Corporation and the release of TJU will not, in and of themselves, cause the interest on any of the Tax-Exempt Bonds to become subject to federal income taxation, and an Opinion of Counsel that the assumption by the New Parent Corporation and the release of TJU will not cause any of the Bonds to become subject to registration under the Securities Act of 1933 (or that such registration, if required, has been made), and an Opinion of Counsel that the new parent Corporation is a "College" under the Act.

(c) A Certificate of TJU to the effect that (i) after the assumption by the new Parent Corporation and the release of TJU, no Event of Default shall exist under the pertinent Contribution Agreement, the Indenture or the Loan Agreement, (ii) at the time of the assumption, the new Parent

Corporation is the controlling member or controlling shareholder (directly or indirectly) for TJU and the same corporations for which TJU was a controlling member or controlling shareholder immediately prior to the assumption, and (iii) at the time of the assumption, the new Parent Corporation has the same power (directly or indirectly) as TJU to appoint and dismiss a majority of the members of the governing bodies of such corporations; and

(d) The delivery by new Parent Corporation to the Trustee and the Authority of a Certificate demonstrating that, after giving effect to the substitution of the new Parent Corporation, the University would meet the conditions described in clauses (b) and (c) of "SUMMARY OF LOAN AGREEMENT—Additional Indebtedness—Long Term Indebtedness" above for the incurrence of one dollar of additional Long-Term Indebtedness.

From and after the effective date of such substitution and release, the new Parent Corporation shall be deemed to be "TJU" for all purposes of the Indenture, the Loan Agreement and the Contribution Agreements.

Maintaining Debt Service Coverage.

(a) Within 180 days after the end of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2015), TJU shall compute the Debt Service Coverage Ratio for the Audit Group for such Fiscal Year and furnish a Certificate of TJU setting forth such computations to the Trustee.

(b) TJU covenants that, if at the end of any Fiscal Year the Debt Service Coverage Ratio shall have been less than 1.10 to 1.0, it will use its best efforts to adopt a budget for the current Fiscal Year that will result in the Debt Service Coverage Ratio for such Fiscal Year to be at least 1.10 to 1.0. If the Debt Service Coverage Ratio is less than 1.0 for any Fiscal Year, TJU will engage an Independent Consultant to advise TJU on possible steps to take to enhance future revenues and/or reduce future expenses in order to achieve a Debt Service Coverage Ratio not less than 1.10 to 1.0 in the future. Failure to maintain a Debt Service Coverage Ratio equal to 1.10 to 1.0 shall not constitute an event of default so long as: (i) TJU shall engage an Independent Consultant as/when required and consider such Independent Consultant's recommendations; and (ii) Liquid Unrestricted Net Assets is greater than 25% of the Audit Group's Outstanding Long-Term Indebtedness Outstanding. Copies of the recommendations of the Independent Consultant shall be filed with the Trustee.

(c) Notwithstanding the foregoing, the Audit Group may permit the rendering of services or the use of their Property without charge or at reduced charges, at the discretion of the governing body of TJU or an Audit Group member to the extent necessary for maintaining its tax-exempt status and its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant or as a result of Industry Restrictions.

Arbitrage Rebate. With respect to any Series of Tax-Exempt Bonds and subject to the requirements set forth in the Indenture:

(a) TJU shall determine or have the Authority determine or retain a Financial Consultant to determine, within 60 days of the end of each Bond Year (as defined in the Indenture) the amount required to be rebated to the United States pursuant to Section 148(f) of the Code, as calculated from the date of original delivery of each Series of Tax-Exempt Bonds. Notwithstanding the foregoing, TJU shall not be required to make such determination, except as required in connection with making the payments to the United States Treasury pursuant to paragraph (b) below, if during the preceding Bond Year there have been no investments made of amounts on deposit in any fund or account established under the Indenture in “nonpurpose investments” (as defined in Section 148(f)(6) of the Code) having a yield higher than the yield of such Series of Tax-Exempt Bonds and TJU shall not be required to make such determination with respect to any portion of such Series of Tax-Exempt Bonds which is exempt from rebate by virtue of the six-month, 18-month, or two-year construction issue rebate exemptions of Section 148 of the Code. TJU shall notify the Trustee and the Authority in writing if such determination is not required to be made and the Trustee and the Authority shall be entitled to rely on such written notification.

(b) TJU shall pay, or cause to be paid, to the United States Treasury (1) not less frequently than 60 days after the end of every fifth Bond Year, an amount, as determined by TJU, the Authority or a Financial Consultant, at least equal to 90% of the amount required to be rebated pursuant to Section 148(f) of the Code with respect to such Series of Tax-Exempt Bonds, giving effect to any prior payments made pursuant to this paragraph, and (2) not later than 60 days after the retirement of the last Tax-Exempt Bond or Tax-Exempt Bonds of such Series, 100% of the aggregate amount required to be rebated pursuant to Section 148(f) of the Code.

(c) The provisions of this section may be amended or deleted from the Loan Agreement upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel that such amendment or deletion will not adversely affect the exclusion from gross income of the interest on any Series of Tax-Exempt Bonds for purposes of federal income taxation.

(d) As required by provisions of the Loan Agreement relating to the Rebate Fund, TJU will pay to or for the account of the Authority all amounts needed to comply with the requirements of Section 148 of the Code, concerning arbitrage bonds, including Section 148(f), which requires generally a rebate payment to the United States of arbitrage profit from investment of the proceeds of such Series of Tax-Exempt Bonds in obligations other than tax-exempt obligations. The obligation of TJU to make such payments is unconditional and is not limited to funds representing the proceeds of such Series of Tax-Exempt Bonds or income from the investment thereof or any other particular source.

Events of Default of the University

Each of the following shall constitute an Event of Default under the Loan Agreement:

(a) if TJU fails to make any payment required under the Loan Agreement when the same shall become due and payable thereunder; or

(b) if TJU fails to make any other payment or deposit required under the Loan Agreement within 90 days of the due date thereof; or

(c) if TJU fails to perform any of its other covenants, conditions or provisions under the Loan Agreement and such failure continues for 60 days after the Authority or the Trustee gives TJU written notice thereof; provided, however, that if such performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 60 day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, TJU shall commence such performance within such 60 day period and shall diligently and continuously prosecute the same to completion; or

(d) if TJU admits in writing its inability to pay its debts generally as they become due, or proposes or makes an assignment for the benefit of creditors or a composition agreement with all or a material part of its creditors, or a trustee, receiver, executor, conservator, liquidator, sequestrator or other judicial representative, similar or dissimilar, is appointed for TJU or any of its assets or revenues, or there is commenced any proceeding in liquidation, bankruptcy, reorganization, arrangements of debts, debtor rehabilitation, creditor adjustment or insolvency, local, state or federal, by or against TJU and if such is not vacated, dismissed or stayed on appeal within 60 days; or

(e) if an event of default shall have occurred and be continuing under any Additional Parity Obligation Agreement (including, without limitation, an event of default under any Continuing Covenant Agreement but in all cases excluding an event of default under any Swap Agreement); or

(f) if an Event of Default shall have occurred and be continuing under the Indenture; or

(g) an event of default has occurred and is continuing under any of the Contribution Agreements; or

(h) if any University Entity, as counterparty, shall have caused an event of default to have occurred and be continuing under any Swap that is secured by a pledge of and lien on the Gross Revenues of one or more University Entities; or

(i) any representation or warranty made by TJU in the Loan Agreement proves to be false or misleading in any material respect at the time it was made.

Remedies

If acceleration of the principal amount of the Bonds has been declared pursuant to the Indenture, the Trustee shall declare all Loan Payments to be immediately due and payable, whereupon the same shall become immediately due and payable. In addition, if an Event of Default has occurred under the Loan Agreement and is continuing, the Authority (or the Trustee as its assignee) may, at its option, in addition to its other rights and remedies as may be provided under the Loan Agreement or may exist at the time at law or in equity, exercise any one or more of the following remedies:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Authority, and require TJU to carry out any agreements with or for the benefit of the Bondholders and to perform its duties under the Act or the Loan Agreement; or

(b) by action or suit in equity require TJU, to account as if it were the trustee of an express trust for the Authority; or

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Authority; or

(d) upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bondholders, to have appointed a receiver or receivers of the Trust Estate, with such powers as the court making such appointment shall confer; or

(e) upon notice to TJU, to accelerate the due dates of all sums due or to become due under the Loan Agreement.

In order to entitle the Authority or the Trustee to exercise any remedy reserved to it, it shall not be necessary to give any notice, other than such notice as may be expressly required under the Loan Agreement. Such rights and remedies as are given the Authority under the Loan Agreement shall also extend to the Trustee, and the Trustee shall be deemed a third-party beneficiary of all covenants and agreements contained in the Loan Agreement. For so long as any Bonds remain Outstanding under the Indenture, and except with respect to TJU's obligations in respect of the Authority's rights to notices, payments of fees and expenses and indemnification rights and TJU's obligations to comply with the Act, the Trustee, as the assignee of the Authority, shall have the sole right to exercise rights and remedies against TJU upon the occurrence of any Event of Default under the Loan Agreement, and the exercise by the Trustee of such rights and remedies shall be subject to all applicable provisions of the Indenture, the Loan Agreement and the Act. To the extent necessary or appropriate and requested by the Trustee, the Authority shall cooperate with the Trustee in connection with the exercise by the Trustee of such rights and remedies against TJU.

In addition to the foregoing, the Trustee shall be entitled to exercise any and all remedies provided to it under each Contribution Agreement.

Bondholders May Direct Proceedings. The holders of a majority in principal amount of the Bonds then Outstanding under the Indenture shall have the right to direct the method and place of conducting all remedial proceedings by the Trustee under the Loan Agreement, provided however that such direction shall not be in conflict with any rule of law or with the Loan Agreement or the Indenture or unduly prejudice the rights of minority Bondholders and, provided further that the Trustee may decline to follow such direction if the Trustee, upon advice of Counsel, determines that the taking of the action specified in such direction would involve it in personal liability against which indemnity would not be satisfactory.

Amendments

The parties to the Loan Agreement, from time to time, may enter into any amendments and supplements to the Loan Agreement (which thereafter shall form a part of the Loan Agreement) without the consent of Bondholders, but with prior notice to the Trustee, for the following purposes:

(a) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority and TJU may deem necessary or desirable or for other purposes as the Authority and TJU may deem desirable but only to the extent that such Supplemental Loan Agreement does not materially adversely affect the rights of the Bondholders under the Indenture; or

(b) to modify, eliminate or add to the provisions of the Loan Agreement to such extent as shall be necessary to obtain, maintain or improve a rating of the Bonds by a Rating Agency; or

(c) to add covenants of TJU or surrender rights or powers of TJU; or

(d) to make such additions, deletions or modifications as may be necessary in the case of any Tax-Exempt Bonds to assure compliance with Section 148(f) of the Code relating to the required rebate of certain investment earnings to the United States government or otherwise as may be necessary to assure exemption from Federal income taxation of interest on the Tax-Exempt Bonds; or

(e) to subject, describe or redescribe any Property subjected or to be subjected to the Lien of the Loan Agreement; or

(f) to provide for the issuance of one or more Series of Bonds, or other Senior Secured Obligations or for the issuance (or replacement) of a Loan Commitment or for the execution and delivery of any Swap as permitted under the Loan Agreement; or

(g) to modify, amend or supplement the Loan Agreement, so long as the Trustee receives evidence that the proposed amendment will not cause the securities rating on the Series of Bonds or other Obligations affected by such modification, amendment or supplement to be lowered, suspended or withdrawn; or

(h) to provide for the orderly sale or remarketing of Bonds.

