

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements
September 30, 2019 and 2018

(Unaudited)

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets (Unaudited)

September 30, 2019 and 2018

(\$000's Omitted)

Assets	9/30/2019	9/30/2018
Current Assets:		
Cash and cash equivalents	\$ 433,911	354,487
Patient accounts receivable, net	471,575	418,394
Other receivables	66,033	48,486
Inventories of drugs and supplies	106,141	93,494
Short-term investments	278,507	359,281
Assets limited as to use	17,334	18,492
Other assets	46,548	36,764
Total current assets	<u>1,420,049</u>	<u>1,329,398</u>
Assets limited as to use	86,127	84,613
Investments	3,233,592	3,202,398
Property and equipment, net	1,831,240	1,587,934
Right of use operating lease assets	323,148	-
Other noncurrent assets	54,474	49,494
Total assets	<u>\$ 6,948,630</u>	<u>6,253,837</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 203,464	147,852
Accrued salaries, wages and vacation payable	202,704	189,773
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	4,601	1,900
Current portion of operating lease liabilities	26,222	-
Current portion of estimated professional liability costs	17,334	16,611
Other current liabilities	56,880	66,184
Total current liabilities	<u>543,806</u>	<u>453,620</u>
Postretirement and postemployment benefit obligations, net of current portion	474,061	277,326
Indebtedness, net of current portion	1,573,258	1,602,858
Finance lease liabilities, net of current portion	137,219	128,038
Operating lease liabilities, net of current portion	300,438	-
Estimated professional liability costs, net of current portion	31,173	32,493
Derivative instruments	84,835	51,735
Other noncurrent liabilities	49,365	40,744
Total liabilities	<u>3,194,155</u>	<u>2,586,814</u>
Net Assets:		
Without donor restrictions	3,694,049	3,608,713
With donor restrictions	60,426	58,310
Total net assets	<u>3,754,475</u>	<u>3,667,023</u>
Total liabilities and net assets	<u>\$ 6,948,630</u>	<u>6,253,837</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations (Unaudited)
For the Three Months Ended September 30, 2019 and 2018
(\$000's Omitted)

	<u>9/30/2019</u>	<u>9/30/2018</u>
Revenues, gains and other support without donor restrictions:		
Net patient service revenue	\$ 943,539	851,993
Other revenue	51,121	51,885
Total revenues, gains and other support	<u>994,660</u>	<u>903,878</u>
Expenses:		
Salaries, wages and benefits	452,030	415,953
Medical supplies	247,904	223,476
Interest	12,444	14,298
Depreciation	41,007	40,106
Other operating expenses	186,534	166,884
Total expenses	<u>939,919</u>	<u>860,717</u>
Operating income	<u>54,741</u>	<u>43,161</u>
Non-operating (loss) income:		
Investment (loss) gain	(59,552)	18,037
Non-operating net periodic benefit cost	4,207	5,446
Other	13	4,518
Total non-operating (loss) income	<u>(55,332)</u>	<u>28,001</u>
(Deficit) excess of revenues (under) over expenses	(591)	71,162
Change in funded status of defined benefit plans	2,459	399
Net assets released from restrictions for purchase of property and equipment	85	16
Transfers to the University, net	<u>(27,477)</u>	<u>(23,965)</u>
(Decrease) increase in net assets without donor restrictions	<u>\$ (25,524)</u>	<u>47,612</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Changes in Net Assets (Unaudited)
For the Three Months Ended September 30, 2019 and 2018
(\$000's Omitted)

	9/30/2019	9/30/2018
Net assets without donor restrictions		
(Deficit) excess of revenues (under) over expenses	\$ (591)	71,162
Change in funded status of defined benefit plans	2,459	399
Net assets released from restrictions for purchase of property and equipment	85	16
Transfers to the University, net	(27,477)	(23,965)
(Decrease) increase in net assets without donor restrictions	(25,524)	47,612
Net assets with donor restrictions:		
Contributions for restricted purposes	722	232
Transfers from the University, net	25	-
Net assets released from restrictions used for operations	(870)	(877)
Net assets released from restrictions for purchase of property and equipment	(85)	(16)
Net realized and unrealized (losses) gains	(15)	344
Decrease in net assets with donor restrictions	(223)	(317)
(Decrease) increase in net assets	(25,747)	47,295
Net assets, beginning of year	3,780,222	3,619,728
Net assets, end of period	\$ 3,754,475	3,667,023

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended September 30, 2019 and 2018
(\$000's Omitted)

	<u>9/30/2019</u>	<u>9/30/2018</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (25,747)	47,295
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	41,007	40,106
Investment loss (income)	59,848	(18,111)
Net loss (gain) on other investments and disposals of property and equipment	2	(4,324)
Transfers to the University, net	27,452	23,965
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(684)	(336)
(Increase) decrease in:		
Patient accounts receivable	(11,032)	2,587
Other receivables	(28,560)	(13,524)
Inventories of drugs and supplies	(4,202)	(200)
Right of use operating lease assets	(323,148)	-
Other assets	(5,113)	(9,424)
Increase (decrease) in:		
Accounts payable	(18,770)	(5,320)
Accrued salaries, wages and vacation payable	(1,175)	571
Other current liabilities	14,501	31,079
Postretirement and postemployment benefit obligation	4,169	2,698
Estimated professional liability costs	(7)	3,696
Operating lease liabilities	326,660	-
Other noncurrent liabilities	(451)	815
Net cash provided by operating activities	<u>54,750</u>	<u>101,573</u>
Cash flows from investing activities:		
Capital expenditures	(86,521)	(69,552)
Decrease in assets limited as to use	69	496
Sales of investments	419,859	406,670
Purchases of investments	(177,377)	(338,968)
Increase in other assets	(5,272)	(849)
Net cash provided by (used in) investing activities	<u>150,758</u>	<u>(2,203)</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Cash Flows, Continued (Unaudited)
For the Three Months Ended September 30, 2019 and 2018
(\$000's Omitted)

