DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Financial Statements and Supplementary Schedules

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

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KPMG LLP
Suite 400
300 North Greene Street
Greensboro, NC 27401

Independent Auditors' Report

Board of Directors
Duke University Health System, Inc.:

We have audited the accompanying consolidated financial statements of Duke University Health System, Inc. and Affiliates (the Health System), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 the auditors' 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, the auditor considers internal control relevant to the Health System'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 Health System'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.

Emphasis of Matter

As discussed in note 2(n) to the consolidated financial statements, the Health System adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-19, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke University Health System, Inc. and Affiliates as of June 30, 2019 and 2018, and the results of their operations, their changes in net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in schedules 1 and 2 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

September 30, 2019

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	250,947	277,957
Patient accounts receivable, net		460,543	420,981
Other receivables		37,473	34,962
Due from the University, net		2,477	9,071
Inventories of drugs and supplies		101,939	93,294
Other assets		36,871	28,143
Short-term investments		562,095	385,129
Assets limited as to use		17,334	19,565
Total current assets		1,469,679	1,269,102
Assets limited as to use		86,438	81,263
Investments		3,244,196	3,229,495
Property and equipment, net		1,751,195	1,572,226
Due from the University		288	429
Derivative instruments		580	685
Other noncurrent assets		48,700	46,569
Total assets	$	6,601,076	6,199,769
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	188,316	167,205
Accrued salaries, wages, and vacation payable		203,879	189,202
Estimated third-party payor settlements, net		5,024	1,846
Current portion of postretirement and postemployment benefit obligations		7,404	7,540
Current portion of indebtedness		24,925	23,760
Current portion of capital lease obligations		3,105	2,835
Current portion of estimated professional liability costs		17,334	16,611
Other current liabilities		38,275	38,370
Total current liabilities		488,262	447,369
Postretirement and postemployment benefit obligations, net of current portion		470,164	274,628
Indebtedness, net of current portion		1,574,392	1,604,035
Capital lease obligations, net of current portion		130,012	128,535
Derivative instruments		77,028	56,746
Estimated professional liability costs, net of current portion		31,180	28,797
Other noncurrent liabilities		49,816	39,931
Total liabilities		2,820,854	2,580,041
Net assets:			
Without donor restrictions		3,719,573	3,561,101
With donor restrictions		60,649	58,627
Total net assets		3,780,222	3,619,728
Total liabilities and net assets	$	6,601,076	6,199,769

See accompanying notes to consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Revenues, gains, and other support without donor restrictions:		
Net patient service revenue	$ 3,631,391	3,394,589
Other revenue	205,395	203,291
Total revenues, gains, and other support	3,836,786	3,597,880
Expenses:		
Salaries, wages, and benefits	1,689,608	1,570,877
Medical supplies	934,185	846,451
Interest	55,445	58,824
Depreciation and amortization	162,958	160,763
Other operating expenses	711,077	675,610
Total expenses	3,553,273	3,312,525
Operating income	283,513	285,355
Nonoperating income:		
Investment income	153,383	341,109
Other	69	1,053
Total nonoperating income	153,452	342,162
Excess of revenues over expenses	436,965	627,517
Change in funded status of defined benefit plans	(182,487)	155,112
Net assets released from restrictions for purchase of property and equipment	550	633
Transfers to the University, net	(96,556)	(95,200)
Increase in net assets without donor restrictions	$ 158,472	688,062

See accompanying notes to consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Net assets without donor restrictions:		
Excess of revenues over expenses	$ 436,965	627,517
Change in funded status of defined benefit plans	(182,487)	155,112
Net assets released from restrictions for purchase of property and equipment	550	633
Transfers to the University, net	(96,556)	(95,200)
Increase in net assets without donor restrictions	158,472	688,062
Net assets with donor restrictions:		
Contributions for restricted purposes	5,694	3,881
Transfers from the University, net	200	10
Net assets released from restrictions used for operations	(4,004)	(3,861)
Net assets released from restrictions for purchase of property and equipment	(550)	(633)
Net realized and unrealized gains	682	2,053
Increase in net assets with donor restrictions	2,022	1,450
Increase in net assets	160,494	689,512
Net assets, beginning of year	3,619,728	2,930,216
Net assets, end of year	$ 3,780,222	3,619,728

See accompanying notes to consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Increase in net assets	$ 160,494	689,512
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	162,958	160,763
Investment income	(154,061)	(343,179)
Net loss (gain) on other investments and disposals of property and equipment	1,347	(3,160)
Transfers to the University, net	96,356	95,190
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(512)	(150)
(Increase) decrease in:		
Patient accounts receivable	(39,562)	(55,796)
Other receivables	(1,046)	(4,355)
Inventories of drugs and supplies	(8,645)	(6,832)
Other assets	(10,527)	(7,066)
Increase (decrease) in:		
Accounts payable	12,205	13,739
Due to the University, net	5,565	(8,276)
Other current liabilities	(8,070)	(7,271)
Accrued salaries, wages, and vacation payable	14,677	12,775
Estimated third-party payor settlements, net	3,178	(11,676)
Postretirement and postemployment benefit obligations	195,400	(134,463)
Other noncurrent liabilities	9,885	1,976
Estimated professional liability costs	3,106	110
Net cash provided by operating activities	442,748	391,841
Cash flows from investing activities:		
Capital expenditures	(331,423)	(206,457)
(Increase)/decrease in assets limited as to use	(1,077)	1,025
Sales of investments	1,931,156	2,819,539
Purchases of investments	(1,945,262)	(2,792,713)
Proceeds from sale of fixed assets	—	161
(Increase) decrease in other assets	(4,640)	2,458
Net cash used in investing activities	(351,246)	(175,987)

(Continued)

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows (continued)

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from financing activities:			
Payments on indebtedness and bank borrowings	$	(23,760)	(23,340)
Bond issuance and rate hedge costs		—	(505)
Proceeds received from donor-restricted contributions and associated investment income		512	731
Payments on capital lease obligations		(3,342)	(3,042)
Transfers to the University, net		(91,922)	(93,680)
Net cash used in financing activities		(118,512)	(119,836)
Net (decrease) increase in cash and cash equivalents		(27,010)	96,018
Cash and cash equivalents, beginning of year		277,957	181,939
Cash and cash equivalents, end of year	$	250,947	277,957
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amount capitalized	$	60,726	64,378
Supplemental disclosures of noncash investing/financing activities:			
Change in fixed asset payables as of June 30	$	9,623	37,300
Net transfers payable between the Health System and University		1,959	930
Net transfers to the University of property and equipment		3,405	3,548

See accompanying notes to consolidated financial statements.

