

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements
September 30, 2018 and 2017

(Unaudited)

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Balance Sheets (Unaudited)
September 30, 2018 and 2017
(\$000's Omitted)

Assets	9/30/2018	9/30/2017
Current Assets:		
Cash and cash equivalents	\$ 354,487	197,736
Patient accounts receivable, net	418,394	368,341
Other receivables	48,486	50,777
Due from the University, net	-	5,379
Inventories of drugs and supplies	93,494	88,027
Other assets	36,764	30,333
Short-term investments	359,281	436,451
Assets limited as to use	18,492	30,703
Total current assets	1,329,398	1,207,747
Assets limited as to use	84,613	82,102
Investments	3,202,398	2,920,764
Property and equipment, net	1,587,934	1,478,385
Due from the University	394	534
Derivative instruments	846	-
Other noncurrent assets	48,254	42,062
Total assets	\$ 6,253,837	5,731,594
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 147,852	115,179
Due to the University, net	2,090	-
Other current liabilities	61,755	59,338
Accrued salaries, wages and vacation payable	189,774	175,942
Estimated third-party payor settlements, net	2,338	4,554
Current portion of postretirement and postemployment benefit obligations	7,540	6,145
Current portion of indebtedness	23,760	23,340
Current portion of capital lease obligations	1,900	1,563
Current portion of estimated professional liability costs	16,611	16,276
Total current liabilities	453,620	402,337
Other noncurrent liabilities	40,744	38,263
Postretirement and postemployment benefit obligations, net of current portion	277,326	413,973
Indebtedness, net of current portion	1,602,858	1,631,492
Capital lease obligations, net of current portion	128,038	123,797
Derivative instruments	51,735	79,195
Estimated professional liability costs, net of current portion	32,493	31,005
Total liabilities	2,586,814	2,720,062
Net Assets:		
Unrestricted	3,608,713	2,954,486
Temporarily restricted	43,940	42,882
Permanently restricted	14,370	14,164
Total net assets	3,667,023	3,011,532
Total liabilities and net assets	\$ 6,253,837	5,731,594

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations (Unaudited)
For the Three Months Ended September 30, 2018 and 2017
(\$000's Omitted)

	<u>9/30/2018</u>	<u>9/30/2017</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 851,993	818,824
Other revenue	51,885	48,222
Total unrestricted revenues, gains and other support	<u>903,878</u>	<u>867,046</u>
Expenses:		
Salaries, wages and benefits	410,506	385,898
Medical supplies	223,476	209,531
Interest	14,298	14,931
Depreciation	40,106	39,021
Other operating expenses	166,884	163,288
Total expenses	<u>855,270</u>	<u>812,669</u>
Operating income	<u>48,608</u>	<u>54,377</u>
Non-operating income:		
Investment gain	18,037	49,844
Loss on extinguishment of debt	-	-
Other	4,517	929
Total non-operating income	<u>22,554</u>	<u>50,773</u>
Excess of revenues over expenses	71,162	105,150
Change in funded status of defined benefit plans	399	1,439
Net assets released from restrictions for purchase of property and equipment	16	-
Transfers to the University, net	<u>(23,965)</u>	<u>(25,142)</u>
Increase in unrestricted net assets	\$ <u>47,612</u>	<u>81,447</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Changes in Net Assets (Unaudited)
For the Three Months Ended September 30, 2018 and 2017
(\$000's Omitted)

	9/30/2018	9/30/2017
Unrestricted net assets:		
Excess of revenues over expenses	\$ 71,162	105,150
Change in funded status of defined benefit plans	399	1,439
Net assets released from restrictions for purchase of property and equipment	16	-
Transfers to the University, net	(23,965)	(25,142)
Increase in unrestricted net assets	47,612	81,447
Temporarily restricted net assets:		
Contributions for restricted purposes	166	(89)
Transfers to the University, net	-	(249)
Net assets released from restrictions used for operations	(877)	(630)
Net assets released from restrictions for purchase of property and equipment	(16)	-
Net realized and unrealized gains	74	378
Decrease in temporarily restricted net assets	(653)	(590)
Permanently restricted net assets:		
Contributions for endowment funds	66	1
Transfers from the University, net	-	200
Net realized and unrealized gains	270	258
Increase in permanently restricted net assets	336	459
Increase in net assets	47,295	81,316
Net assets, beginning of year	3,619,728	2,930,216
Net assets, end of period	\$ 3,667,023	3,011,532

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended September 30, 2018 and 2017
(\$000's Omitted)

	<u>9/30/2018</u>	<u>9/30/2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 47,295	81,316
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	40,106	39,021
Investment income	(18,111)	(50,222)
Net loss (gain) on other investments and disposals of property and equipment	(4,324)	(902)
Transfers to the University, net	23,965	25,191
Restricted contributions received for long-term capital projects	-	473
Permanently restricted contributions and associated realized and unrealized gains	(336)	(458)
(Increase) decrease in:		
Patient accounts receivable	2,587	(3,156)
Due from the University, net	9,900	(3,533)
Other receivables	(13,524)	(19,666)
Inventories of drugs and supplies	(200)	(1,565)
Other assets	(9,424)	(6,937)
Increase (decrease) in:		
Accounts payable	(5,320)	3,427
Other current liabilities	20,687	18,322
Accrued salaries, wages and vacation payable	571	(485)
Estimated third-party payor settlements, net	492	(8,968)
Postretirement and postemployment benefit obligation	2,698	3,487
Other noncurrent liabilities	815	308
Estimated professional liability costs	3,696	1,983
Net cash provided by operating activities	<u>101,573</u>	<u>77,636</u>
Cash flows from investing activities:		
Capital expenditures	(69,552)	(35,959)
Decrease in assets limited as to use	496	469
Sales of investments	406,670	979,357
Purchases of investments	(338,968)	(977,456)
Proceeds from sale of fixed assets	-	49
Decrease (increase) in other assets	(849)	1,190
Net cash used in investing activities	<u>(2,203)</u>	<u>(32,350)</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Cash Flows, Continued (Unaudited)
For the Three Months Ended September 30, 2018 and 2017
(\$000's Omitted)