In connection with any other change in the Loan Agreement, the consent of the Bondholders will not be required, if in the judgment of the Trustee in reliance on an Opinion of Counsel (which may be Bond Counsel), the proposed change does not materially adversely affect the rights of the Holders of any Bonds. Any Opinion of Counsel rendered pursuant to the preceding sentence may rely as to factual matters (for example, levels of insurance or valuation of Property) on a Certificate of an Independent Person with experience and a favorable reputation in factual matters covered by such Certificate.

Except for amendments, changes or modifications as provided in clauses (a) through (h) above or otherwise in the Loan Agreement, neither the Authority nor the Trustee shall consent to any amendment, change or modification of the Loan Agreement or waive any obligation or duty of TJU under the Loan Agreement without the written consent of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds adversely affected thereby; provided, however, that no such waiver, amendment, change or modification shall permit termination or cancellation of the Loan Agreement or any reduction of the amounts payable under the Loan Agreement or change the date when such payments are due without the consent of the Holders of all the Bonds then Outstanding who are adversely affected thereby. With respect to Parity Indebtedness, holders of such Parity Indebtedness shall be treated as if they were Bondholders. Notwithstanding the foregoing and except as provided in (b)(iv) under "Subordinated Obligations" above, the Loan Agreement may be amended, changed or modified without the written consent of the Holders of any Subordinated Obligations.

Governing Law

The laws of the Commonwealth shall govern the construction of the Loan Agreement.

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SUMMARY OF THE INDENTURE

Trust Estate

Pursuant to the Indenture (a) all right, title and interest (but not the obligations) of the Authority under and pursuant to the terms of the Loan Agreement, all Loan Payments and all other payments, revenues and receipts receivable by the Authority thereunder except as provided therein, and (b) all of the right, title and interest of the Authority in and to all Funds and Accounts (except for the Rebate Fund, any Redemption Fund established for Bonds, any purchase or sinking fund established in connection with Bonds subject to purchase) and all moneys and investments now or hereafter held therein and all present and future Pledged Revenues, and any other revenues, property, contracts or contract rights, accounts receivable, chattel paper, instruments, general intangibles or other rights and the proceeds thereof, which may, by delivery, assignment or otherwise, be subject to the lien and security interest created by the Indenture and the other right, title and interest assigned, transferred and pledged or agreed or intended so to be to the Trustee and its successors in said trust and to its and their assigns forever, are assigned, transferred and pledged to the Trustee and its successors in trust and its and their assigns, to secure the payment of the principal of the Bonds and the interest and premium, if any, due or to become due thereon.

Funds and Accounts

Credit of Bond Proceeds to the Funds and Accounts. Upon the original issuance of each Series of Bonds, the proceeds of the sale of such Series shall be credited to one or more of the Funds and Accounts as provided in the Supplemental Indenture authorizing such Series of Bonds.

Debt Service Fund. The Trustee shall establish and maintain a Debt Service Fund with an account therein relating to each Series of Bonds, the moneys on deposit within which shall be applied as follows:

(a) to the payment of interest, when due, on all Outstanding Bonds, including any accrued interest due in connection with purchases or redemptions of Bonds pursuant to the Indenture;

(b) to the payment, when due, of the principal or Redemption Price of Bonds then payable at maturity or upon Mandatory Redemption (but only upon surrender of such Bonds), subject to reduction by the principal amount of Bonds of the same series and maturity purchased by TJU and surrendered to the Trustee for cancellation or purchased for cancellation by the Trustee pursuant to subsection (c) below; and

(c) during the 12-month period preceding each principal maturity or Mandatory Redemption date, the Trustee shall, at the written request of TJU, purchase Bonds of the Series with maturity becoming due on such principal maturity or Mandatory Redemption date from funds on deposit in the Account for such Series of Bonds within the Debt Service Fund; provided, however, that no such purchase shall be made unless (i) the purchase price does not exceed 100% of the principal amount of the Bonds so to be purchased, and (ii) in the case of any purchase of Bonds which are subject to Mandatory Redemption, firm commitments for the purchase of such Bonds shall have been accepted prior to the giving of notice of such redemption by the Trustee.

Redemption Fund. The Trustee shall establish a Redemption Fund with an Account therein relating to each Series of Bonds into which it shall deposit such amounts as are required or permitted to be deposited therein pursuant to the provisions of the Indenture, including, but not limited to, clause (c) in "Funds and Accounts—Establishment of Construction Funds" below. Moneys in the Redemption Fund for a Series of Bonds shall be applied to the Redemption Price of such Series of Bonds upon Optional or

Extraordinary Redemption pursuant to the Indenture or otherwise in the Supplemental Indenture pursuant to which Series of Bonds were issued.

Establishment of Construction Funds.

(a) If required by a Supplemental Indenture in connection with the issuance of a Series of Bonds, the Trustee shall establish a separate account for each Series of Bonds within the Construction Fund for the payment of Project Costs involving construction, acquisition or renovations, including capitalized interest on such Series of Bonds and costs of issuance. A Construction Fund shall consist of the amounts required or permitted to be deposited therein pursuant to the applicable Supplemental Indenture or the Loan Agreement. Separate Accounts and Subaccounts within a Construction Fund shall be maintained by the Trustee if required under the terms of any governmental grant or applicable regulations relating to any such grant or if the Authority or TJU determines that separate accounts are desirable with respect to the Project or designated portions of the Project.

(b) Moneys in the Construction Fund established for a Project shall be disbursed in accordance with the provisions of the Loan Agreement. The Trustee shall cause to be kept and maintained adequate records pertaining to the Construction Fund and all disbursements therefrom. The Trustee shall make such records available for inspection by, or shall provide copies thereof to, the Authority and to TJU at reasonable times upon prior written request.

(c) The completion of a Project and payment of all Project Costs payable out of the corresponding Construction Fund shall be evidenced by the occurrence of the completion date for such Project. As soon as practicable thereafter, any balance remaining in the corresponding Construction Fund shall be deposited or applied in accordance with the written direction of a TJU Representative pursuant to the Loan Agreement. With respect to a Series of Tax-Exempt Bonds, such balance shall not be invested by TJU at a yield in excess of the yield on the related Tax-Exempt Bonds, unless there shall have been delivered to the Trustee an Opinion of Bond Counsel.

Debt Service Reserve Funds.

(a) A Supplemental Indenture may provide that a Debt Service Reserve Fund may be established with the Trustee, which shall be held for the sole benefit and security of the Holders of the Series of Bonds issued pursuant to such Supplemental Indenture. The moneys in a Debt Service Reserve Fund and any investments (or Reserve Fund Credit Facility) held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee solely to the payment of the principal (including sinking fund installments) of and interest on the Series of Bonds secured by such Debt Service Reserve Fund.

(b) Any moneys from time to time on deposit in a Debt Service Reserve Fund shall be applied as follows or as set forth in the pertinent Supplemental Indenture:

(i) on the date of each permitted or required payment from the Debt Service Fund to pay principal or interest on a Series of Bonds secured by such Debt Service Reserve Fund, moneys in the Debt Service Reserve Fund (including, without limitation, any amounts drawn by the Trustee under any Reserve Fund Credit Facility pursuant to subsection (c) below) shall be applied by the Trustee to make up the difference between (A) the amount necessary to pay principal and/or interest due on the Series of Bonds secured by such Debt Service Reserve Fund on such date, and (B) the amount then on deposit in the applicable account in the Debt Service Fund established for the Series of Bonds secured by the pertinent Debt Service Reserve Fund;

(ii) with respect to a Series of Tax-Exempt Bonds, if the Debt Service Reserve Requirement is reduced as a result of any purchase, redemption or prepayment of the any Tax-Exempt Bonds secured thereby, any amount in the Debt Service Reserve Fund for a Series of Tax-Exempt Bonds in excess of such reduced Debt Service Reserve Requirement shall be applied as provided in a Certificate of TJU delivered to the Trustee and the Authority, which Certificate of TJU shall be accompanied by an Opinion of Bond Counsel; and

(iii) beginning one year prior to the final maturity date of a Series of Bonds secured by the Debt Service Reserve Fund, any moneys then held in the Debt Service Reserve Fund shall be credited against the payments otherwise payable in respect of principal of and interest on the Bonds secured thereby and shall be transferred to the applicable account in the Debt Service Fund for such Series of Bonds for the payment of the principal of and interest on such Bonds; provided, however, that no such credit shall be given and no such transfer shall be made if and to the extent that, immediately prior to such crediting and transfer, there has then occurred and is continuing an Event of Default under the Indenture.

The amount of any withdrawal from a Debt Service Reserve Fund for the purpose of subsection (b)(i) above shall be restored in no more than 12 equal, consecutive, monthly installments, each payable on the last Business Day of each month, commencing with the third month following the month in which the withdrawal is made, or otherwise as specified in the pertinent Supplemental Indenture.

(c) Notwithstanding the foregoing provisions, in lieu of any required deposits into a Debt Service Reserve Fund, or in substitution for all or any portion of the amounts on deposit therein, TJU may cause to be deposited in such Fund a Reserve Fund Credit Facility payable to the Trustee for the benefit of the Holders of a Series of Bonds secured by such Debt Service Reserve Fund in an amount which, when added to any cash deposits therein, will equal the Debt Service Reserve Requirement for such Series of Bonds. The Reserve Fund Credit Facility shall be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be withdrawn from the pertinent Debt Service Reserve Fund and applied to the payment of principal or interest on a Series of Bonds secured by such Debt Service Reserve Fund and such withdrawal cannot be met by amounts on deposit in the Debt Service Fund for such Series of Bonds or provided from available amounts in any other Fund under the Indenture (provided, however, that such Reserve Fund Credit Facility need not provide for payment in the case of an optional redemption of any Bonds).

(d) The Supplemental Indenture executed and delivered in connection with the issuance of a Series of Bonds to be secured by a Debt Service Reserve Fund may set forth different provisions or additional provisions with respect to such Debt Service Reserve Fund.

Rebate Fund. A Rebate Fund will be established with the Trustee, and within such Rebate Fund, a separate account for each Series of Tax-Exempt Bonds. Any provision of the Indenture to the contrary notwithstanding, amounts credited to the Rebate Fund shall be free and clear of any lien under the Indenture.

