

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements
December 31, 2018 and 2017

(Unaudited)

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Balance Sheets (Unaudited)
December 31, 2018 and 2017
(\$000's Omitted)

Assets	12/31/2018	12/31/2017
Current Assets:		
Cash and cash equivalents	\$ 401,514	200,423
Patient accounts receivable, net	475,083	407,738
Estimated third-party payor settlements, net	28,553	20,817
Other receivables	37,856	36,815
Due from the University, net	-	6,578
Inventories of drugs and supplies	93,381	90,985
Other assets	35,764	30,837
Short-term investments	311,959	373,376
Assets limited as to use	16,611	25,653
Total current assets	1,400,721	1,193,222
Assets limited as to use	87,955	83,835
Investments	3,104,036	3,077,667
Property and equipment, net	1,645,091	1,503,293
Due from the University	358	500
Derivative instruments	550	-
Other noncurrent assets	47,982	44,066
Total assets	\$ 6,286,693	5,902,583
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 150,103	123,479
Due to the University, net	1,170	-
Other current liabilities	87,484	81,318
Accrued salaries, wages and vacation payable	194,614	181,207
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	1,750
Current portion of estimated professional liability costs	16,611	16,276
Total current liabilities	483,182	433,515
Other noncurrent liabilities	39,983	39,146
Postretirement and postemployment benefit obligations, net of current portion	280,439	417,941
Indebtedness, net of current portion	1,601,679	1,630,256
Capital lease obligations, net of current portion	127,544	125,325
Derivative instruments	58,733	73,930
Estimated professional liability costs, net of current portion	35,075	31,763
Total liabilities	2,626,635	2,751,876
Net Assets:		
Unrestricted	3,601,138	3,092,722
Temporarily restricted	43,862	43,488
Permanently restricted	15,058	14,497
Total net assets	3,660,058	3,150,707
Total liabilities and net assets	\$ 6,286,693	5,902,583

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Operations (Unaudited)
For the Six Months Ended December 31, 2018 and 2017
(\$000's Omitted)

	12/31/2018	12/31/2017
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 1,783,624	1,676,039
Other revenue	103,131	95,933
Total unrestricted revenues, gains and other support	1,886,755	1,771,972
Expenses:		
Salaries, wages and benefits	835,237	783,497
Medical supplies	457,167	425,534
Interest	28,190	29,373
Depreciation	80,412	79,292
Other operating expenses	339,641	331,170
Total expenses	1,740,647	1,648,866
Operating income	146,108	123,106
Non-operating (loss) income:		
Investment (loss) gain	(60,959)	138,145
Other	4,632	1,023
Total non-operating (loss) income	(56,327)	139,168
Excess of revenues over expenses	89,781	262,274
Change in funded status of defined benefit plans	797	2,879
Net assets released from restrictions for purchase of property and equipment	516	500
Transfers to the University, net	(51,057)	(45,970)
Increase in unrestricted net assets	\$ 40,037	219,683

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Changes in Net Assets (Unaudited)
For the Six Months Ended December 31, 2018 and 2017
(\$000's Omitted)

	12/31/2018	12/31/2017
Unrestricted net assets:		
Excess of revenues over expenses	\$ 89,781	262,274
Change in funded status of defined benefit plans	797	2,879
Net assets released from restrictions for purchase of property and equipment	516	500
Transfers to the University, net	(51,057)	(45,970)
Increase in unrestricted net assets	40,037	219,683
Temporarily restricted net assets:		
Contributions for restricted purposes	1,783	1,387
Transfers to the University, net	-	(249)
Net assets released from restrictions used for operations	(1,571)	(1,501)
Net assets released from restrictions for purchase of property and equipment	(516)	(500)
Net realized and unrealized (losses) gains	(427)	879
(Decrease) increase in temporarily restricted net assets	(731)	16
Permanently restricted net assets:		
Contributions for endowment funds	712	74
Transfers from the University, net	-	200
Net realized and unrealized gains	312	518
Increase in permanently restricted net assets	1,024	792
Increase in net assets	40,330	220,491
Net assets, beginning of year	3,619,728	2,930,216
Net assets, end of period	\$ 3,660,058	3,150,707

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended December 31, 2018 and 2017
(\$000's Omitted)

	<u>12/31/2018</u>	<u>12/31/2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ 40,330	220,491
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	80,412	79,292
Investment loss (gain)	61,386	(139,024)
Net gain on other investments and disposals of property and equipment	(4,224)	(370)
Transfers to the University, net	51,057	46,019
Restricted contributions received for long-term capital projects	-	(26)
Permanently restricted contributions and associated realized and unrealized gains	(1,024)	(592)
(Increase) decrease in:		
Patient accounts receivable	(54,102)	(42,553)
Due from the University, net	5,126	(4,583)
Estimated third-party payor settlements, net	(30,399)	(34,339)
Other receivables	(2,894)	(5,704)
Inventories of drugs and supplies	(87)	(4,523)
Other assets	(7,883)	(9,444)
Increase (decrease) in:		
Accounts payable	(18,610)	2,518
Other current liabilities	46,294	39,028
Accrued salaries, wages and vacation payable	5,412	4,781
Postretirement and postemployment benefit obligation	5,811	7,455
Other noncurrent liabilities	52	1,191
Estimated professional liability costs	6,278	2,741
Net cash provided by operating activities	<u>182,935</u>	<u>162,358</u>
Cash flows from investing activities:		
Capital expenditures	(153,395)	(91,946)
Decrease in assets limited as to use	(692)	(351)
Sales of investments	1,011,432	1,632,446
Purchases of investments	(870,718)	(1,636,715)
Proceeds from sale of fixed assets	-	49
Decrease (increase) in other assets	(1,081)	1,225
Net cash used in investing activities	<u>(14,454)</u>	<u>(95,292)</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Cash Flows, Continued (Unaudited)
For the Six Months Ended December 31, 2018 and 2017
(\$000's Omitted)