(1) Description of Organization, Related Parties, and the Private Diagnostic Clinic

(a) Duke University Health System, Inc. (the Health System)

The Health System is a North Carolina nonprofit corporation organized and controlled by Duke University (the University). The Health System includes three hospitals operated as divisions and several subsidiaries and controlled affiliates, the most significant of which follow:

- **Duke University Hospital (DUH)** – a quaternary care teaching hospital located on the campus of the University in Durham, North Carolina, licensed for 979 acute care and specialty beds, leased from the University, operated by the Health System and providing patient care and serving as a site for medical education provided by the Duke University School of Medicine (School of Medicine or SOM) and clinical research conducted by the School of Medicine.
- **Duke Regional Hospital (DRH)** – a full service community hospital located in Durham, North Carolina, licensed for 369 acute care beds and providing patient care; DRH is owned by Durham County, North Carolina and leased to the Durham County Hospital Corporation which has in turn subleased DRH to the Health System for the identical duration under a forty (40) year automatically renewing "evergreen" lease.
- **Duke Raleigh Hospital (DRaH)** – a community hospital located in Raleigh, North Carolina, licensed for 186 acute care beds, leased from the University, operated by the Health System and providing patient care.
- **Duke University Affiliated Physicians, Inc. (DUAP)** – a North Carolina nonprofit corporation, doing business as Duke Primary Care, consisting of thirty-four primary care physician practices located in Alamance, Chatham, Durham, Franklin, Granville, Orange, Vance, and Wake Counties, North Carolina, nine urgent care centers located in Durham, Orange, and Wake Counties, four pediatric practices in Durham and Wake Counties, and seven diabetes education sites in Durham, Vance, and Wake Counties co-located in primary care sites.
- **Durham Casualty Company, Ltd. (DCC)** – a wholly owned subsidiary of the Health System, domiciled in Bermuda, insuring a portion of the medical malpractice risks and patient general liability risks of Health System clinical providers and the Private Diagnostic Clinic (PDC).

The Health System also includes other separately incorporated affiliates and subsidiaries and unincorporated divisions not listed above whose accounts are included in the accompanying consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation. The Health System's accounts are included in the consolidated financial statements of the University.

(b) The University

Pursuant to a lease and operating agreement between the University and the Health System, the Health System acquired, or has acquired the right to operate, certain assets of the University for the operation of the Health System and has assumed all of the University's liabilities and obligations related to the transferred assets. Under the Health System's current Master Trust Indenture, the owners of Health System bonds look solely to the Health System for repayment of those obligations.

(In thousands)

The operating agreement between the University and the Health System provides for certain common administrative services, human resources policy and practice, fiduciary responsibility, investment policies, and support for the School of Medicine.

Certain shared administrative and general service expenses are incurred by the University for the benefit of the Health System. These are included within other operating expenses in the accompanying consolidated statements of operations and amounted to approximately $41,663 and $39,063 in fiscal years 2019 and 2018, respectively.

(c) School of Medicine (SOM)

The SOM is organized and operated as part of the University and is not included in the Health System's consolidated financial statements. The Health System provides support to the SOM in the form of cash (and some noncash) equity transfers. Examples of transfers to the SOM include but are not limited to support of specific initiatives, specific departments, or general support for the Chancellor for Health Affairs or a departmental chair. For the years ended June 30, 2019 and 2018, net unrestricted transfers to the University are as follows:

		2019	2018
Transfers to the School of Medicine, net	$	84,233	83,451
Transfers to the University, net		8,918	8,201
Total funded transfers, net		93,151	91,652
Fixed assets and other unfunded transfers, net		3,405	3,548
Unrestricted transfers to the University, net	$	96,556	95,200

The Health System plans to transfer $116,075 in cash (and some noncash) equity transfers to the University in 2020.

(d) Private Diagnostic Clinic, PLLC (PDC)

The PDC is a professional limited liability company consisting of physicians practicing primarily within Health System facilities and PDC clinics. The purpose of the PDC is to provide a structure separate from the University and the Health System in which the members of the physician faculty of the School of Medicine may engage in the private practice of medicine and still serve as members of the faculty of the University conducting clinical teaching and medical research. The PDC, under agreements with the University and the Health System, occupies and utilizes certain of the Health System's facilities. PDC physicians are not employed by the Health System, and the PDC is not included in the Health System's or the University's consolidated financial statements.

The Health System has numerous agreements with the PDC. Many are for services related to clinical operations such as professional service agreements (PSA) for physician staffing of certain Health System facilities, medical directors, and lab services. The Health System, through its Patient Revenue

(In thousands)

Management Organization (PRMO), has contractual responsibility for the billing and accounts receivable operations of the PDC. DCC is the principal source of malpractice insurance for the PDC. The PDC subleases from the Health System, at market rates, clinical and administrative space owned by the University and leased to the Health System, and leases from the Health System, at market rates, space owned by the Health System. The Health System also subleases to the PDC, at full cost, leased space from nonaffiliated third parties. The following table summarizes the PDC-related revenue included in other operating revenue in the Health System's accompanying consolidated statements of operations:

		2019	2018
Billing and collection services	$	40,810	37,496
Revenue under service agreements		62,304	57,974
DCC malpractice insurance premiums		11,405	7,311
Rental income		9,679	10,822
Total	$	124,198	113,603

For the years ended June 30, 2019 and 2018, other operating expenses in the Health System's consolidated statements of operations include PDC-related expenses under service agreements of $161,840 and $145,454, respectively. The Health System has net payables to the PDC of $7,625 and $7,599 as of June 30, 2019 and 2018, respectively, related to various transactions.

