

# DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements  
December 31, 2019 and 2018

(Unaudited)

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**

Consolidated Balance Sheets (Unaudited)

December 31, 2019 and 2018

(\$000's Omitted)

<b>Assets</b>	<b>12/31/2019</b>	<b>12/31/2018</b>
Current Assets:		
Cash and cash equivalents	\$ 225,768	401,514
Patient accounts receivable, net	487,307	475,083
Estimated third-party payor settlements, net	22,941	28,553
Other receivables	44,775	37,856
Inventories of drugs and supplies	109,408	93,381
Short-term investments	296,908	311,959
Assets limited as to use	17,334	16,611
Other assets	44,804	35,764
	1,249,245	1,400,721
Assets limited as to use	80,348	87,955
Investments	3,516,443	3,104,036
Property and equipment, net	1,880,562	1,645,091
Right of use operating lease assets	317,182	-
Other noncurrent assets	54,018	48,890
	7,097,798	6,286,693
	\$ 7,097,798	6,286,693
 <b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable	\$ 190,477	150,103
Accrued salaries, wages and vacation payable	214,803	194,614
Current portion of postretirement and postemployment benefit obligations	7,676	7,540
Current portion of indebtedness	24,925	23,760
Current portion of finance lease liabilities	5,375	1,900
Current portion of operating lease liabilities	25,320	-
Current portion of estimated professional liability costs	17,334	16,611
Other current liabilities	83,028	88,654
	568,938	483,182
Total current liabilities	568,938	483,182
Postretirement and postemployment benefit obligations, net of current portion	478,781	280,439
Indebtedness, net of current portion	1,572,077	1,601,679
Finance lease liabilities, net of current portion	140,864	127,544
Operating lease liabilities, net of current portion	296,730	-
Estimated professional liability costs, net of current portion	25,781	35,075
Derivative instruments	75,627	58,733
Other noncurrent liabilities	52,516	39,983
	3,211,314	2,626,635
Total liabilities	3,211,314	2,626,635
Net Assets:		
Without donor restrictions	3,826,421	3,601,138
With donor restrictions	60,063	58,920
	3,886,484	3,660,058
Total net assets	3,886,484	3,660,058
Total liabilities and net assets	\$ 7,097,798	6,286,693
	\$ 7,097,798	6,286,693

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**

Consolidated Statements of Operations (Unaudited)  
For the Six Months Ended December 31, 2019 and 2018  
(\$000's Omitted)

	<u>12/31/2019</u>	<u>12/31/2018</u>
Revenues, gains and other support without donor restrictions:		
Net patient service revenue	\$ 1,918,622	1,783,624
Other revenue	104,420	103,131
Total revenues, gains and other support	<u>2,023,042</u>	<u>1,886,755</u>
Expenses:		
Salaries, wages and benefits	929,025	846,129
Medical supplies	507,111	457,167
Interest	24,021	28,190
Depreciation	82,732	80,412
Other operating expenses	367,752	339,641
Total expenses	<u>1,910,641</u>	<u>1,751,539</u>
Operating income	<u>112,401</u>	<u>135,216</u>
Non-operating income (loss):		
Investment gain (loss)	29,761	(60,959)
Non-operating net periodic benefit cost	8,415	10,892
Other	4,376	4,632
Total non-operating income (loss)	<u>42,552</u>	<u>(45,435)</u>
Excess of revenues over expenses	154,953	89,781
Change in funded status of defined benefit plans	4,917	797
Net assets released from restrictions for purchase of property and equipment	707	516
Transfers to the University, net	<u>(53,729)</u>	<u>(51,057)</u>
Increase in net assets without donor restrictions	<u>\$ 106,848</u>	<u>40,037</u>

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**

Consolidated Statements of Changes in Net Assets (Unaudited)

For the Six Months Ended December 31, 2019 and 2018

(\$000's Omitted)

	<u>12/31/2019</u>	<u>12/31/2018</u>
Net assets without donor restrictions		
Excess of revenues over expenses	\$ 154,953	89,781
Change in funded status of defined benefit plans	4,917	797
Net assets released from restrictions for purchase of property and equipment	707	516
Transfers to the University, net	<u>(53,729)</u>	<u>(51,057)</u>
Increase in net assets without donor restrictions	<u>106,848</u>	<u>40,037</u>
Net assets with donor restrictions:		
Contributions for restricted purposes	1,958	2,495
Transfers from the University, net	25	-
Net assets released from restrictions used for operations	(2,276)	(1,571)
Net assets released from restrictions for purchase of property and equipment	(707)	(516)
Net realized and unrealized gains (losses)	<u>414</u>	<u>(115)</u>
(Decrease) increase in net assets with donor restrictions	<u>(586)</u>	<u>293</u>
Increase in net assets	106,262	40,330
Net assets, beginning of year	<u>3,780,222</u>	<u>3,619,728</u>
Net assets, end of period	<u>\$ 3,886,484</u>	<u>3,660,058</u>