(a) In accordance with the terms of the Loan Agreement, TJU shall determine, or furnish information to the Authority or a Financial Consultant to determine, as soon as is practical after the end of each Bond Year for such Series of Tax-Exempt Bonds and as soon as is practical after the payment in full of such Series of Tax-Exempt Bonds, the amount of rebate due (the "Rebatable Amount") as of the end of that Bond Year or the date of such final payment. A copy of such determination shall be provided to the Trustee. With respect to each Series of Tax-Exempt Bonds, the Trustee shall notify TJU in writing of the amount then on deposit in the Rebate Fund. If the amount then on deposit in the Rebate Fund with respect to such Series of Tax-Exempt Bonds is in excess of the Rebatable Amount as determined by TJU, the Authority or the Financial Consultant, the Trustee shall forthwith pay that excess amount to TJU. If the amount then on deposit in the Rebate Fund with respect to such Series of Tax-Exempt Bonds is less than such Rebatable Amount, TJU shall, within five days after receipt of the aforesaid notice from the Trustee, pay to the Trustee for deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to such Rebatable Amount for such Series of Tax-Exempt Bonds. If TJU does not pay that required amount within five days after receipt of the aforesaid notice from the Trustee, the Trustee shall immediately transfer that amount from the Construction Fund with respect to such Series of Tax-Exempt Bonds to the Rebate Fund to the extent there are moneys available in the Construction Fund. With respect to each Series of Tax-Exempt Bonds, within 60 days after the end of the fifth Bond Year and every fifth Bond Year thereafter, the Trustee, acting on behalf of the Authority and TJU, shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 90% (or such greater percentage not in excess of 100% as TJU may direct in writing the Trustee to pay) of the Rebatable Amount, as determined by TJU, the Authority or the Financial Consultant, earned from the date of the original delivery of such Tax-Exempt Bonds to the end of such fifth Bond Year (less the amount of Rebatable Amount, if any, previously paid to the United States pursuant to this section). Within 60 days after the payment in full of all Outstanding Tax-Exempt Bonds of such Series, the Trustee shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 100% of the Rebatable Amount, as determined by TJU, the Authority or the Financial Consultant, earned from the date of the original delivery of such Tax-Exempt Bonds to the date of such payment (less the amount of Rebatable Amount, if any, previously paid to the United States pursuant to this section) and any moneys remaining in the Rebate Fund following such payment shall be paid to TJU. All computations of Rebatable Amount pursuant to this section and the Loan Agreement shall treat the amount or amounts, if any, previously paid to the United States pursuant to this section and the Loan Agreement as amounts on deposit in the Rebate Fund.

(b) If all the gross proceeds of a Series of Tax-Exempt Bonds, within the meaning of Section 148(f) of the Code, together with the gross proceeds of any other obligations treated as part of the same issue for purposes of Section 148(f) of the Code, are invested solely in tax-exempt obligations or are fully expended for the governmental purpose for which such Tax-Exempt Bonds were issued within six months of the date of issuance of the Tax-Exempt Bonds, or if the Series of Tax-Exempt Bonds qualify for the exemption from rebate by virtue of the 18-month spend-out exception or the two-year construction issue rebate exception under Section 148 of the Code and the regulations promulgated thereunder, then the provisions of this section and the Loan Agreement shall not be applicable to the investment of original proceeds of such Series of Tax-Exempt Bonds in the Construction Fund and TJU shall not be required to comply with the foregoing provisions of this section; provided that TJU shall remain responsible to determine the Rebatable Amount, if any, and to cause to be paid to the Trustee for deposit in the Rebate Fund and payment to the United States such amounts, if any, at such times as may be necessary to comply with the requirements of Section 148(f) of the Code with respect to such Series of Tax-Exempt Bonds. TJU shall provide the Trustee and the Authority with a Certificate of TJU and a Certificate of a Financial Consultant and/or an Opinion of Bond Counsel covering the applicability of this section.

(c) The Trustee and the Authority shall keep records of the computations made pursuant to this section that are filed with them until six years after the retirement of the last Tax-Exempt Bond.

(d) The Trustee shall have no duty or liability for calculating, investing or paying over to the United States any funds in the Rebate Fund, but shall be responsible for such matters only as directed in writing by the Authority or TJU.

(e) The provisions of this section may be amended or deleted from the Indenture upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel.

Moneys to Be Held for All Bondholders, With Certain Exceptions

Until applied as provided in the Indenture, moneys and investments held in all Funds and Accounts established under the Indenture shall be held in trust for the benefit of the holders of all Outstanding Bonds, except that:

(a) on and after the date on which the interest on or principal or Redemption Price of any particular Bond or Bonds is due and payable from the Debt Service Fund or Redemption Fund, the unexpended balance of the amount deposited or reserved in either or both of such Funds for the making of such payments shall, to the extent necessary therefor, be held for the benefit of the Bondholder or Bondholders entitled thereto;

(b) the rights of any Bondholders with respect to principal or interest payments extended beyond their due dates pursuant to the Indenture shall be subordinate to the rights of Bondholders with respect to payments not so extended;

(c) amounts held for Bonds for which provision for payment has been made in accordance with the Indenture, provided that, if such Bonds are to be redeemed, required notice of redemption shall have been given or provision satisfactory to the Trustee shall have been made therefore and that if such Bonds are to be purchased, there shall be a firm commitment for the purchase and sale thereof;

(d) amounts held in a Purchase Fund established for any Bonds pursuant to a Supplemental Indenture in connection with such Bonds that are subject to purchase, together with any income from the investment of such amounts, shall be held solely for the benefit of the Persons specified in such Supplemental Indenture;

(e) amounts held in a Debt Service Reserve Fund established for any Bonds, together with any income from the investment of such amounts, shall be held solely for the benefit of the Bonds secured by such Debt Service Reserve Fund;

(f) the proceeds of any Bonds deposited with the Trustee in a Construction Fund established in connection with such Bonds, together with any income from the investment of such amounts, shall be held solely for the benefit of the Holders (or other holder) of such Bonds pending their disbursement, unless specifically provided otherwise in the corresponding Supplemental Indenture; and

(g) the Rebate Fund shall not be held in trust for the holders of the Outstanding Bonds.

Any Series of Bonds may be further secured (or may be unsecured, or secured only by a portion of the Trust Estate) as may be provided in the Supplemental Indenture pertaining thereto.

Investment or Deposit of Funds

Moneys on deposit in the Funds established pursuant to the Indenture (except the Rebate Fund, which moneys shall be invested and reinvested by the Trustee only at the written direction of TJU in obligations described in paragraphs (a), (b), (d), (e), (f), (g), (h) and (i) of the definition of "Investment Securities" maturing not later than the date on which moneys in the Rebate Fund are to be transferred therefrom in accordance with the Indenture) shall be invested and reinvested by the Trustee at the direction of TJU as follows:

(a) All investments shall constitute Investment Securities and shall mature, or be subject to repurchase, withdrawal without penalty or redemption at the option of the holder on or before the dates on which the amounts invested are reasonably expected by TJU to be needed for the purposes under the Indenture.

(b) The interest and income received upon such investments of the Debt Service Fund and any interest paid by the Trustee or any other depository and any profit or loss resulting from the sale of any investment shall be added or charged in the case of any interest income or profit from investments of the Debt Service Fund, to the Debt Service Fund, and to the extent received or paid and available for payment of amounts due on the Bonds, to the payment of the next succeeding payment due on account of the Bonds and to the extent so applied, shall constitute payment under the Loan Agreement (notice of which payment shall be given by the Trustee to TJU), and any realized loss shall be forthwith made up by TJU (the direction of TJU to make investments as aforesaid shall constitute an agreement so to do). Any such investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the Debt Service Fund.

(c) The interest and income received upon investments of the Construction Fund shall be retained therein until disposed of as provided in the Indenture.

(d) The interest and income received upon investments of the Debt Service Reserve Fund shall be retained therein until disposed of as provided in the Indenture.

(e) The interest and income received upon investments in the Rebate Fund shall be retained therein until disposed of as provided in Indenture.

(d) Neither the Authority nor the Trustee shall be accountable for any depreciation in the value of the Investment Securities or any losses incurred upon any authorized disposition thereof.

(e) Although TJU recognizes that it may obtain brokerage confirmations or written statements containing comparable information at no additional cost, TJU agrees that brokerage confirmations are not required to be issued by the Trustee for each month in which a monthly statement of investments is provided to it. No statement needs to be provided, however, for any Fund or account for any month in which no investment activity occurred during such month in such Fund or account.

Tax Covenants

The Authority covenants not to take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on any Tax-Exempt Bonds under Section 103 and Sections 141 through 150, inclusive, of the Code. The Authority will not directly or indirectly use or permit the use of any proceeds of the Tax-Exempt Bonds or any other funds of the Authority, or take or omit to take any action that would cause the Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Authority will comply with all requirements of Section 148 of the Code to the extent applicable to the Tax-Exempt Bonds.

Without limiting the generality of the foregoing, the Authority agrees to provide in the Loan Agreement that TJU will agree to pay from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to such Series of Tax-Exempt Bonds from time to time. This covenant shall survive payment in full or defeasance of the applicable Series of Tax-Exempt Bonds. The Authority agrees to provide in the Loan Agreement that TJU will specifically covenant to pay or cause to be paid to the United States at the times and in the amounts determined under "SUMMARY OF THE INDENTURE—Funds and Accounts—Rebate Fund."

Notwithstanding any provision of this section and under the section "SUMMARY OF THE INDENTURE—Funds and Accounts—Rebate Fund," if TJU shall provide to the Authority and the Trustee an Opinion of Bond Counsel to the effect that any action required under such provisions is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of interest on the Tax-Exempt Bonds, the Authority, the Trustee and TJU may rely conclusively on such opinion.

Events of Default

Each of the following shall be an Event of Default under the Indenture:

(a) if payment of the principal or Redemption Price of any Bond is not made when it becomes due and payable, whether at maturity or by call for redemption or otherwise; or

(b) if payment of any interest on any Bond is not made when due and payable; or

(c) if payment of the purchase price of any Bond is not made when it becomes due and payable; or

(d) an "Event of Default" under the Loan Agreement occurs and is continuing; or

(e) if the Authority shall fail or refuse to comply with the provisions of the Act or with any of its covenants under the Indenture and such failure or refusal shall continue for a period of 60 days after notice thereof has been given to the Authority and TJU by the Trustee.

The Trustee shall, within 30 days of the occurrence of an Event of Default of which it has received notice as provided in the Indenture or of any event of which the Trustee is required to take notice and which would result in an Event of Default with the passage of time or the giving of notice, notify the Authority and TJU of the occurrence of such Event of Default or such other event.

Remedies

Acceleration and Annulment Thereof. If any Event of Default has occurred and is continuing the Trustee may and, at the written direction of the holders of 25% (100% in the case of an Event of Default described in clause (e) above in principal amount of the Bonds then Outstanding, shall, by notice in writing to the Authority and TJU, declare the principal of all Bonds then Outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon, shall become due and payable immediately at the place of payment provided therein, anything in the Indenture or in the Bonds to the contrary notwithstanding; provided, however, that no such declaration shall be made if TJU cures such Event of Default prior to the date of the declaration. The Trustee shall notify TJU and all Bondholders of the acceleration. Upon the occurrence of any acceleration under the Indenture, the Trustee shall immediately exercise such rights as it may have under the Loan Agreement to declare all payments thereunder to be due and payable immediately.