(e) DUMAC, Inc. (DUMAC)

DUMAC, a separate nonprofit support corporation organized and controlled by the University, manages the investment portfolios of the Health System and the University. DUMAC manages multiple investment pools on behalf of the Health System and the University including the Health System Pool (HSP) and the Long Term Pool (LTP). DUMAC also manages the investment assets of the Employees' Retirement Plan of the University (ERP).

(2) Summary of Significant Accounting Policies

Significant accounting policies of the Health System are as follows:

(a) Cash and Cash Equivalents

Cash and cash equivalents include assets invested in the University Short Term Account (STA), which the Health System utilizes to fund daily cash needs. The STA currently invests in short-term and highly liquid investments, which can be liquidated within thirty days; however, not all STA investments qualify as cash and cash equivalents under the definition in Accounting Standards Codification (ASC) 210-10-20. The Health System only includes as cash and cash equivalents in the accompanying consolidated balance sheets the STA assets that meet this definition.

Cash and cash equivalents that are invested in the HSP and LTP are reported within short-term and noncurrent investments as these funds are not typically used for current operating needs.

(b) Short-Term Investments

Short-term investments include debt securities and other instruments with maturities of one year or less from the balance sheet date and are not included in cash and cash equivalents.

(c) Investments

(i) Reporting

Investments are classified as trading securities. As such, investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses in the accompanying consolidated statements of operations unless the income or loss is restricted by donor or law.

(ii) Valuation

Investments are recorded in the consolidated financial statements at estimated fair value. For investments made directly by the Health System whose values are based on quoted market prices in active markets, the market price of the investment is used to report fair value. For shares in mutual funds, fair values are based on share prices reported by the funds as of the last business day of the fiscal year. The Health System's interests in alternative investment funds such as fixed income, equities, hedged strategies, private capital, and real assets are generally reported at the net asset value (NAV) reported by the fund managers. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, the Health System has concluded that NAV is an appropriate practical expedient to estimate fair value.

(iii) Derivatives

Derivatives are used by the Health System and external investment managers to manage market risks. The most common derivative strategies employed are total return swaps, futures contracts, forward contracts, and credit default index swaps. These derivative instruments are recorded at their respective fair values (note 9).

(d) Assets Limited as to Use

Assets limited as to use include funds on deposit with bond trustees, funds pledged as collateral under derivative swap agreements, donor restricted funds, and amounts required to settle estimated professional liability costs recorded in DCC.

(e) Property and Equipment

Property and equipment acquisitions are recorded at original cost or, where original cost data is not available, at estimates of original cost. Property and equipment acquired under capital leases is initially valued and recorded based on the present value of minimum lease payments. Costs associated with the development and installation of internal-use software may be capitalized or expensed. These costs are expensed if they are incurred in the preliminary project or post-implementation/operation stages and capitalized if they are incurred in the application development stage and meet certain capitalization requirements. Depreciation and amortization is calculated on the straight-line basis over the estimated

useful lives of the respective assets, except for leasehold improvements and property and equipment held under capital leases, which are amortized over the shorter of the expected useful life of the asset or related lease term. The estimated useful lives by asset type are as follows:

Asset type	Useful life
Buildings and utilities	10–50 years
Furnishings and equipment	3–20 years
Computer software	5–10 years

Gains and losses from the disposal of property and equipment are included in other operating expenses in the accompanying consolidated statements of operations. The portion of interest on the DUHS 2017 taxable bonds associated with the funding of qualifying assets is capitalized during the construction period, and interest capitalization will continue over the life of the bonds while qualifying capital projects are ongoing. Total interest cost of $8,497 and $3,100 was capitalized in fiscal years 2019 and 2018, respectively, and is included in property and equipment, net in the accompanying consolidated balance sheets.

(f) Asset Impairment

The Health System assesses the recoverability of long lived assets by determining whether the carrying value of these assets can be recovered through undiscounted future operating cash flows generated by these assets. The amount of impairment, if any, is measured by comparison of the fair value of the assets to their carrying value. Fair value is determined using market data, if available, or projected discounted future operating cash flows using a discount rate reflecting the Health System's weighted average cost of capital.

(g) Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Health System and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in operations that are free from donor-imposed stipulations. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenses are reported as decreases in net assets without donor restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature that will be met either by actions of the Health System or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor specifies that the resources be maintained in perpetuity. Net assets with donor restrictions are restricted for health education, capital expenditures, and other specified purposes.

Expirations of donor restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported in other revenue in the consolidated statements of operations. Contributions for acquisitions or construction of property and equipment are released from restrictions in the period in which the assets are placed into service and are excluded from excess of revenues over expenses in the consolidated statements of operations.

(h) Excess of Revenues over Expenses

Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses include certain nonperiodic defined benefit plan accounting adjustments, permanent transfers of assets to and from affiliates for other than goods and services, and contributed capital assets and capital assets acquired using contributions, which by donor imposed restriction, must be used for the purposes of acquiring long lived assets.

(i) Net Patient Service Revenue

Net patient service revenue relates to contracts with patients in which the performance obligations are to provide health care services to patients. The Health System recognizes revenues over time as services (inputs) are provided to patients in the period in which services are rendered. The Health System deems the use of this input method to be a faithful depiction of the transfer of services to the patient over the performance obligation period.