	<u>9/30/2019</u>	<u>9/30/2018</u>
Cash flows from financing activities:		
Proceeds from finance leasing program	\$ 6,296	-
Proceeds from restricted contributions and associated investment income	684	336
Payments on finance lease liabilities	(1,018)	(1,432)
Transfers to the University, net	<u>(28,506)</u>	<u>(21,744)</u>
Net cash used in financing activities	<u>(22,544)</u>	<u>(22,840)</u>
Net increase in cash and cash equivalents	182,964	76,530
Cash and cash equivalents, beginning of year	<u>250,947</u>	<u>277,957</u>
Cash and cash equivalents, end of period	<u>\$ 433,911</u>	<u>354,487</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 9,998	8,968
Supplemental disclosures of noncash investing/financing activities:		
Change in fixed asset payables as of September 30	\$ 34,106	(14,126)
Net transfers to the University of property and equipment	945	960
Net transfers (receivable) payable between the Health System and the University	(40)	193
Supplemental cash flow information and noncash activity related to leases:		
Cash paid for operating lease liabilities	\$ 9,578	
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	38,662	
Finance leases	7,667	

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Hospital Utilization Statistics (Unaudited)

For the Three Months Ended September 30, 2019 and 2018

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		Combined	
	3 months 9/30/2019	3 months 9/30/2018	3 months 9/30/2019	3 months 9/30/2018	3 months 9/30/2019	3 months 9/30/2018	3 months 9/30/2019	3 months 9/30/2018
Adult Patient Days	76,821	75,807	20,794	19,296	12,448	11,398	110,063	106,501
Average Adult Daily Census	835	824	226	210	135	124	1,196	1,158
Licensed Beds	979	957	369	369	186	186	1,534	1,512
Average Number of Available Beds	975	970	353	348	202	185	1,530	1,503
Full Time Equivalents	9,117	8,754	1,978	1,817	1,692	1,509	12,787	12,080
Average Adult Occupancy	86%	85%	64%	60%	67%	67%	78%	77%
Adult Discharges	10,889	10,901	4,262	4,119	2,558	2,340	17,709	17,360
Average Adult Length of Stay	7.1	7.0	4.9	4.7	4.9	4.9	6.2	6.1
Medicare Case Mix Index	2.4586	2.3510	1.7013	1.6921	2.0447	1.9978	-	-
Number of Deliveries	858	928	660	598	-	-	1,518	1,526
Surgical Procedures	10,340	10,093	4,341	3,734	4,292	3,886	18,973	17,713
Endoscopy Procedures	3,908	3,553	1,472	1,337	804	837	6,184	5,727
Emergency Department Visits	19,247	19,002	15,394	15,737	11,319	11,733	45,960	46,472
Outpatient Visits								
ED Outpatient & CEU	16,281	15,295	13,132	13,587	9,732	10,208	39,145	39,090
Observation Visits	2,419	2,719	2,400	1,955	2,411	2,182	7,230	6,856
Hospital Clinics	260,740	273,062	30,742	28,399	58,256	47,761	349,738	349,222
Outpatient Surgeries and Endoscopies	9,036	8,458	4,441	3,861	3,834	3,654	17,311	15,973
DPC Visits	192,597	178,777	-	-	-	-	192,597	178,777
Total Outpatient Visits	<u>481,073</u>	<u>478,311</u>	<u>50,715</u>	<u>47,802</u>	<u>74,233</u>	<u>63,805</u>	<u>606,021</u>	<u>589,918</u>
Gross Revenues by Payor								
Medicare	43%	44%	48%	47%	53%	50%	45%	45%
Medicaid	13%	12%	10%	10%	6%	6%	11%	11%
Managed Care	35%	35%	29%	31%	32%	36%	35%	35%
Indemnity	1%	1%	1%	1%	1%	1%	1%	1%
Self-pay	3%	3%	9%	8%	5%	5%	4%	4%
Other	5%	5%	3%	3%	3%	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, 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	\$ 658,138	99,730	134,302	51,369	943,539
Other revenue	16,595	2,087	4,115	28,324	51,121
Total revenues, gains and other support	<u>674,733</u>	<u>101,817</u>	<u>138,417</u>	<u>79,693</u>	<u>994,660</u>
Expenses:					
Salaries, wages and benefits	223,496	48,642	41,884	138,008	452,030
Medical supplies	163,231	19,548	42,802	22,323	247,904
Interest	9,221	1,501	1,686	36	12,444
Depreciation	19,829	3,800	4,879	12,499	41,007
Other operating expenses	<u>208,227</u>	<u>27,461</u>	<u>35,140</u>	<u>(84,294)</u>	<u>186,534</u>
Total expenses	<u>624,004</u>	<u>100,952</u>	<u>126,391</u>	<u>88,572</u>	<u>939,919</u>
Operating income (loss)	<u>\$ 50,729</u>	<u>865</u>	<u>12,026</u>	<u>(8,879)</u>	<u>54,741</u>

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

Supplemental Note to Consolidated Financial Statements (Unaudited)

September 30, 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 three months ended September 30, 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 \$5,446 increase in salaries, wages and benefits expense for the three months ended September 30, 2018.