	<u>9/30/2018</u>	<u>9/30/2017</u>
Cash flows from financing activities:		
Payments on indebtedness and bank borrowings	\$ -	-
Bond issuance and rate hedge costs	-	(499)
Restricted contributions received for long-term capital projects	-	(398)
Proceeds from restricted contributions and associated realized gains	336	458
Payments on capital lease obligations	(1,432)	(2,234)
Transfers to the University, net	<u>(21,744)</u>	<u>(26,816)</u>
Net cash used in financing activities	<u>(22,840)</u>	<u>(29,489)</u>
Net increase in cash and cash equivalents	76,530	15,797
Cash and cash equivalents, beginning of year	<u>277,957</u>	<u>181,939</u>
Cash and cash equivalents, end of period	<u>\$ 354,487</u>	<u>197,736</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 8,968	9,539
Supplemental disclosures of noncash investing/financing activities:		
Net transfers to the University of property and equipment	960	864
Net transfers payable between the Health System and the University	193	479

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Hospital Utilization Statistics (Unaudited)

For the Three Months Ended September 30, 2018 and 2017

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		Combined	
	3 months 9/30/2018	3 months 9/30/2017	3 months 9/30/2018	3 months 9/30/2017	3 months 9/30/2018	3 months 9/30/2017	3 months 9/30/2018	3 months 9/30/2017
Adult Patient Days	75,818	73,439	19,296	19,478	11,355	10,339	106,469	103,256
Average Adult Daily Census	824	798	210	212	123	112	1,157	1,122
Licensed Beds	957	957	369	369	186	186	1,512	1,512
Average Number of Available Beds	970	962	348	346	186	175	1,504	1,483
Full Time Equivalents	8,754	8,514	1,817	1,718	1,509	1,423	12,080	11,655
Average Adult Occupancy	85%	83%	60%	61%	66%	64%	77%	76%
Adult Discharges	10,936	10,721	4,163	4,140	2,337	2,258	17,436	17,119
Average Adult Length of Stay	6.9	6.9	4.6	4.7	4.9	4.6	6.1	6.0
Medicare Case Mix Index	2.3560	2.4005	1.6972	1.6558	1.9978	2.0127	-	-
Number of Deliveries	866	918	598	610	-	-	1,464	1,528
Surgical Procedures	10,202	10,110	3,558	3,798	4,112	3,950	17,872	17,858
Endoscopy Procedures	3,369	3,299	1,512	1,453	873	785	5,754	5,537
Emergency Department Visits	18,998	18,993	15,737	15,697	11,733	12,070	46,468	46,760
Outpatient Visits								
ED Outpatient & CEU	15,269	15,327	13,587	13,546	10,208	10,646	39,064	39,519
Observation Visits	2,546	2,845	1,742	2,001	2,193	2,311	6,481	7,157
Hospital Clinics	249,130	232,180	27,413	29,739	47,146	44,717	323,689	306,636
Outpatient Surgeries and Endoscopies	8,490	8,339	3,853	3,950	3,835	3,634	16,178	15,923
DPC Visits	178,777	171,668	-	-	-	-	178,777	171,668
Total Outpatient Visits	<u>454,212</u>	<u>430,359</u>	<u>46,595</u>	<u>49,236</u>	<u>63,382</u>	<u>61,308</u>	<u>564,189</u>	<u>540,903</u>
Gross Revenues by Payor								
Medicare	44%	43%	47%	45%	51%	52%	45%	45%
Medicaid	12%	11%	10%	10%	6%	6%	11%	10%
Managed Care	35%	36%	31%	33%	36%	34%	35%	35%
Indemnity	1%	1%	1%	1%	1%	1%	1%	1%
Self-pay	3%	4%	7%	9%	4%	5%	4%	5%
Other	5%	5%	4%	2%	2%	2%	4%	4%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidating Statements of Operations (Unaudited)
For the Three Months Ended September 30, 2018
(\$000's Omitted)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	All Other Affiliates	Consolidated
Unrestricted revenues, gains and other support:					
Net patient service revenue	\$ 598,639	88,851	120,765	43,738	851,993
Other revenue	16,645	2,137	3,886	29,217	51,885
Total unrestricted revenues, gains and other support	<u>615,284</u>	<u>90,988</u>	<u>124,651</u>	<u>72,955</u>	<u>903,878</u>
Expenses:					
Salaries, wages and benefits	204,544	42,174	35,764	128,024	410,506
Medical supplies	149,936	17,974	39,345	16,221	223,476
Interest	10,655	1,722	1,737	184	14,298
Depreciation	20,228	3,811	4,430	11,637	40,106
Other operating expenses	185,361	25,580	32,336	(76,393)	166,884
Total expenses	<u>570,724</u>	<u>91,261</u>	<u>113,612</u>	<u>79,673</u>	<u>855,270</u>
Operating income	<u>\$ 44,560</u>	<u>(273)</u>	<u>11,039</u>	<u>(6,718)</u>	<u>48,608</u>