The contractual relationships with patients usually involve a third-party payor, and transaction prices for the services provided are dependent upon the terms provided by or negotiated with third-party payors. The Health System has agreements with third-party payors that provide for payments to the Health System at amounts that are generally less than its established rates. The Health System determines the transaction price based on its established charges for goods and services less explicit and implicit price concessions. Explicit price concessions are contractual adjustments provided to third-party payors and published policy discounts applied to uninsured patients. Implicit price concessions represent differences between amounts billed and the estimated consideration the Health System expects to receive from patients, which are primarily based on historical collection experience. The Health System generally bills third-party payors and patients within five days after services are rendered and / or patients are discharged from the hospital. Accordingly, net patient service revenue is reported at the estimated net realizable amounts to be received from patients, third-party payors, and others, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Adjustments are accrued on an estimated basis in the period the related services are rendered and retroactively adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are identified.

The Health System adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* as of July 1, 2018. See (n) below for additional details upon adoption. ASU 2014-09 provides several practical expedients that the Health System applies related to its contracts with patients as follows:

i. The Health System applies the portfolio approach as a practical expedient allowed under ASC 606-10-10-4 to account for most of its patient contracts as a collective group rather than

individually. The Health System does not expect the impact to the consolidated financial statements when applying the revenue recognition guidance under ASU 2014-09 for net patient service revenue to differ materially using its portfolio approach than if applied at an individual contract level. The Health System groups contracts together based on similar expected payment patterns. Portfolio groupings include the following categories: hospital or professional; inpatient or outpatient; primary, secondary, and current payor responsibilities and activities. These groupings are also stratified based on aging of related receivables.

ii. The Health System has elected the practical expedient allowed under ASC 606-10-32-18 to not adjust the transaction price for the effects of a significant financing component as payment is expected to be received from patients and third-party payors within one year from the date patients receive services. In certain circumstances, the Health System enters into payment arrangements with patients that allow payments in excess of one year. In these arrangements, the financing component is not considered significant to the contract.

iii. The Health System has elected to apply the practical expedient under ASC 606-10-50-14 to not disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period because these performance obligations relate to contracts with an expected duration of less than one year. These unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services at the end of the fiscal year and are generally completed when patients are discharged, typically within days or weeks after year end.

(j) Charity Care

The Health System provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or included in patient accounts receivable.

(k) Derivative Financial Instruments

The Health System has elected not to use hedge accounting with respect to any of its debt derivative financial instruments. Derivative financial instruments are recognized as assets or liabilities in the consolidated balance sheets at fair value. Realized and unrealized gains and losses on derivatives are included in investment income in the consolidated statements of operations.

(l) Income Taxes

The Health System and substantially all of its affiliates are organizations described under Section 501(c)(3) of the Internal Revenue Code. Such organizations are not subject to federal and state income tax on income related to their exempt purpose. As of June 30, 2019, there were no material uncertain tax positions.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, third-party reimbursement settlements, self-insurance liabilities, retirement obligations, and the carrying amounts of property, equipment, investments, and derivative instruments. Actual results could differ from those estimates.

(n) Recently Adopted Accounting Standards

The Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in May 2014 which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Health System adopted the new standard effective July 1, 2018 using the full retrospective method. The adoption did not have an impact on the recognition of net patient service revenue for periods prior to adoption but changed the presentation and disclosure in the consolidated financial statements and notes. Prior to adopting ASU 2014-09, the Health System separately presented the provision for bad debts as a reduction of net patient service revenue in the consolidated statements of operations and disclosed the allowance for bad debts in the notes. The provision for bad debts and allowance for bad debts primarily related to the estimated uncollectible amounts from self-pay patients, Under ASU 2014-09, the estimated uncollectible amounts due from these patients are considered implicit price concessions directly reducing net patient service revenue.

The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, in August 2016. This ASU reduces the classes of net assets from three to two (net assets without donor restrictions and net assets with donor restrictions), introduces new quantitative and qualitative disclosures regarding liquidity, and requires reporting expenses by both their natural and functional classification. The Health System adopted ASU 2016-14 as of June 30, 2019 and applied its provisions retrospectively to the prior year presentation in the consolidated financial statements and notes. The Health System has elected not to disclose prior year liquidity and availability of resources as allowed under ASU 2016-14 in the period of adoption.

(o) Recently Issued Accounting Standards

The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016. This ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP which have terms of greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a

distinction between finance leases and operating leases. The result of retaining a distinction between finance leases and operating leases in the statement of operations and the statement of cash flows is largely unchanged from existing GAAP. ASU 2016-02 is effective for fiscal year 2020. The Health System will record an increase in assets and liabilities presented in the consolidated balance sheets to record right-of-use assets and lease obligations for operating leases upon adoption of the standard.

The FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, in November 2016. This ASU requires entities to include in total cash and cash equivalents on the statement of cash flows the cash and cash equivalents that have restrictions on withdrawal or use. It also requires additional disclosure of the nature of restrictions on its cash and cash equivalents. ASU 2016-18 is effective for fiscal year 2020. The Health System will make these changes in classification and additional disclosures in the consolidated financial statements and notes upon adoption of the standard.

The FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, in March 2017. This ASU requires entities that sponsor employee defined benefit pension and other postretirement benefit plans to report the service cost component in the same line item on the statement of operations as other salaries, wages, and benefits costs. The other components of net benefit cost will be presented separately outside of operating income. ASU 2017-07 is effective for fiscal year 2020. The Health System expects to record an increase in salaries, wages, and benefits upon adoption of the standard.

The FASB issued ASU 2018-05, *Intangibles – Goodwill and Other – Internal-Use-Software (Subtopic 350-40)*, in August 2018. This ASU aligns requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to obtain or develop internal-use software. ASU 2018-05 is effective for fiscal year 2022, and early adoption is permitted. The Health System is currently evaluating the impact this ASU will have on its consolidated financial statements.