If after the principal of the Bonds has been so declared to be due and payable, all arrears of interest upon the Bonds (and interest on overdue installments of interest at the interest rate on the Bonds) are paid by the Authority or TJU, and the Authority or TJU also performs all other things in respect to which the Authority may have been in default under the Indenture and pays the reasonable charges and expenses of the Trustee and the Bondholders, including reasonable attorney's fees and expenses, then, and in every such case, the Trustee may annul such declaration and its consequences and such annulment shall be binding upon the Trustee and upon all holders of Bonds issued under the Indenture; but no such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Immediately after any acceleration under the Indenture, the Trustee, to the extent it has not already done so, shall notify in writing the Authority and TJU of the occurrence of such acceleration. Within five calendar days of the occurrence of any acceleration under the Indenture, the bond registrar shall notify by first class mail, postage prepaid, the Owners of all Bonds Outstanding of the occurrence of such acceleration, the date through which interest has accrued and the time and place of payment.

Other Remedies. If any Event of Default occurs and is continuing, the Trustee, before or after the principal of the Bonds becomes immediately due and payable, may enforce each and every right granted to it under the Indenture, the Loan Agreement, the Contribution Agreements and any supplements or amendments to the Indenture, the Loan Agreement the Contribution Agreement and any supplements or amendments. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee shall, subject to receipt of indemnity to its satisfaction, take such action as, in the judgment of the Trustee applying the standards described in the Indenture, would best serve the interests of the Bondholders, taking into account the security and remedies afforded by the Loan Agreement, the Indenture and the Contribution Agreements.

Legal Proceedings by Trustee. If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the holders of 25% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction shall, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Authority to enforce any rights under the Loan Agreement and to require the Authority to carry out any other provisions of the Indenture for the benefit of the Bondholders and to perform its duties under the Act;

(b) bring suit upon the Bonds;

(c) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Bondholders;

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders; and

(e) If an Event of Default under clause (c) under the heading "SUMMARY OF THE INDENTURE—Events of Default" occurs and is continuing, the Trustee in its discretion may, and upon the written request of a majority in principal amount of the Holders of all Bonds then Outstanding and receipt of indemnity to its satisfaction shall, enforce each and every right granted to it as assignee of the Loan Agreement and every right assigned to it pursuant to the Contribution Agreements.

Discontinuance of Proceedings by Trustee. If any proceeding taken by the Trustee on account of any default is discontinued or is determined adversely to the Trustee, the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture as though no such proceeding had been taken.

Bondholders May Direct Proceedings. The holders of a majority in principal amount of the Bonds then Outstanding under the Indenture shall have the right to direct the method and place of conducting all remedial proceedings by the Trustee under the Indenture, provided however that such direction shall not be in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Bondholders and, provided further that the Trustee may decline to follow such direction if the Trustee, upon advice of Counsel, determines that the taking of the action specified in such direction would involve it in personal liability against which indemnity would not be satisfactory.

Limitations on Actions by Bondholders. No Bondholder shall have any right to pursue any remedy under the Loan Agreement unless (a) the Trustee shall have been given written notice of an Event of Default, (b) the holders of at least 25% in principal amount of the Bonds then Outstanding shall have requested the Trustee, in writing, to exercise the powers granted under the Indenture or to pursue such remedy in its or their name or names, (c) the Trustee shall have been offered indemnity satisfactory to it against its fees, costs, expenses and liabilities, and (d) the Trustee shall have failed to comply with such request within a reasonable time.

Notwithstanding the foregoing provisions of the Indenture or any other provision of the Indenture, the limited obligation of the Authority shall be absolute and unconditional to pay or cause to be paid under the Indenture, but solely from the Pledged Revenues and other funds pledged under the Indenture, the principal or Redemption Price of and interest on, the Bonds to the respective Holders thereof on the respective due dates thereof, and nothing under the Indenture shall affect or impair the right of action, which is absolute and unconditional, of such holders to enforce such payment.

Trustee May Enforce Rights Without Possession of Bonds. All rights under the Indenture and the Bonds may be enforced by the Trustee without the possession of any Bonds or the production thereof at the trial or other proceedings relative thereto, and any proceeding instituted by the Trustee shall be brought in its name for the ratable benefit of the holders of the Bonds.

Remedies Not Exclusive. Except as limited under the Indenture, no remedy in the Indenture conferred is intended to be exclusive of any other remedy or remedies, and each remedy is in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

Delays and Omissions Not To Impair Rights. No delay or omission in respect of exercising any right or power accruing upon any default shall impair such right or power or be a waiver of such default, and every remedy given by the Indenture may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys in Event of Default. After the occurrence of an Event of Default, moneys in a Debt Service Reserve Fund, or required to be deposited therein, shall continue to be applied for the purposes set forth in the Indenture. Any moneys on deposit in any other Fund or account established under the Indenture and any moneys received by the Trustee under the Indenture shall be applied,

> First: to the payment of the expenses and costs of the Trustee, including counsel fees and expenses, any disbursements of the Trustee with interest thereon and its reasonable compensation;
>
> Second: subject to the provisions of the Indenture, to the payment of all interest then due on Outstanding Bonds or, if the amount available before the payment of interest is insufficient for such purpose, to the payment of interest ratably in accordance with the amount due in respect of each Bond; and
>
> Third: subject to the provisions of the Indenture, to the payment of the outstanding principal amount of all Bonds or, if the amount available for the payment of principal is

insufficient for such purpose, to the payment of principal ratably in accordance with the amount due in respect of each Bond.

Any surplus shall be paid to the Authority or the Person lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Trustee's Right to Receiver; Compliance with Act. As provided by the Act, the Trustee shall be entitled as of right to the appointment of a receiver; and the Trustee, the Bondholders and any receiver so appointed shall have such rights and powers and be subject to such limitations and restrictions as are contained in the Act.

Trustee and Bondholders Entitled to All Remedies Under Act. It is the purpose of the Indenture to provide such remedies to the Trustee and Bondholders as may be lawfully granted under the provisions of the Act; but should any remedy granted under the Indenture be held unlawful, the Trustee and the Bondholders shall nevertheless be entitled to every other remedy provided by the Act. It is further intended that, insofar as lawfully possible, the provisions of the Indenture shall apply to and be binding upon the trustee or receiver appointed under the Act.

Amendments and Supplements

Amendments and Supplements Without Bondholders' Consent. The Indenture may be amended or supplemented at any time and from time to time, without notice to or the consent of the Bondholders, by a Supplemental Indenture entered into between the Authority and the Trustee, consented to by TJU and authorized by a Certified Resolution of the Authority filed with the Trustee for one or more of the following purposes:

(a) to add additional covenants of the Authority or to surrender any right or power in the Indenture conferred upon the Authority;

(b) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any supplemental indenture which may be defective or inconsistent with any other provision contained in the Indenture or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture and which shall not materially adversely affect the interests of the holders of the Bonds, including the appointment and duties of a Paying Agent, bond registrar or authenticating agent;

(c) to modify, eliminate or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as from time to time amended, or under any similar federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by the Trust Indenture Act of 1939, as from time to time amended;

(d) to modify, eliminate or add to the provisions of the Indenture to such extent as shall be necessary to obtain, maintain or improve a rating of the Bonds (or any Series of the Bonds) by a Rating Agency;

(e) to grant to or confer or impose upon the Trustee for the benefit of the Owners of the Bonds any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(f) to permit the Bonds to be converted to or from certificateless securities or securities represented by a master certificate held in trust, ownership of which, in either case, is evidenced by book entries on the books of any securities depository, for any period of time;

(g) to permit the appointment of a co-trustee under the Indenture;

(h) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;

(i) to modify, alter, supplement or amend the Indenture to comply with changes in the Code affecting the status of interest on any Tax-Exempt Bonds as excluded from gross income for federal income tax purposes or the obligations of the Authority or TJU in respect of Section 148 of the Code;

(j) to make any amendments appropriate or necessary to provide for any insurance policy, irrevocable transferable letter of credit, guaranty, surety bond, line of credit, revolving credit agreement or other agreement or security device delivered to the Trustee and providing for payment of the principal, interest and redemption premium on the Bonds or a portion thereof; and

(k) to modify, alter, amend or supplement the Indenture in any other respect that is not materially adverse to the Bondholders.

(l) to provide for the issuance of one or more Series of Bonds pursuant to the Indenture or for the issuance (or replacement) of a Loan Commitment or for the execution and delivery of any Swap;

(m) to modify, amend or supplement the Indenture, so long as the Trustee receives evidence that the proposed amendment will not cause the securities rating on the Series of Bonds affected by such modification, amendment or supplement to be lowered, suspended or withdrawn;

(n) to make changes necessary to allow the Trustee to exercise any rights provided to it under the Loan Agreement, any Joinder Agreement or any Contribution Agreement; or

(o) to provide for the orderly sale or remarketing of Bonds.

Before the Authority and the Trustee shall enter into any Supplemental Indenture pursuant to the Indenture, there shall have been delivered to the Trustee and the Authority an Opinion of Bond Counsel stating that such Supplemental Indenture is permitted under the Indenture, and that such Supplemental Indenture will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms.

Amendments With Bondholders' Consent.

(a) Except as provided in subsection (b) below, with the consent of the Bondholders of a majority in aggregate principal amount of Bonds Outstanding, the Authority and the Trustee may from time to time and at any time enter into a Supplemental Indenture for the purpose of adding any provisions or changing in any manner or eliminating any of the provisions of the Indenture or of any Supplemental Indenture;

(b) Notwithstanding subsection (a), (i) any Supplemental Indenture that adversely affects the rights of Owners of some but less than all Series of Bonds shall be entered into only with the consent of

TJU and of the Bondholders of a majority in aggregate principal amount of Bonds adversely affected thereby, and (ii) no such Supplemental Indenture shall (A) extend the fixed maturity of the Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Bondholder of each Bond adversely affected thereby or (B) reduce the aforesaid percentage of Bondholders of Bonds required to approve any such Supplemental Indenture unless the consent of all Bondholders Outstanding of the Bonds adversely affected thereby approves such change.

(c) Before the Authority and the Trustee shall enter into any Supplemental Indenture pursuant to the Indenture,, there shall have been delivered to the Trustee and the Authority an Opinion of Bond Counsel stating that such Supplemental Indenture is permitted under the Indenture, and that such Supplemental Indenture will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms.

(d) If at any time the Authority shall decide to enter into a Supplemental Indenture requiring Bondholders' Consent the Trustee shall mail a notice (which may be prepared by the Authority or TJU) to the affected Bondholders, the Municipal Securities Rulemaking Board and to the Rating Agencies briefly setting forth the nature of the proposed changes, and the process pursuant to which the proposed Supplemental Indenture may be consented to or deemed consented to.

Amendment of Loan Agreement. The Authority and TJU may propose to amend the Loan Agreement in the manner set forth therein and the Trustee may consent thereto as provided in the Loan Agreement without the consent of the Bondholders. Notwithstanding anything in the Indenture to the contrary, no amendment to the Loan Agreement which affects the rights, duties, obligations or immunities of the Trustee may be effected without the express written consent of the Trustee.