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**

Consolidated Statements of Cash Flows (Unaudited)  
For the Six Months Ended December 31, 2019 and 2018  
(\$000's Omitted)

	<u>12/31/2019</u>	<u>12/31/2018</u>
Cash flows from operating activities:		
Increase in net assets	\$ 106,262	40,330
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	82,732	80,412
Investment (income) loss	(29,610)	61,386
Net gain on other investments and disposals of property and equipment	(4,254)	(4,224)
Transfers to the University, net	53,704	51,057
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(1,049)	(1,024)
(Increase) decrease in:		
Patient accounts receivable	(26,764)	(54,102)
Estimated third-party payor settlements receivable	(27,965)	(30,399)
Other receivables	(6,752)	(2,894)
Inventories of drugs and supplies	(7,469)	(87)
Right of use operating lease assets	(317,182)	-
Other assets	(4,599)	(2,757)
Increase (decrease) in:		
Accounts payable	(14,759)	(18,610)
Accrued salaries, wages and vacation payable	10,924	5,412
Other current liabilities	46,365	46,294
Postretirement and postemployment benefit obligation	8,889	5,811
Estimated professional liability costs	(5,399)	6,278
Operating lease liabilities	322,050	-
Other noncurrent liabilities	2,700	52
Net cash provided by operating activities	<u>187,824</u>	<u>182,935</u>
Cash flows from investing activities:		
Capital expenditures	(194,792)	(153,395)
Decrease (increase) in assets limited as to use	713	(692)
Sales of investments	759,764	1,011,432
Purchases of investments	(733,972)	(870,718)
Decrease (increase) in other assets	783	(1,081)
Net cash used in investing activities	<u>(167,504)</u>	<u>(14,454)</u>

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**  
Consolidated Statements of Cash Flows, Continued (Unaudited)  
For the Six Months Ended December 31, 2019 and 2018  
(\$000's Omitted)

	<u>12/31/2019</u>	<u>12/31/2018</u>
Cash flows from financing activities:		
Proceeds from finance leasing program	\$ 9,773	-
Bond issuance costs	(45)	-
Proceeds from restricted contributions and associated investment income	1,049	1,024
Payments on finance lease liabilities	(2,267)	(1,926)
Transfers to the University, net	(54,009)	(44,022)
Net cash used in financing activities	<u>(45,499)</u>	<u>(44,924)</u>
Net (decrease) increase in cash and cash equivalents	(25,179)	123,557
Cash and cash equivalents, beginning of year	<u>250,947</u>	<u>277,957</u>
Cash and cash equivalents, end of period	<u>\$ 225,768</u>	<u>401,514</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 29,014	33,887
Supplemental disclosures of noncash investing/financing activities:		
Change in fixed asset payables as of December 31	\$ 17,467	1,804
Net transfers to the University of property and equipment	1,894	1,916
Net transfers (receivable) payable between the Health System and the University	(240)	6,049
Supplemental cash flow information and noncash activity related to leases:		
Cash paid for operating lease liabilities	\$ 19,116	
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	41,636	
Finance leases	11,509	

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Hospital Utilization Statistics (Unaudited)