(In thousands)

(3) Net Patient Service Revenue and Estimated Third-Party Payor Settlements

Net patient service revenue, net of price concessions, recognized in fiscal years 2019 and 2018 from major payor sources is as follows:

	2019		2018	
	Amount	Percentage	Amount	Percentage
Commercial payors	$ 2,049,551	56.4 %	1,938,150	57.1 %
Medicare	744,207	20.5	693,263	20.4
Medicare managed care	325,320	9.0	288,978	8.5
Medicaid	396,306	10.9	369,566	10.9
Self-pay patients	6,599	0.2	6,458	0.2
Other third-party payors	109,408	3.0	98,174	2.9
Total	$ 3,631,391	100.0 %	3,394,589	100.0 %

The Health System has entered into payment agreements with third-party payors, and payment arrangements by primary payor include the following:

a) Medicare – charges for healthcare services are generally paid at prospectively determined rates based on clinical, diagnostic and other factors.

b) Medicaid – charges for healthcare services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

c) Commercial - agreements with commercial insurance carriers and managed care organizations provide for payments based on predetermined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Health System recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Health System recognizes revenue on the basis of its discounted rates. Uninsured patients automatically receive a discount from billed charges (only medically necessary services are eligible). On the basis of historical experience, a significant portion of the Health System's uninsured patients who do not qualify for charity care will fail to pay for the services provided. Thus, the Health System records significant implicit price concessions related to uninsured patients in the period the services are provided. The Health System analyzes historical collections and write-offs and identifies trends for each of its major payor sources of revenue to estimate the transaction price for patients. After the initial estimated transaction price is recorded, subsequent changes to the transaction price are recorded as adjustments to net patient service revenue in the period of the change. For fiscal years 2019 and 2018, adjustments arising for changes in implicit price concessions related to prior period performance obligations were not material.

(Continued)

(In thousands)

Net patient service revenue includes variable consideration for estimated retroactive adjustments under reimbursement agreements with governmental programs. Adjustments are accrued on an estimated basis in the period the related services are rendered and retroactively adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are identified. The effects of these retroactive adjustments are to increase net patient service revenue by $4,600 and $2,611 in fiscal years 2019 and 2018, respectively. The amounts due to and from governmental programs (Medicare and Medicaid) for final settlement of reimbursements are determined based upon cost reports filed annually with the respective programs. The reports for all years through June 30, 2007 for Medicare and June 30, 2014 for Medicaid have been substantially resolved with the Medicare Administrative Contractor and NC Department of Health and Human Services, respectively. In the opinion of management, adequate provisions have been made in the accompanying consolidated financial statements for adjustments that may result from final settlements of reimbursable amounts. The Health System, in part through its Compliance Program, seeks to ensure compliance with governmental program rules. The effects of retroactive adjustments from the compliance and other reviews are to reduce net patient service revenue by $1,621 and $938 in fiscal years 2019 and 2018, respectively.

The Health System receives supplemental Medicaid payments from the State of North Carolina through a federally approved disproportionate share hospital program (Medicaid DSH). Medicaid DSH payments are part of the Medicaid Program and are designed to offset a portion of the Medicaid losses incurred. Amounts recognized in the Health System's accompanying consolidated financial statements related to supplemental Medicaid follows:

		2019	2018
Supplemental Medicaid amounts included in net patient service revenue	$	199,697	196,090
Medicaid assessments included in other operating expenses		(80,888)	(81,215)
Net supplemental Medicaid revenue in operating income	$	118,809	114,875
Net receivable from supplemental Medicaid included in estimated third-party payor settlements, net	$	102	100

There can be no assurance that the Health System will continue to qualify for future participation in this program or that the program will not be discontinued or materially modified.

(Continued)

(In thousands)

The Health System grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at June 30 is as follows:

	2019	2018
Commercial payors	40.9 %	41.2 %
Medicare	20.7	21.5
Medicare managed care	13.8	12.1
Medicaid	13.4	14.2
Self-pay patients	2.8	3.1
Other third-party payors	8.4	7.9
	100.0 %	100.0 %

(4) Charity Care and Other Community Benefits

The Health System provides services at no charge or at substantially discounted rates to patients who are approved under the guidelines of its financial assistance policy. The Health System does not pursue collection of amounts determined to qualify as charity care. Services qualifying for charity care consideration include emergent and medically necessary services as determined by a Health System physician. Patient household income in relation to the federal poverty guidelines is included in the determination for charity care qualification.

While charity care is excluded from net patient revenue and receivables, the Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone and estimated costs incurred for services and supplies furnished under its financial assistance policy and other equivalent service statistics. Costs incurred are estimated based on the ratio of total operating expenses to gross charges applied to charity care charges. The Health System received gifts and grants of $129 and $125 in 2019 and 2018, respectively, to subsidize charity care.

In addition to charity care, the Health System provides services under the Medicare and Medicaid programs, medical education (for which payments received from Medicare and Medicaid are less than the full cost of providing these activities), and research activities. The Health System also provides both in-kind service contributions and direct support payments to Lincoln Community Health Center (LCHC) and the Durham Emergency Medical Services (EMS). LCHC is an outpatient clinic serving the Durham County, North Carolina community, supported in part by a U.S. Public Service Grant. EMS serves as the primary provider of emergency ambulance service in Durham County and is a unit of the Durham County government.