Amendments Affecting Trustee and/or Paying Agent. Notwithstanding anything to the contrary contained in the Indenture, no amendment to the Indenture or any other document which affects the rights, duties, obligations or immunities of the Trustee, the Paying Agent and/or any other fiduciary under the Indenture shall become effective without the written consent of the Trustee, or Paying Agent or such other fiduciary, as appropriate.

Amendment of Loan Commitment, etc. Any Supplemental Indenture authorizing the issuance of a Loan Commitment may provide that such Loan Commitment (and any corresponding agreement relating to such Loan Commitment) may be amended and supplemented in certain circumstances, and may set forth the procedures for the execution and delivery of any such amendments or supplements.

Defeasance

Discharge of Indenture. When interest on, and principal or Redemption Price (as the case may be) of, all Bonds issued under the Indenture have been paid, or there shall have been deposited with the Trustee an amount, evidenced by moneys or "escrowed obligations" (as defined below) the principal of and interest on which, when due, will provide sufficient moneys (without regard to reinvestment and as verified by a financial consultant or a nationally recognized independent public accountant) to fully pay the Bonds at the maturity dates or dates fixed for redemption thereof, as well as all other sums payable under the Indenture, the right, title and interest of the Trustee shall thereupon cease and the Trustee, on demand of the Authority, shall release the Indenture and shall execute such documents to evidence such release as may be reasonably required by the Authority and shall turn over to the Authority or to such Person, body or authority as may be entitled to receive the same all balances remaining in any funds under the Indenture. For the purposes of the Indenture, "escrowed obligations" shall mean (1) cash and (2) obligations described in subparagraphs (a), (b) or (g) of the definition of Investment Securities, which obligations shall not be callable at the option of the issuer thereof and which shall mature or shall have been irrevocably directed to be redeemed on or before the dates when payments in respect of the obligation become due, and the principal amount of which and the interest thereon when due will be in an aggregate amount sufficient without reinvestment to make all payment on the Bonds when due. Concurrently with any deposit made pursuant to the preceding sentence, the Trustee may request an Opinion of Bond Counsel to the effect that the conditions precedent to the release of the Indenture have been satisfied.

Deposit of Funds for Payment of Bonds. If the Authority deposits with the Trustee moneys or "escrowed obligations" (as defined under the preceding heading) sufficient to pay the principal or Redemption Price of any particular Bond or Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, interest on the Bond or Bonds shall cease to accrue on the due date and all liability of the Authority with respect to such Bond or Bonds shall likewise cease, except as provided in subsection (b) below. Thereafter such Bond or Bonds shall be deemed not to be Outstanding under the Indenture and the holder or holders of such Bond or Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Bond or Bonds, and the Trustee shall hold such funds, without liability to the Authority, any Bondholder or any other Person for interest thereon, in trust for such holder or holders.

Anything in the Indenture to the contrary notwithstanding and except as the escheat laws of the Commonwealth or other applicable state may otherwise provide, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when all of the Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when all of the Bonds become due and payable, shall, at the written request of the Authority, be repaid by the Trustee to the Authority, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged. In the absence of any such written request from the Authority, the Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Trustee in its sole discretion, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations. Any such delivery shall be in accordance with the customary practices and procedures of the Trustee and the escheat authority. Any money held by the Trustee pursuant to this paragraph shall be held uninvested and without any liability for interest.

Maintenance of Tax-Exempt Status of Tax-Exempt Bonds. No deposit of funds shall be made pursuant to "SUMMARY OF THE INDENTURE—Defeasance" if such determination is made as set forth in an Opinion of Bond Counsel.

Survival of Certain Provisions after Defeasance. Notwithstanding any other provision of the Indenture, the provisions of the Indenture relating to maturity of Bonds, interest payments and dates thereof, the redemption of Bonds, exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, the holding of moneys in trust and the duties of the Trustee in connection with all of the foregoing and the fees, expenses and indemnities of the Trustee shall remain in effect and shall be binding upon the Trustee, the Authority, TJU and the Bondholders notwithstanding the release and discharge of the lien of the Indenture.

Resignation and Removal of Trustee

(a) The Trustee may resign at any time by giving written notice thereof to the Authority, TJU and each Owner of Bonds Outstanding as their names and addresses appear in the Bond Register maintained by the Trustee. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may, at the expense of TJU, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(b) If the Trustee has or shall acquire any conflicting interest, it shall, within 90 days after ascertaining that it has a conflicting interest, or within 30 days after receiving written notice from the Authority or TJU (so long as TJU is not in default under the Indenture or the Loan Agreement and no condition exists that, with the giving of notice or the passage of time, or both, would constitute a default or an Event of Default) that it has a conflicting interest, either eliminate such conflicting interest or resign in the manner and with the effect specified in subsection (a).

(c) The Trustee may be removed at any time, after sixty (60) days' written notice, by an instrument or concurrent instruments in writing delivered to the Authority and the Trustee signed by the Owners of a majority in principal amount of the Outstanding Bonds. In addition, the Authority, or the Authority at the written direction of TJU (so long as TJU is not in default under the Indenture or the Loan Agreement and no condition exists that, with the giving of notice or the passage of time, or both, would constitute a default or an Event of Default), may remove the Trustee at any time for any reason. The Authority, TJU or any Bondholder may at any time petition any court of competent jurisdiction for the removal for cause of the Trustee.

(d) If at any time:

(i) the Trustee shall fail to comply with the provisions described in paragraph (b) above after written request therefor by the Authority or TJU, or

(ii) the Trustee shall cease to be eligible under the Indenture and shall fail to resign after written request therefor by the Authority, TJU or by any such Bondholder, or

(iii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Authority may remove the Trustee, or (B) TJU or any Bondholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) The successor Trustee shall give notice of such resignation or such removal of the Trustee and such appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the registered Owners of Bonds as their names and addresses appear in the Bond Register maintained by the Trustee. Each notice shall include the name of the successor Trustee and the address of its designated corporate trust office.

(f) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to the Indenture shall become effective until the acceptance of appointment by the successor Trustee.

Limitations on Recourse

No recourse shall be had for any claim based on the Indenture or the Bonds, including but not limited to the payment of the principal or Redemption Price of, or interest on, the Bonds, against the

Authority or any member, officer, agent or employee, past, present or future, of the Authority or of any successor body, as such either directly or through the Authority or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or by any legal or equitable proceeding or otherwise. The obligations and liabilities of the Authority arising under the Indenture shall be payable solely from the Trust Estate. The Authority shall be conclusively deemed to have complied with all of its covenants and other obligations under the Indenture upon requiring TJU in the Loan Agreement to agree to perform such Authority covenants and other obligations (excepting only any approvals or consents permitted or required to be given by the Authority under the Indenture, and any exceptions to the performance by TJU of the Authority's covenants and other obligations under the Indenture, as may be contained in the Loan Agreement). However, nothing contained in the Loan Agreement shall prevent the Authority from time to time, in its discretion, from performing any such covenants or other obligations. The Authority shall have no liability for any failure to fulfill, or breach by TJU of, TJU's obligations under the Bonds, the Indenture, the Loan Agreement or otherwise, including without limitation TJU's obligation to fulfill the Authority's covenants and other obligations under the Indenture.

Neither the credit of the Authority nor the credit or the taxing power of the Commonwealth or of any political subdivision thereof is pledged for the payment of the Bonds, nor shall the Bonds be or be deemed a general obligation of the Authority or an obligation of the Commonwealth or of any political subdivision thereof. The Authority has no taxing power.

Controlling Law. The laws of the Commonwealth shall govern the construction of the Indenture.

Credits on Loan Agreement. Each of TJU and the other University Entities shall be entitled to credits against its obligations under the Loan Agreement and Contribution Agreements, as applicable, as provided therein.

[*Remainder of page intentionally left blank*]

SUMMARY OF THE CONTRIBUTION AGREEMENT

Designation as University Entity; Compliance with Loan Agreement; Attorney-in-Fact

Under the Contribution Agreement, any entity becoming a party to the Contribution (each a "University Entity") consents to its designation as a University Entity under and as defined in the Loan Agreement and acknowledges and agrees to the provisions of the Loan Agreement, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement executed in connection with certain series of the 2015 Bonds and certain series of Bonds issued by or on behalf of TJU or any other University Entity thereafter) and the Subordinated Obligation Documents, which affect the University Entities. The University Entity agrees to comply with the provisions of the Loan Agreement, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) and the Subordinated Obligation Documents, to the extent applicable, as if it were a party to the Loan Agreement, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) and the Subordinated Obligation Documents. TJU is designated as the "Parent Corporation" with respect to the University Entity.

The University Entity appoints TJU as its agent and attorney-in-fact to take all action necessary and deemed appropriate by TJU to assure compliance with the obligations, agreements, covenants and restrictions of the Loan Agreement, the Indenture, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) and the Subordinated Obligation Documents. Upon satisfaction of the conditions set forth in "SUMMARY OF THE LOAN AGREEMENT—TJU Covenants—University Entities; Excluded Affiliates" and any conditions set forth in the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) and the Subordinated Obligation Documents, if any, such appointment may be withdrawn by the University Entity.

Transfers to TJU or the Assignee

TJU may require the University Entity to take, and the University Entity agrees to take, any action which may be necessary in order for TJU to comply with the provisions of the Loan Agreement, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) and the Subordinated Obligation Documents, including without limitation, compliance with all covenants pertaining to the tax status of Senior Secured Obligations and Subordinated Obligations issued on behalf of TJU or any other University Entity on a tax-exempt basis, and the provisions of the Loan Agreement, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) and the Subordinated Obligation Documents, which require TJU to cause the University Entity to take, or refrain from taking, other specified actions. Without limiting the generality of the foregoing, the University Entity agrees, jointly and severally with the other University Entities, to pay all amounts due under the Loan Agreement (whether through a loan, an advance, a transfer of funds, any combination thereof or through any other method), amounts necessary to duly and punctually pay the principal of, premium, if any, and interest on the Senior Secured Obligations (including, without limitation, each Continuing Covenant Agreement) and Subordinated Obligations when and as the same become due and payable whether at maturity, upon redemption, by acceleration or otherwise and to replenish any debt service reserve fund securing a Senior Secured Obligation or a Subordinated Obligation in accordance with the requirements of the related Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) or the Subordinated Obligation Documents. Such obligation is a general obligation of the University Entity, and the full faith and credit of the University Entity is pledged to the payment of all sums due under the Contribution Agreement or under the Loan Agreement.