For the Six Months Ended December 31, 2019 and 2018

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		Combined	
	6 months 12/31/2019	6 months 12/31/2018	6 months 12/31/2019	6 months 12/31/2018	6 months 12/31/2019	6 months 12/31/2018	6 months 12/31/2019	6 months 12/31/2018
Adult Patient Days	156,808	154,381	41,928	40,563	25,277	23,692	224,013	218,636
Average Adult Daily Census	852	839	228	220	137	129	1,217	1,188
Licensed Beds	979	957	369	369	186	186	1,534	1,512
Average Number of Available Beds	974	971	343	348	186	185	1,503	1,504
Full Time Equivalents	9,162	8,794	1,993	1,844	1,725	1,535	12,881	12,173
Average Adult Occupancy	87%	86%	66%	63%	74%	70%	81%	79%
Adult Discharges	21,881	21,929	8,422	8,489	5,152	4,727	35,455	35,145
Average Adult Length of Stay	7.2	7.0	5.0	4.8	4.9	5.0	6.3	6.2
Medicare Case Mix Index	2.4708	2.3576	1.7328	1.6684	2.0169	1.9999	-	-
Number of Deliveries	1,774	1,830	1,277	1,180	-	-	3,051	3,010
Surgical Procedures	21,185	20,571	8,850	7,879	8,711	8,332	38,746	36,782
Endoscopy Procedures	8,106	7,456	2,799	2,820	1,700	1,708	12,605	11,984
Emergency Department Visits	38,427	38,498	29,934	31,125	22,496	23,490	90,857	93,113
Outpatient Visits								
ED Outpatient & CEU	31,941	31,062	25,499	26,665	19,342	20,414	76,782	78,141
Observation Visits	5,867	5,864	4,739	3,870	4,896	4,646	15,502	14,380
Hospital Clinics	514,403	550,636	61,502	57,100	118,229	98,744	694,134	706,480
Outpatient Surgeries and Endoscopies	18,661	17,628	8,936	8,144	7,865	7,702	35,462	33,474
DPC Visits	393,694	368,842	-	-	-	-	393,694	368,842
Total Outpatient Visits	964,566	974,032	100,676	95,779	150,332	131,506	1,215,574	1,201,317
Gross Revenues by Payor								
Medicare	43.0%	42.7%	48.2%	46.2%	52.2%	50.1%	45.2%	44.4%
Medicaid	12.4%	11.8%	9.9%	9.7%	6.2%	5.8%	11.0%	10.5%
Managed Care	35.4%	35.9%	30.2%	31.9%	32.7%	36.0%	34.3%	35.4%
Indemnity	1.2%	1.2%	1.2%	1.1%	1.3%	1.1%	1.2%	1.2%
Self-pay	3.1%	3.4%	7.4%	7.8%	4.3%	4.5%	3.8%	4.1%
Other	4.9%	5.0%	3.0%	3.3%	3.2%	2.5%	4.3%	4.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100%	100%

Note: Percentages may not sum to 100% due to rounding.

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**

Consolidating Statements of Operations (Unaudited)  
For the Six Months Ended December 31, 2019 and 2018  
(\$000's Omitted)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	All Other Affiliates	Consolidated
Revenues, gains and other support without donor restrictions:					
Net patient service revenue	\$ 1,331,798	203,784	272,725	110,315	1,918,622
Other revenue	<u>33,604</u>	<u>4,492</u>	<u>7,817</u>	<u>58,507</u>	<u>104,420</u>
Total revenues, gains and other support	<u>1,365,402</u>	<u>208,276</u>	<u>280,542</u>	<u>168,822</u>	<u>2,023,042</u>
Expenses:					
Salaries, wages and benefits	457,770	100,554	86,933	283,768	929,025
Medical supplies	334,627	39,808	85,847	46,829	507,111
Interest	17,800	2,888	3,253	80	24,021
Depreciation	39,543	7,923	9,979	25,287	82,732
Other operating expenses	<u>420,100</u>	<u>55,677</u>	<u>71,267</u>	<u>(179,292)</u>	<u>367,752</u>
Total expenses	<u>1,269,840</u>	<u>206,850</u>	<u>257,279</u>	<u>176,672</u>	<u>1,910,641</u>
Operating income (loss)	<u>\$ 95,562</u>	<u>1,426</u>	<u>23,263</u>	<u>(7,850)</u>	<u>112,401</u>



**DUKE UNIVERSITY HEALTH SYSTEM, INC.  
AND AFFILIATES**

Supplemental Note to Consolidated Financial Statements (Unaudited)

December 31, 2019 and 2018

(000's Omitted)

**Recently Adopted Accounting Standards**

On July 1, 2019, the Health System adopted ASU 2016-01, *Leases (Topic 842)* using a modified retrospective approach. The Health System elected the “package of practical expedients” upon adoption that allows entities to not reassess previous conclusions on (1) classification of existing leases, (2) whether expired or existing contracts contain leases, and (3) initial direct costs. The impact of adoption on the consolidated financial statements resulted in an increase in noncurrent assets to record right of use assets of \$298,599 and current and noncurrent liabilities to record lease liabilities for operating leases of the same amount, which represented the present value of remaining lease payments for operating leases. The unaudited financial statements as of and for the six months ended December 31, 2018 were not modified for application of the new lease standard.

On July 1, 2019, the Health System adopted ASU 2017-02, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Upon adoption, the Health System reclassified the non-service cost components of net periodic cost from salaries, wages, and benefits expense to non-operating income. The prior fiscal year 2019 financial statements were restated for comparative purposes which resulted in a \$10,892 increase in salaries, wages and benefits expense for the six months ended December 31, 2018.