(In thousands)

The Health System estimates charity care and other community benefits in accordance with Internal Revenue Code Section 501(r). Estimates of the cost of charity care and other community benefits provided during the years ended June 30 are as follows:

		2019	2018
Charity care at cost	$	118,461	97,700
Unreimbursed Medicaid		94,945	95,186
Total charity care and means-tested programs		213,406	192,886
Health professionals education		70,779	69,202
Cash and in-kind contributions to community groups		12,237	12,355
Total other benefits		83,016	81,557
Total charity care and other community benefits at cost	$	296,422	274,443

In addition to the above total charity care and other community benefits reported on Internal Revenue Service (IRS) Form 990, Schedule H, the Health System also provided services under the Medicare program for which payments received were less than the full cost of providing the services. The estimated unreimbursed costs attributable to providing services under Medicare are $277,157 and $255,540 for the years ended June 30, 2019 and 2018, respectively. The Health System provides additional uncompensated care in the form of implicit price concessions (formerly considered bad debts prior to the adoption of ASU 2014-09). Estimated uncompensated costs associated with these uncollectible patient accounts were $23,801 and $22,125 for June 30, 2019 and 2018, respectively.

(5) Cash and Investments

The following is a summary of cash and investments included in accompanying consolidated balance sheets at June 30:

		2019	2018
Cash and cash equivalents	$	250,947	277,957
Short-term investments		562,095	385,129
Investments		3,244,196	3,229,495
Cash and investments available for operations		4,057,238	3,892,581
Assets limited as to use, current		17,334	19,565
Assets limited as to use, noncurrent		86,438	81,263
Less: receivables and other assets included in assets limited as to use		(4,660)	(5,621)
Total cash and investments	$	4,156,350	3,987,788

(Continued)

(In thousands)

The Health System invests through separate accounts and commingled vehicles (including limited partnerships). The fair value of cash and investments consists of the following at June 30:

	2019	2018	Unfunded commitments[3]	Redemption frequency (in days)	Redemption notice period (in days)
Cash and cash equivalents	$ 264,956	291,439	—	daily	1
Deposits with bond trustees	886	839	—	N/A	N/A
Short-term investments	562,095	388,083	—	daily	1
Fixed income	498,361	626,301	—	1 to 30	1 to 30
Equities	633,972	658,201	—	1 to 90	1 to 90
Hedged strategies	997,234	973,980	554	30 to > 365	2 to 100
Private capital	723,198	586,198	272,783	N/A	N/A
Real assets	386,809	387,155	160,227	N/A	N/A
Other	88,839	75,592	—	N/A	N/A
Total cash and investments [1,2]	4,156,350	3,987,788	$ 433,564		
Less: cash and investments included in assets limited as to use	(99,112)	(95,207)			
Cash and investments available for operations	$ 4,057,238	3,892,581			

1 Includes the Health System's participation in pooled assets of $304,278 and $329,604 at June 30, 2019 and 2018, respectively, which are managed by DUMAC.

2 Includes unspent net proceeds from the issuance of the 2017 taxable bonds on June 6, 2017 of $204,589 at June 30, 2018.

3 Future commitments likely to be called at various dates through 2023. The Health System expects to finance these commitments with available cash and expected proceeds from the sales of securities.

The Health System's investment classes are described in further detail below. Classes include direct holdings, which are generally marketable securities, or interest in funds, which are stated at NAV as a practical expedient for estimated fair value for which the related investment strategies are described.

Short-term investments include short-term U.S. Treasury, agency, corporate, and other highly liquid debt securities with an aggregate duration of less than a year. Short-term investments of $(3,174) and $22,642 at June 30, 2019 and 2018, respectively, were posted (held) as collateral under derivative agreements (including both debt and investment derivatives) and thus are not readily available for use.

(Continued)

Fixed income includes U.S. Treasury debt securities with maturities of more than one year and funds that invest in these types of investments and nongovernment U.S. and non-U.S. debt securities.

Equities includes U.S. and non-U.S. stocks and interests in funds that invest predominantly long but also short stocks and in certain cases are nonredeemable. The allocation by market is approximately: 25% domestic, 30% developed international, 30% emerging international, and 15% global.

Hedged strategies include interests in funds that invest both long and short in U.S. and non-U.S. stocks, credit-oriented securities and arbitrage strategies. Approximately 80% of the hedged strategies portfolio is invested through equity oriented strategies, 10% through credit strategies, and 10% through multi-strategy funds. Virtually all of the Health System's investments in these funds are redeemable, and the underlying assets of the funds are predominately marketable securities and derivatives.

Private capital primarily includes interest in funds or partnerships that hold illiquid investments in venture capital, buyouts, and credit. Certain private placement securities may also be held. These funds typically have periods of 10 or more years during which committed capital may be drawn. Distributions are received through liquidation of the underlying assets of the funds, which are anticipated to occur over the next 4 to 10 years.

Real assets include interests in funds or partnerships that hold illiquid investments in residential and commercial real estate, oil and gas production, energy, other commodities, and related services businesses. Additionally, certain liquid commodity- and real-estate related equities, private placement securities and related derivatives are included. These funds typically have periods of 10 or more years during which committed capital may be drawn. Distributions are received through liquidations of the underlying assets of the funds, which are anticipated to occur over the next 5 to 12 years.

The Health System's investments are exposed to several risks, including liquidity, currency, interest rate, credit, and market risks. The Health System attempts to manage these risks through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Health System's consolidated financial statements.

The Health System may participate in programs to lend securities to brokers. To limit risk, collateral is posted and maintained daily at 100% to 105% of the market value of the lent securities depending on the type of security. Collateral generally is limited to cash, government securities, and irrevocable letters of credit. Both the Health System and security borrowers have the right to terminate a specific loan of securities at any time. The Health System receives lending fees and continues to earn interest and dividends on the loaned securities.