In the Loan Agreement, as security for its obligations thereunder, all Senior Secured Obligations and all Subordinated Obligations, TJU assigns to the Trustee, as security for its obligations thereunder, among other things, all of its right, title and interest in and to the Contribution Agreement, including without limitation, its right to require the University Entity to make payments to or to the order of TJU pursuant to the Contribution Agreement. The University Entity: (i) consents to such assignment and accepts notice thereof with the same legal effect as though such acceptance were embodied in a separate instrument, separately executed after execution of such assignment; (ii) agrees to pay directly to the Trustee on behalf of the holders of Senior Secured Obligations and Subordinated Obligations and TJU's other assignee (if any) all amounts payable under the Contribution Agreement without any defense, set-off or counterclaim arising out of any default on the part of TJU or other University Entity, or any transactions between TJU and the other University Entity; and (iii) agrees that the Trustee may exercise all rights granted to TJU under the Contribution Agreement.

Pledge of Gross Revenues

(a) As security for TJU's obligations under the Loan Agreement, the Senior Secured Obligations and the Subordinated Obligations and all other obligations of TJU under the Loan Agreement, the Senior Secured Obligation Documents (including, without limitation, each Continuing Covenant Agreement) and the Subordinated Obligation Documents, the University Entity grants to the Trustee a lien on and security interest in all of such University Entity's right, title and interest in its Gross Revenues; provided however, that the lien on and security interest in all of such University Entity's right, title and interest in its Gross Revenues will secure any Subordinated Obligations and obligations under the Subordinated Obligation Documents on a subordinated basis to the lien on and security interest in all of such University Entity's right, title and interest in its Gross Revenues securing any Senior Secured Obligations and obligations under the Senior Secured Obligation Documents.

As security for the University Entity's obligation to make the payments required under the Contribution Agreement and to perform all of its other obligations required under the Contribution Agreement, the University Entity grants to TJU and the Trustee (as assignee of TJU) a lien on and security interest in all of the University Entity's right, title and interest in its Gross Revenues. TJU acknowledges and agrees that the security interest in the Gross Revenues of the University Entity granted to it as described in this paragraph is subject to and subordinate to the security interest granted to the Trustee described in the immediately preceding paragraph.

"Gross Revenues" for purposes of the Contribution Agreement means all receipts, revenues, income and other moneys received by or on behalf of the University Entity, and all rights to receive the same, whether in the form of accounts, accounts receivable, deposit accounts, contract rights, chattel paper, instruments, documents, general intangibles, letter of credit rights, investment property or other rights, and the proceeds thereof, and insurance thereon (all terms which are used this definition which are defined in the Uniform Commercial Code of the Commonwealth of Pennsylvania as in effect from time to time (the "UCC") shall have the same meanings in the Contribution Agreement as such terms are defined in the UCC, unless the Contribution Agreement shall otherwise specifically provide), whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the University Entity, and including all Swap Receipts and Swap Termination Payments (each as defined in the Loan Agreement) payable to the University Entity; provided, however, that there shall be excluded from Gross Revenues any Excluded Property (as defined in the Loan Agreement).

The University Entity acknowledges and understands that the Gross Revenues of TJU are not pledged as security for any obligations arising under any Swap Agreement and may not be pledged as security therefor until the 2006 Bonds, the 2010 Bonds and the 2012 Bonds have been paid in full or provision for such payment has been made in accordance with their respective terms.

Notwithstanding the date, manner, or order of grant, attachment, or perfection of any Lien and notwithstanding any provision of the Uniform Commercial Code or any other liens, applicable law or any loan document or any other circumstance whatsoever, the Trustee's lien on the Gross Revenues, for the benefit of Senior Secured Obligations and the Subordinated Obligations, has and shall have priority over TJU's lien on the Gross Revenues, and TJU's lien on the Gross Revenues is and shall be, in all respects, subject and subordinate to the Trustee's lien on the Gross Revenues given for the benefit of the Trustee and Senior Secured Obligations and the Subordinated Obligations, to the full extent of the Senior Secured Obligations and the Subordinated Obligations outstanding from time to time.

(b) The University Entity consents to the assignment by TJU to the Trustee of TJU's rights under the Contribution Agreement.

(c) The existence of the pledge and security interest under the Contribution Agreement shall not prevent the expenditure, deposit or commingling of any of the Gross Revenues by the University Entity so long as an Event of Default has not occurred and is continuing under the Contribution Agreement. If an Event of Default occurs under the Contribution Agreement, and for so long as it continues to exist, the Gross Revenues of the University Entity then on hand and not yet commingled with its other funds or funds of the other University Entities or any Affiliate thereof, and any Gross Revenues thereafter received, shall not be so commingled or deposited, but shall immediately upon receipt be transferred to the Trustee to the extent necessary for the purpose of making any payments or deposits required under the Contribution Agreement or under the Loan Agreement or the Indenture.

(d) The Contribution Agreement shall constitute a security agreement within the meaning of the Pennsylvania Uniform Commercial Code. In addition to all other rights and remedies under the Contribution Agreement, TJU and the Trustee, shall have all rights and remedies of a secured party under the Pennsylvania Uniform Commercial Code.

(e) Notwithstanding any other provision of the Contribution Agreement, the University Entity, to the extent permitted by law and with the consent of TJU, may grant a lien on and security interest in its Gross Revenues to secure its obligations under a loan agreement it enters into in connection with other issues of Obligations, but only in compliance with and subject to the provisions of the Loan Agreement and each Continuing Covenant Agreement. The Trustee and TJU, on behalf of itself and the University Entities, shall enter into one or more joinder agreements with the trustee for such other issue of bonds and/or the holder of such Obligations and, if an Event of Default shall have occurred under the Loan Agreement or under the loan agreement for such other bonds or Obligations, then all the Gross Revenues shall be applied in accordance with the terms of the Loan Agreement.

Events of Default

Each of the following shall constitute an Event of Default under the Contribution Agreement:

(a) any payment required by under the Contribution Agreement is not paid by any University Entity when the same shall become due and payable thereunder; or

(b) the University Entity fails to perform any of the covenants, conditions or provisions under the Contribution Agreement and such failure continues for 60 days after TJU or the Trustee gives the University Entity written notice thereof; provided, however, that if such performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 60 day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the University Entity shall commence such performance within such 60 day period and shall diligently and continuously prosecute the same to completion; or

(c) the University Entity admits in writing its inability to pay its debts generally as they become due, or proposes or makes an assignment for the benefit of creditors or a composition agreement with all or a material part of its creditors, or a trustee, receiver, executor, conservator, liquidator, sequestrator or other judicial representative, similar or dissimilar, is appointed for the University Entity or any of its respective assets or revenues, or there is commenced any proceeding in liquidation, bankruptcy, reorganization, arrangements of debts, debtor rehabilitation, creditor adjustment or insolvency, local, state or federal, by or against the University Entity and if such is not vacated, dismissed or stayed on appeal within 60 days; or

(d) the University Entity disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of the Contribution Agreement, the Loan Agreement, any of the Senior Secured Obligations issued under the Senior Secured Obligation Documents or any of the Subordinated Obligations issued under the Subordinated Obligation Documents; or

(e) an Event of Default has occurred and is continuing under the Loan Agreement; or

(f) any representation or warranty made by the University Entity in this Contribution Agreement proves to be false or misleading in any material respect at the time it was made.

Remedies

If an Event of Default under the Contribution Agreement has occurred and is continuing, TJU or the Trustee may, at its option, in addition to its other rights and remedies as may be provided under the Contribution Agreement or may exist at the time at law or in equity, exercise any one or more of the following remedies:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of TJU or the Trustee, and require the University Entity to carry out any agreements with or for the benefit of TJU or the Trustee and to perform its duties under the Contribution Agreement; or

(b) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of TJU or the Trustee; or

(c) upon notice to the University Entity, accelerate all sums due or to become due under the Contribution Agreement that correspond to sums due on Senior Secured Obligations or Subordinated Obligations that have been accelerated.

In order to entitle TJU or the Trustee to exercise any remedy reserved to it in under the Contribution Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required under the Contribution Agreement. For so long as any Senior Secured Obligations or Subordinated Obligations remain Outstanding under the Senior Secured Obligation Documents or the Subordinated Obligation Documents, respectively, and except with respect to the obligations of the University Entity in respect of TJU's rights to notices, payments of fees and expenses and indemnification rights, the Trustee shall have the sole right to exercise rights and remedies against the University Entity upon the occurrence of any Event of Default under the Contribution Agreement, and the exercise by the Trustee of such rights and remedies shall be subject to all applicable provisions of the Indenture, the Loan Agreement and the Contribution Agreement. To the extent necessary or appropriate and requested by the

Trustee, TJU shall cooperate with the Trustee in connection with the exercise by the Trustee of such rights and remedies against the University Entity.

Additional Obligations

Subject to provisions in the Contribution Agreement relating to amendments of the Contribution Agreement, the obligations of the University Entity under the Contribution Agreement are limited solely to obligations arising out of the issuance and delivery of the 2015 Bonds, each Continuing Covenant Agreement and the other Senior Secured Obligations or Subordinated Obligations currently outstanding as set forth in the Contribution Agreement. TJU may, and may cause the University Entity to, supplement or amend the Contribution Agreement, including to reflect the terms of any new Senior Secured Obligations and Subordinated Obligations thereafter entered into or to enter into additional contribution agreements, with respect to additional or new Senior Secured Obligations or Subordinated Obligations to be issued under the Loan Agreement or otherwise. Such new Bonds, Senior Secured Obligations and/or Subordinated Obligations shall be entitled to the benefits of the Contribution Agreement as if such obligations were listed in the Contribution Agreement as outstanding obligations at the time the Contribution Agreement was executed and delivered. TJU may designate other entities to become University Entities in the manner and subject to the terms of the Loan Agreement and each Continuing Covenant Agreement, if any, and may cause such additional University Entities to become parties to a Contribution Agreement by executing a separate contribution agreement substantially in the form of the contribution agreement or a joinder to the Contribution Agreement.

Amendment of Contribution Agreement

The Contribution Agreement may not be amended, supplemented or waived except upon the consent of the Trustee and as set forth in a written instrument executed by TJU and the University Entity. Upon the issuance of any Senior Secured Obligations or Subordinated Obligations issued under the respective Senior Secured Obligation Documents or the Subordinated Obligation Documents, the Contribution Agreement shall be automatically amended so long as TJU shall send notice of the issuance of such additional Senior Secured Obligations or Subordinated Obligations to each University Entity, and attach an amendment to the Contribution Agreement adding and describing in sufficient detail such additional Senior Secured Obligations or Subordinated Obligations, as applicable. Notwithstanding anything in the Contribution Agreement to the contrary, TJU may declare that the University Entity is no longer a University Entity under the Contribution Agreement in the manner and subject to the terms of the Loan Agreement and each Continuing Covenant Agreement, if any, without the consent or approval of any other University Entity.

Governing Law

The Contribution Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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FORM OF OPINION OF BOND COUNSEL

_________, 2015

Pennsylvania Higher Education Facilities Authority
Wormleysburg, PA 17043

Merrill Lynch, Pierce, Fenner & Smith Incorporated,
as Representative of the Underwriters of the Bonds
Philadelphia, PA 19103

Re: Pennsylvania Higher Educational Facilities Authority $301,805,000 Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A

Ladies and Gentlemen:

We have acted as bond counsel to the Pennsylvania Higher Educational Facilities Authority (the "Authority") in connection with the issuance of $301,805,000 aggregate principal amount of its Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A (the "Bonds"). The Bonds are being issued under and pursuant to the provisions of the Pennsylvania Higher Educational Facilities Authority Act of 1967 (Act of December 6, 1967, P.L. 678, as amended) (the "Act") and a Trust Indenture (the "Original Indenture"), as amended and supplemented, including by the First Supplemental Trust Indenture (together with the Original Indenture, the "Indenture"), each dated as of February 1, 2015, and each between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms used but not defined herein have the meanings ascribed to such terms in the Indenture.