	<u>12/31/2018</u>	<u>12/31/2017</u>
Cash flows from financing activities:		
Payments on indebtedness and bank borrowings	\$ -	-
Bond issuance and rate hedge costs	-	(505)
Restricted contributions received for long-term capital projects	-	602
Proceeds from restricted contributions and associated realized gains	1,024	592
Payments on capital lease obligations	(1,926)	(2,456)
Transfers to the University, net	<u>(44,022)</u>	<u>(46,815)</u>
Net cash used in financing activities	<u>(44,924)</u>	<u>(48,582)</u>
Net increase in cash and cash equivalents	123,557	18,484
Cash and cash equivalents, beginning of year	<u>277,957</u>	<u>181,939</u>
Cash and cash equivalents, end of period	<u>\$ 401,514</u>	<u>200,423</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 33,887	35,171
Supplemental disclosures of noncash investing/financing activities:		
Net transfers to the University of property and equipment	1,916	1,723
Net transfers payable between the Health System and the University	6,049	449

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Hospital Utilization Statistics (Unaudited)

For the Six Months Ended December 31, 2018 and 2017

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		Combined	
	6 months 12/31/2018	6 months 12/31/2017	6 months 12/31/2018	6 months 12/31/2017	6 months 12/31/2018	6 months 12/31/2017	6 months 12/31/2018	6 months 12/31/2017
Adult Patient Days	153,155	149,100	40,563	39,194	23,570	21,163	217,288	209,457
Average Adult Daily Census	832	810	220	213	128	115	1,181	1,138
Licensed Beds	957	957	369	369	186	186	1,512	1,512
Average Number of Available Beds	970	966	348	353	186	175	1,504	1,494
Full Time Equivalents	8,794	8,537	1,844	1,727	1,535	1,440	12,173	11,704
Average Adult Occupancy	86%	84%	63%	60%	69%	66%	79%	76%
Adult Discharges	21,985	21,474	8,596	8,305	4,695	4,635	35,276	34,414
Average Adult Length of Stay	7.0	6.9	4.7	4.7	5.0	4.6	6.2	6.1
Medicare Case Mix Index	2.3688	2.4021	1.6676	1.6868	1.9999	1.9428	-	-
Number of Deliveries	1,731	1,760	1,180	1,203	-	-	2,911	2,963
Surgical Procedures	20,654	20,390	7,550	7,814	8,406	8,292	36,610	36,496
Endoscopy Procedures	6,971	6,606	3,155	2,912	1,760	1,701	11,886	11,219
Emergency Department Visits	38,546	37,837	31,125	31,172	23,490	24,061	93,161	93,070
Outpatient Visits								
ED Outpatient & CEU	31,330	30,397	26,665	26,950	20,446	21,054	78,441	78,401
Observation Visits	4,810	5,447	3,434	4,039	4,689	4,440	12,933	13,926
Hospital Clinics	508,069	466,972	55,979	58,823	97,542	90,580	661,590	616,375
Outpatient Surgeries and Endoscopies	17,087	16,858	8,147	8,099	7,749	7,766	32,983	32,723
DPC Visits	368,842	354,775	-	-	-	-	368,842	354,775
Total Outpatient Visits	<u>930,138</u>	<u>874,449</u>	<u>94,225</u>	<u>97,911</u>	<u>130,426</u>	<u>123,840</u>	<u>1,154,789</u>	<u>1,096,200</u>
Gross Revenues by Payor								
Medicare	42%	43%	46%	45%	50%	51%	44%	45%
Medicaid	13%	11%	11%	10%	6%	6%	11%	10%
Managed Care	36%	36%	32%	33%	36%	35%	36%	36%
Indemnity	1%	1%	1%	1%	1%	1%	1%	1%
Self-pay	3%	4%	7%	8%	4%	5%	3%	5%
Other	5%	5%	3%	3%	3%	2%	5%	3%
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 Six Months Ended December 31, 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	\$ 1,234,494	186,054	254,556	108,520	1,783,624
Other revenue	32,660	4,563	7,775	58,133	103,131
Total unrestricted revenues, gains and other support	<u>1,267,154</u>	<u>190,617</u>	<u>262,331</u>	<u>166,653</u>	<u>1,886,755</u>
Expenses:					
Salaries, wages and benefits	414,406	86,602	73,094	261,135	835,237
Medical supplies	305,278	37,449	79,655	34,785	457,167
Interest	20,722	3,425	3,677	366	28,190
Depreciation	40,127	7,688	9,090	23,507	80,412
Other operating expenses	<u>377,008</u>	<u>51,576</u>	<u>65,424</u>	<u>(154,367)</u>	<u>339,641</u>
Total expenses	<u>1,157,541</u>	<u>186,740</u>	<u>230,940</u>	<u>165,426</u>	<u>1,740,647</u>
Operating income	<u>\$ 109,613</u>	<u>3,877</u>	<u>31,391</u>	<u>1,227</u>	<u>146,108</u>