(In thousands)

The Health System's total investment return for the years ended June 30 is detailed below:

		2019	2018
Net realized gains from sales of investments	$	92,777	143,244
Net unrealized gains		58,892	163,836
Total net gains		151,669	307,080
Investment income		38,183	30,174
Investment gains		189,852	337,254
Net realized losses on debt derivatives		(8,006)	(11,409)
Net unrealized (losses) gains on debt derivatives		(20,387)	24,590
Total investment return	$	161,459	350,435

Investment return is classified in the consolidated statements of operations and changes in net assets as follows:

		2019	2018
Other operating revenue	$	7,394	7,273
Nonoperating income		153,383	341,109
Increase in net assets with donor restrictions		682	2,053
Total investment return	$	161,459	350,435

A summary of assets limited as to use and externally restricted funds at June 30 is as follows:

		2019	2018
Assets limited as to use:			
Deposits with bond trustees	$	885	839
Investment securities posted as collateral for debt derivative marks-to-market		—	2,954
Cash, receivables and investments designated to settle estimated professional liability costs		42,238	38,408
Externally restricted assets		60,649	58,627
Total assets limited as to use		103,772	100,828
Less: current portion of assets limited as to use		(17,334)	(19,565)
Assets limited as to use, excluding current portion	$	86,438	81,263

(Continued)

(In thousands)

(6) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30, 2019 include the following:

Cash and cash equivalents	$	250,947
Patient accounts receivable, net		460,543
Other receivables		37,473
Due from the University, net		2,477
Short-term investments		562,095
Noncurrent investments		2,127,191
Total	$	3,440,726

The Health System manages its financial assets to be available as its operating expenditures, liabilities, and other obligations become due. The Health System invests cash in excess of daily requirements in short-term, highly liquid investments. Although the noncurrent investments disclosed in the table above are intended to be held long-term, management could utilize those investments within the next year if deemed necessary. In addition, the Health System maintains a $50,000 line of credit with a commercial bank, with no outstanding borrowing as of June 30, 2019, available to meet unanticipated liquidity needs.

(7) Property and Equipment

A summary of property and equipment at June 30 is as follows:

		2019	2018
Buildings and utilities	$	1,844,219	1,764,590
Furnishings and equipment		935,827	877,512
Buildings and equipment under capital lease obligations		131,401	128,441
Computer software		364,739	354,252
Depreciable property and equipment		3,276,186	3,124,795
Less accumulated depreciation and amortization		(1,980,987)	(1,837,182)
Depreciable property and equipment, net		1,295,199	1,287,613
Land and land improvements		141,306	137,727
Construction in progress		314,690	146,886
Property and equipment, net	$	1,751,195	1,572,226

(Continued)

(In thousands)

The following table summarizes other property and equipment information for fiscal years 2019 and 2018:

	2019	2018
Depreciation expense	$ 157,446	156,603
Amortization of capital leases	5,512	4,160
Capital leases' accumulated amortization	34,452	28,860

(8) Indebtedness

A summary of indebtedness at June 30 is as follows:

Series	Underlying structure	Mandatory tender date[1]	Fiscal year of maturity	Effective interest rate	Outstanding principal 2019	Outstanding principal 2018
Tax-exempt revenue bonds:						
2005A	Direct placement	06/01/2028	2028	2.83%	$ 79,470	85,680
2005B	Direct placement	05/29/2023	2028	2.47	25,725	27,735
2006A/B/C	Direct placement	03/19/2025	2039	2.29	121,620	121,620
2012B	Direct placement	06/01/2023	2023	3.07	23,490	28,650
2016B	Direct placement	05/26/2026	2042	2.73	90,000	90,000
2016C	Direct placement	05/26/2026	2042	2.59	90,000	90,000
	Total variable rate				430,305	443,685
2012A	Fixed rate	N/A	2042	4.73	276,275	277,280
2016A	Fixed rate	N/A	2028	2.01	134,145	143,520
2016D	Fixed rate	N/A	2042	3.50	125,100	125,100
Taxable bonds:						
2017	Fixed rate	N/A	2047	3.92	600,000	600,000
	Total fixed rate				1,135,520	1,145,900
	Total indebtedness				1,565,825	1,589,585
	Plus unamortized premium - net				50,634	56,207
	Less unamortized debt issuance costs - net				(17,142)	(17,997)
	Indebtedness, net				1,599,317	1,627,795
	Less current portion				(24,925)	(23,760)
	Indebtedness, net of current portion				$ 1,574,392	1,604,035

[1] Represents the date upon which the bonds are currently subject to mandatory tender by the bank.

(Continued)

(In thousands)

All Duke University Health System, Inc. Tax Exempt Revenue Bonds were issued by the North Carolina Medical Care Commission (NCMCC). The Health System is obligated to make payments of principal and interest that correspond to the obligations of the NCMCC under the bond agreements. The aggregate annual maturities of indebtedness for each of the five fiscal years subsequent to June 30, 2019 and thereafter are as follows:

2020	$	24,925
2021		25,970
2022		27,120
2023		28,350
2024		30,360
Thereafter		1,429,100
Total	$	1,565,825

The Health System must remain compliant with certain covenants and restrictions required by the trust indentures underlying its revenue bonds. These covenants include maintaining a required debt service coverage ratio and a specific liquidity target, as well as other nonfinancial restrictions.

(9) Derivatives and Other Financial Instruments

(a) Debt Derivatives

The Health System has executed derivative financial instruments in the normal course of managing its debt portfolio. The Health System has three interest rate swap agreements that are designed to synthetically decrease the variable rate exposure associated with its portfolio of indebtedness. In addition, the Health System has one basis swap designed to reduce the interest rate risk on variable rate indebtedness by utilizing the spread between the yield curves for taxable debt securities and tax-exempt municipal debt securities.

The following summarizes the general terms for each of the Health System's swap agreements:

Effective date	Associated debt series	Original term		Current notional amount	Health System pays	Health System receives
Interest rate:						
August 12, 1993	2012B	30 years	$	23,490	5.090%	SIFMA
May 19, 2005	N/A	23 years		238,400	3.601	61.52% of one-month LIBOR plus 0.28%
April 1, 2009	Portfolio[1]	30 years		127,505	4.107	67.00% of one-month LIBOR
Basis:						
July 6, 2001	N/A	20 years	$	400,000	SIFMA	72.125% of one-month LIBOR

[1] The notional amount of the April 2009 Interest Rate Swap declines coincidentally with the principal for Series 2006 bonds. The residual portion is $5,885.