The Bonds are being issued at the request of Thomas Jefferson University ("TJU") to provide funds which will be used to finance certain costs of a project (the "2015 Project") consisting generally of (i) the payment in full and current refunding of the Authority's outstanding (a) Revenue Bonds (Thomas Jefferson University) Series 2008A, issued for the benefit of TJU in the original principal amount of $25,000,000; (b) Revenue Bonds (Thomas Jefferson University) Series 2008B, issued for the benefit of TJU in the original principal amount of $46,935,000; (c) Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014A, issued for the benefit of TJU, TJUH System (the "System") and Thomas Jefferson University Hospitals, Inc. (the "Hospital") in the original principal amount of $328,395,000; and (d) Taxable Revenue Notes (Thomas Jefferson University/TJUH System) Series 2014B, issued for the benefit of TJU, the System and the Hospital in the original principal amount of $24,410,000; (ii) the payment of (or the reimbursement to the University (as defined in the hereinafter defined Original Loan Agreement) and its Affiliates (as defined in the Original Indenture) for) the costs of the acquisition, construction and development of various capital assets and the making of other capital improvements in various research, education and clinical care programs of the University and the acquisition of real property currently planned to be used and developed in furtherance of the academic health care, education, research, clinical care and related missions of the University, as further described in Exhibit C to the hereinafter defined Loan Agreement (the "2015 Project Facilities"); (iii) the payment of all or a portion of the termination costs of certain interest rate hedging agreements previously entered into for the benefit of the University, and the entry by the University into certain other interest rate hedging arrangements and/or the amendment of existing interest rate hedging arrangements; (iv) the funding of any necessary reserves and the funding of interest; and (v) the payment of certain costs and expenses incident to the issuance of the Bonds.

The Bonds are being issued initially as fully registered bonds in denominations of $5,000 and any integral multiple thereof. The Bonds will bear interest at the rates and will mature in the amounts and on the dates as set forth on the inside front cover of the Official Statement dated February 11, 2015 relating to the Bonds.

Concurrently with the issuance of the Bonds, the Authority and TJU are entering into a Loan and Security Agreement (the "Original Loan Agreement"), as amended and supplemented, including by the First Supplemental Loan and Security Agreement (together with the Original Loan Agreement, the "Loan Agreement"), each dated as of February 1, 2015, providing for the loan of the proceeds of the Bonds to TJU to pay certain costs of the 2015 Project. Under the Loan Agreement, TJU is obligated to make loan payments in the amounts and at the times necessary to pay, when due, the principal of, premium, if any, and interest on the Bonds. Under the Indenture, the Authority has assigned certain of its rights and interests under the Loan Agreement, including its right to receive the payments under the Loan Agreement in respect of the Bonds, to the Trustee for the benefit of the holders of the Bonds.

In connection with the Authority's loan of the proceeds of the Bonds to TJU, TJU is entering into separate Contribution Agreements with the System, the Hospital and Jefferson University Physicians ("JUP"), each dated as of February 1, 2015 (collectively, the "Contribution Agreements"), as security for the Bonds. Under each Contribution Agreement, the System, the Hospital and JUP have agreed to contribute to TJU amounts due in connection with the issuance of the Bonds, including the payment when due of debt service on the Bonds, and any other expenses incurred by TJU, on behalf of the System, the Hospital and JUP. Pursuant to separate Assignments, each dated as of the date hereof, TJU is assigning such security interests to the Trustee for the benefit of the holder or holders of the Bonds.

TJU has represented in the Loan Agreement that it has been determined to be and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), by virtue of being an organization described in Section 501(c)(3) of the 1954 Code, and such exemption is continued under the Internal Revenue Code of 1986, as amended (the "Code"). TJU is not a "private foundation" as defined in Section 509(a) of the Code and TJU has not taken any action to impair its status as an exempt organization. In the Loan Agreement, TJU has covenanted that, throughout the term of the Loan Agreement, it will not carry on or permit to be carried on in the Project Facilities (as such term is defined in the Loan Agreement) or any other property now or hereafter owned by it any trade or business the conduct of which would cause the interest on the Bonds to be included in the gross income of the Holders thereof for purposes of federal income taxation.

Each of the System, the Hospital and JUP has represented in its respective Contribution Agreement that it has been determined to be and is exempt from federal income taxes under Section 501(a) of the 1954 Code or the Code, by virtue of being an organization described in Section 501(c)(3) of the 1954 Code or the Code, and such exemption is continued under the Code. Each of the System, the Hospital and JUP is not a "private foundation" as defined in Section 509(a) of the Code and each of the System, the Hospital and JUP has not taken any action to impair its status as an exempt organization. In the Contribution Agreements, each of the System, the Hospital and JUP has covenanted that, throughout the term of the Bonds, it will not carry on or permit to be carried on in the Project Facilities or any other property now or hereafter owned by it any trade or business the conduct of which would cause the interest on the Bonds to be included in the gross income of the Holders thereof for purposes of federal income taxation.

Under the Indenture and the Loan Agreement, the Authority and TJU, respectively, have covenanted that they will comply with the requirements of Section 148 of the Code pertaining to arbitrage bonds. In addition, an officer of the Authority responsible for issuing the Bonds and an authorized officer of TJU, the System, the Hospital and JUP have each executed a certificate stating the reasonable expectations of the Authority and TJU on the date of issue of the Bonds as to future events that are material for the purposes of such requirements of the Code. The Authority also has delivered to us for filing with the Internal Revenue Service a report of the issuance of the Bonds as required by the Code as a condition of the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

In our capacity as bond counsel we have examined such documents, records of the Authority and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Loan Agreement and the other documents listed in the closing memorandum in respect of the Bonds filed with the Trustee. We also assume that the Indenture and the Loan Agreement have been duly authorized, executed and delivered by, and are valid and binding obligations of, the parties thereto other than the Authority. We also have examined an executed Bond, authenticated by the Trustee, and have assumed that all other Bonds have been similarly executed and authenticated.

Based on the foregoing, it is our opinion that:

1. The Authority is a body corporate and politic validly existing under the laws of the Commonwealth of Pennsylvania, with full power and authority to undertake the financing of the 2015 Project, to execute, deliver and perform its obligations under the Loan Agreement and the Indenture, and to issue and sell the Bonds.

2. The Loan Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms, except as the rights created thereunder and enforcement thereof may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally.

3. The issuance and sale of the Bonds have been duly authorized by the Authority. On the assumption as to execution and authentication stated above, the Bonds have been duly executed and delivered by the Authority and are legal, valid and binding limited obligations of the Authority enforceable against the Authority in accordance with their terms and entitled to the benefit and security of the Indenture, except as the rights created thereunder and enforcement thereof may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally.

4. Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax, and the Bonds are exempt from personal property tax in Pennsylvania.

5. Interest on the Bonds (including original issue discount) is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Bonds, assuming the accuracy of the certifications of the Authority, TJU, the System, the Hospital and JUP and continuing compliance by the Authority, TJU, the System, the Hospital and JUP with the requirements of the Code. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax ("AMT"); however, interest on the Bonds held by a corporation (other than an S corporation, regulated investment company, or real estate

investment trust) may be indirectly subject to federal AMT because of its inclusion in the adjusted current earnings of a corporate holder. We express no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Certain of the Bonds were offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Bond through reductions in the holder's tax basis for the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortization of premium does not create a deductible expense or loss.

We express no opinion herein with respect to the adequacy of the security for the Bonds or the sources of payment for the Bonds or with respect to the accuracy or completeness of any information pertaining to the offering for sale of the Bonds. We are not rendering any opinion with respect to the priority of the lien of the Indenture.

We call your attention to the fact that the Bonds are limited obligations of the Authority payable only out of certain revenues of the Authority including payments to be made by TJU pursuant to the Loan Agreement and certain other moneys available therefor as provided in the Indenture, and that the Bonds do not pledge the credit or taxing power of the Commonwealth of Pennsylvania or any political subdivision thereof. The Authority has no taxing power.

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT is executed and delivered as of February __, 2015, by and between Thomas Jefferson University ("TJU"), on behalf of itself and the other University Entities (as defined in the Loan Agreement (as defined below)) (collectively, the "University"), and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

WITNESSETH:

WHEREAS, pursuant to a Bond Purchase Agreement dated February 11, 2015, by and among the Pennsylvania Higher Educational Facilities Authority (the "Authority"), TJU, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the underwriters (the "2015A Underwriters"), the Authority is selling $301,805,000 aggregate principal amount of its Thomas Jefferson University Fixed Rate Revenue Bonds, Series 2015A (the "2015A Bonds") to the 2015A Underwriters; and

WHEREAS, pursuant to a Bond Purchase Agreement dated February __, 2015, by and among the Pennsylvania Higher Educational Facilities Authority (the "Authority"), TJU, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the underwriter (the "2015B Underwriter"), the Authority is selling $_________ aggregate principal amount of its Thomas Jefferson University Variable Rate Revenue Bonds, Series 2015B (the "2015B Bonds," and, collectively with the 2015A Bonds, the "Bonds"), to the 2015B Underwriter; and

WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule"), provides that a Participating Underwriter (as defined in the Rule) shall not purchase or sell municipal securities in connection with an Offering (as defined in the Rule) unless the Participating Underwriter has reasonably determined that an issuer of municipal securities, or an obligated person for whom financial or operating data is presented in the final official statement has undertaken, either individually or in combination with other issuers of such municipal securities or obligated persons, in a written agreement or contract for the benefit of holders of such securities, to provide, either directly or indirectly through an indenture trustee or a designated agent, certain specified financial information and operating data and notices of certain material events.

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Definitions.

In addition to the terms defined in the above recitals, the following terms shall have the meanings specified below:

"EMMA" shall mean the MSRB's Electronic Municipal Market Access System (www.emma.msrb.org).

"Loan Agreement" shall mean the Loan and Security Agreement dated as of February 1, 2015, as supplemented, between the Authority and TJU relating to the Bonds.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Trust Indenture" shall mean the Trust Indenture dated as of February 1, 2015, as supplemented, between the Authority and the Trustee relating to the Bonds.

Terms not otherwise defined herein shall have the same meanings as in the Trust Indenture.

Section 2. Covenants of TJU.

TJU covenants as follows:

(a) TJU shall deliver to the Authority, the Trustee and the MSRB, through EMMA, within 180 days after the end of each fiscal year commencing with the fiscal year ending June 30, 2015:

(1) a copy of TJU's consolidated annual financial statements (and the annual financial statements of each other University Entity to the extent such entity's results are not consolidated with the results of TJU) prepared in accordance with generally accepted accounting principles and audited by a certified public accountant;

(2) to the extent not provided pursuant to clause (1) above, an update of other financial and operating data relating to the University in Appendix A to the Official Statements for the respective series of the Bonds under the sub-headings and headings specified in Exhibit A hereto;

(3) to the extent not provided in the consolidated annual financial statements of TJU in future years, an update of the financial information under the heading "Fundraising" in Appendix A to the Official Statements for the respective series of the Bonds substantially similar to the information contained in TJU's consolidated annual financial statements for the fiscal year ended June 30, 2014; and

(4) to the extent not provided in the consolidated annual financial statements of TJU in future years, an update of the financial information under the heading "Pension Plans" in Appendix A to the Official Statements for the respective series of the Bonds substantially similar to the information contained in Note 13 to

TJU's consolidated annual financial statements for the fiscal year ended June 30, 2014.

(b) TJU shall deliver to the Authority, the Trustee and the MSRB, through EMMA, in a timely manner, not in excess of ten Business Days after the occurrence of the event, notice of any of the following events (collectively, "Reportable Events") with respect to the Bonds:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults, if material;

(3) Unscheduled draws on any debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of any credit or liquidity providers, or their failure to perform;

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(7) Modifications to rights of the Bondowners, if material;

(8) Bond calls, if material, and tender offers;

(9) Defeasances;

(10) Release, substitution, or sale of property securing payment of the Bonds;

(11) Rating changes;

(12) Bankruptcy, insolvency, receivership or similar event of a University Entity;

(13) The consummation of a merger, consolidation or acquisition involving a University Entity or the sale of all or substantially all of the assets of a University Entity, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(c) In a timely manner, TJU shall give to the Trustee, the Authority and the MSRB, through EMMA, notice of any failure by TJU to provide any information required pursuant to subsection (a) above on or before the date specified in subsection (a) above.

(d) TJU shall deliver to the Authority, the Trustee and the MSRB, through EMMA, within 45 days after the end of each fiscal quarter, commencing with the fiscal quarter ending March 31, 2015: (i) a copy of TJU's consolidated unaudited income statement and consolidated unaudited balance sheet, prepared substantially in accordance with generally accepted accounting principles and (ii) updated quarterly information relating to the University of the type generally set forth in the table captioned "KEY PERFORMANCE INDICATORS FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2014" under the heading "MANAGEMENT'S DISCUSSION AND ANALYSIS" in Appendix A to the Official Statements relating to the Bonds, subject to TJU's determination that such information continues to be practically available to the University in a timely manner and customarily made available to bondholders in the non-profit healthcare sector.

(e) TJU shall send to the Trustee and the Authority concurrently with the delivery of any information required pursuant to subsection (a), (b) or (d) above a certificate signed by an authorized officer of TJU, stating that it has filed such information with the MSRB, through EMMA.

(f) TJU agrees to provide information required in subsection (a) and (b) above for each University Entity.

(g) TJU agrees that the provisions of this Section 2 shall be for the benefit of the registered holders and beneficial owners of the Bonds, and shall be enforceable by any holders or beneficial owners of the Bonds, or by the Trustee on their behalf, in accordance with the provisions of Section 7 herein.

(h) Any information, document, data and/or notice submitted to the MSRB via EMMA hereunder shall be submitted in electronic format and shall be accompanied by identifying information, all as prescribed by the MSRB.

Section 3. Duties of Trustee.

(a) The Trustee shall retain copies, which may be in electronic or digital format, of all annual information and notices of Reportable Events provided by TJU hereunder until all of the Bonds have been fully paid.

(b) The Trustee shall have no responsibility or liability in connection with TJU's filing obligations under this Continuing Disclosure Agreement. The Trustee shall have only those duties specifically set forth in this Continuing Disclosure Agreement and no other duties shall be implied. TJU agrees to indemnify and save the Trustee, its officers, directors, employees and agents (collectively, the "Indemnitees"), from and against any and all claims, liabilities, losses, damages, fines, penalties, and expenses, including out-of-pocket expenses, incidental expenses, legal fees and expenses, the allocated costs and expenses of in- house counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim (“Losses”) that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Trustee is authorized to rely pursuant to the terms of this Continuing Disclosure Agreement. In addition to and not in limitation of the immediately preceding sentence, TJU also covenants and agrees to indemnify and save the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee’s performance under this Continuing Disclosure Agreement provided the Trustee has not acted with gross negligence or in violation of this Continuing Disclosure Agreement or engaged in willful misconduct. The provisions of this Section 3(b) shall survive the termination of this Continuing Disclosure Agreement and the resignation or removal of the Trustee for any reason. Anything in this Continuing Disclosure Agreement to the contrary notwithstanding, in no event shall the Trustee be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action. The Trustee shall be entitled to the same protections, immunities and indemnities in so acting under this Continuing Disclosure Agreement as it has in acting as Trustee under the Trust Indenture, including its right to compensation thereunder for any services it performs hereunder.

Section 4. Termination of Reporting Obligations.

TJU’s obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If TJU’s obligations with respect to the payment of the Bonds are assumed in full by some other entity in accordance with the Loan Agreement, such other entity shall be responsible for compliance with this Continuing Disclosure Agreement in the same manner as if it were TJU, and TJU shall have no further responsibility hereunder. In addition, TJU’s obligation to provide information and notices as specified in Section 2 hereof shall terminate (a) at such other times as such information and notices (or any portion thereof) are no longer required to be provided by the Rule as it applies to the Bonds, (b) in the event of a repeal or rescission of the Rule or (c) upon a determination that the Rule is invalid or unenforceable.

Section 5. [Reserved]

Section 6. Amendment.

TJU and the Trustee may amend this Continuing Disclosure Agreement and waive any of the provisions hereof, but no such amendment or waiver shall be executed and effective unless (a) the amendment or waiver is made in connection with a change in legal requirements, change in law or change in the identity, nature or status of TJU or other University Entity or the operations conducted by TJU or other University Entity, (b) this Continuing Disclosure Agreement, as modified by the amendment or waiver complies with the requirements of the Rule, and (c) the amendment or waiver does not materially impair the interest of the registered owners of the Bonds. Prior to executing any requested amendment, the Trustee may request TJU to provide an opinion, addressed to Trustee, of counsel knowledgeable in federal securities laws and not unacceptable to the Trustee to the effect that the proposed amendment satisfies the requirements described above, which opinion the Trustee may exclusively rely upon. In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, TJU shall describe such amendment in its next annual report delivered pursuant to Section 2(a) hereof, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the financial information or operating data being presented by the University. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i.e., changes other than those prescribed by generally accepted accounting principles), (i) notice of such change shall be given pursuant to the Reportable Event notice requirements as set forth in this Continuing Disclosure Agreement; and (ii) the annual report for the year in which the change is made will present a comparison between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. To the extent that the Rule requires an approving vote of beneficial owners of the Bonds in connection with an amendment, the approving vote of beneficial owners of Bonds constituting more than 50% of the aggregate principal amount of the then outstanding Bonds shall constitute such approval. TJU shall provide notice of any amendment to this Continuing Disclosure Agreement to the MSRB, through EMMA, and to the registered holders of the Bonds.

Section 7. Remedies for Default.

In the event of a breach or default by TJU of its covenants to provide, or cause to be provided, annual financial information and notices as provided in Section 2 hereof, the Trustee or any registered holder or beneficial owner of Bonds shall have the right to bring an action in a court of competent jurisdiction to compel specific performance by TJU. A breach or default under this Continuing Disclosure Agreement shall not constitute a default or an event of default under the Bonds, the Trust Indenture, the Loan Agreement or any other agreement. The Trustee shall be under no obligation to enforce this Continuing Disclosure Agreement unless (a) directed in writing by the registered holders or beneficial owners of at least 25% of the outstanding principal amount of the Bonds and (b) furnished with indemnity and security for its fees and expenses satisfactory to it in its sole discretion.

Section 8. Miscellaneous.

(a) Binding Nature of Agreement. This Continuing Disclosure Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. In addition, registered owners of the Bonds, which for the purposes of this Section 8 includes the holders of a book-entry credit evidencing an interest in the Bonds, from time to time shall be third party beneficiaries hereof and shall be entitled to enforce the provisions hereof as if they were parties hereto; but no consent of beneficial owners of the Bonds shall be required in connection with any amendment of this Continuing Disclosure Agreement, except as required by the Rule. Holders of book-entry credits evidencing an interest in the Bonds may file their names and addresses with the Authority for the purposes of receiving notices or giving direction under this Continuing Disclosure Agreement.

(b) Notices. All notices and other communications required or permitted under this Continuing Disclosure Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by recognized national or regional courier service, or by other messenger, for delivery to the intended addressee) or when deposited in the United States mails, registered or certified mail, postage prepaid, return receipt requested, or when sent by facsimile, addressed or sent as set forth below;

(i) To the Trustee or the Authority at;

As specified in the Trust Indenture

(ii) To TJU at;

Thomas Jefferson University
1020 Walnut Street
Room 510, 5th Floor
Philadelphia, PA 19107
Facsimile: (215) 955-5587
Attention: Treasurer's Office

Any party may alter the address or telecopier number to which communications are to be sent by giving notice of such change of address or telecopier number in conformity with the provisions of this Section.

(c) Execution in Counterparts. This Continuing Disclosure Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Continuing Disclosure Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall be executed by all of the parties hereto.

(d) Controlling Law. This Continuing Disclosure Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania and the Rule.

(e) Successor and Assigns. Notwithstanding anything herein to the contrary, any successor trustee under the Trust Indenture under which the Bonds were issued shall automatically succeed to the rights and obligations of the Trustee under this Continuing Disclosure Agreement.

(f) Indemnity of Authority. TJU agrees to indemnify and hold harmless the Authority from and against any claim and all related expenses relating to any claim asserted against the Authority or its members, officers, directors, employees or agents, arising out of or relating to this Continuing Disclosure Agreement or the obligations of TJU hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Continuing Disclosure Agreement as of the date first above written.

THOMAS JEFFERSON UNIVERSITY, on behalf of itself and the other University Entities

By:________________________________
Authorized Officer

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By:________________________________
Authorized Signatory

EXHIBIT A

(i) The tables under the sub-heading “Enrollment” under the heading “EDUCATIONAL AND RESEARCH ACTIVITIES”;

(ii) The table captioned, “JEFFERSON ACADEMIC DIVISIONS TUITION AND FEES BY PROGRAM-FULL TIME PROGRAMS” under the sub-heading “Tuition and Fees” under the heading “EDUCATIONAL AND RESEARCH ACTIVITIES”;

(iii) The table under the sub-heading “Financial Aid” under the heading “EDUCATIONAL AND RESEARCH ACTIVITIES”;

(iv) The table under the sub-heading “Research Activities” under the heading “EDUCATIONAL AND RESEARCH ACTIVITIES”;

(v) The tables under the sub-heading “Selected Operating Data” under the heading “HEALTHCARE ACTIVITIES”; and

(vi) The table under the sub-heading “Payor Mix” under the heading “HEALTHCARE ACTIVITIES.”

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