(Continued)

(In thousands)

The fair value of each swap is the estimated amount the Health System would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value is included in derivative instruments on the consolidated balance sheets, while the change in fair value and the net settlement amount incurred on the swaps are included as a gain or loss in investment income on the consolidated statements of operations. The debt derivative instruments contain cross-collateralization provisions that require each counterparty to post collateral if the fair value meets certain thresholds.

The related financial information on each of these instruments at June 30 is as follows:

	Financial Information Related to Debt Derivative Instruments					
	2019			2018		
	Fair value [1]	Unrealized gain or (loss) recognized in income [2]	Realized gain or (loss) recognized in income [2]	Fair value [1]	Unrealized gain or (loss) recognized in income [2]	Realized gain or (loss) recognized in income [2]
Derivatives not designated as hedging instruments under ASC Topic 815:						
August 1993:						
Interest rate swap	$ (2,191)	355	(995)	$ (2,546)	1,491	(1,142)
May 2005:						
Interest rate swap	(27,512)	(5,090)	(4,743)	(22,422)	12,100	(6,623)
April 2009:						
Interest rate swap	(47,325)	(15,547)	(2,911)	(31,778)	9,171	(3,540)
July 2001:						
Basis swap	580	(105)	643	685	1,828	(104)
Total derivatives not designated as hedging instruments	$ (76,448)	(20,387)	(8,006)	$ (56,061)	24,590	(11,409)

[1] Balance sheet classification is noncurrent derivative instruments.

[2] The unrealized and realized gain (loss) on derivative instruments recognized in income is included in nonoperating investment income.

Health System debt derivative instruments contain provisions requiring long term, unsecured debt to be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service, major rating agencies. If the ratings of the Health System's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. At June 30, 2019 and 2018, the Health System's long term debt ratings exceeded these requirements. The aggregate fair value of all derivative instruments with credit risk related contingent features that are in a liability position on June 30, 2019 and 2018 is $77,028 and $56,746, respectively, for which the Health System has posted collateral of $0 and $2,954, respectively, in the normal course of business. If the credit risk related features underlying these agreements were triggered on June 30, 2019 and 2018, the Health System would be required to post an additional $77,028 and $53,792, respectively, of collateral to its counterparties.

(Continued)

(In thousands)

The Health System is exposed to financial loss in the event of nonperformance by a counterparty to any of the financial instruments described above. General market conditions could impact the credit standing of the counterparties and, therefore, potentially impact the value of the instruments on the Health System's consolidated balance sheets. The Health System controls this counterparty risk by considering the credit rating, business risk, and reputation of any counterparty before entering into a transaction, monitoring for any change in credit standing of its counterparty during the life of the transaction, and requiring collateral be posted when predetermined thresholds are crossed. The Health System is also exposed to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis swap.

(b) Investment Derivatives

Investment strategies employed by DUMAC and investment managers retained by DUMAC incorporate the use of various derivative financial instruments with off balance sheet risk. DUMAC uses these instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. Positions are expected to create gains or losses that, when combined with the applicable portion of the total investment portfolio, provide an expected result.

The following table provides the net notional amounts and fair value of the Health System's investment derivative activities at June 30, 2019 and 2018. It also provides the net income amounts included in investment income during fiscal years 2019 and 2018.

		2019	2018	Location in financial statements
Net notional amounts	$	3,364,054	2,925,380	N/A
Derivative assets		67,614	47,400	Investments
Derivative liabilities		(37,712)	(25,870)	Investments
Net (loss) income		(18,974)	23,807	Investment income
Posted collateral		(3,174)	19,688	Short-term investments

(10) Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, *Fair Value Measurement*, establishes a three-level fair value hierarchy that 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 measurements involving significant unobservable inputs (Level 3 measurements). The classification of an investment within the hierarchy is based upon the pricing transparency or ability to redeem the investment and does not necessarily correspond to the perceived risk of that investment. Inputs are used in applying various valuation techniques that are assumptions, which market participants use to

(In thousands)

make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates, and other factors.

Assets and liabilities measured and reported at fair value are classified within the fair value hierarchy as follows:

Level 1 – Valuations based on quoted market prices in active markets.

Level 2 – Investments that trade in markets that are considered to be active, but are based on dealer quotations or alternative pricing sources supported by observable inputs, or 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.

Level 3 – Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all.

The following is a summary of the levels within the fair value hierarchy for the Health System's financial assets and liabilities measured at fair value:

	June 30, 2019	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 264,956	264,956	—	—	—
Deposits with bond trustees	886	886	—	—	—
Short-term investments	562,095	455,420	106,675	—	—
Fixed income	498,361	35,576	359,488	14,095	89,202
Equities	633,972	399,322	6,264	—	228,386
Hedged strategies	997,234	8,290	11,891	—	977,053
Private capital	723,198	1,105	—	77,956	644,137
Real assets	386,809	8,222	5,535	8,099	364,953
Other	88,839	(190)	47,539	—	41,490
Total investment assets	4,156,350	1,173,587	537,392	100,150	2,345,221
Basis swap derivative	580	—	580	—	—
Total assets	$ 4,156,930	1,173,587	537,972	100,150	2,345,221
Liabilities:					
Interest rate derivatives	$ 77,028	—	77,028	—	—

[1] Fund investments reported at NAV as a practical expedient estimate of fair value at June 30, 2019.

(Continued)

(In thousands)

	June 30, 2018	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 291,439	291,439	—	—	—
Deposits with bond trustees	839	839	—	—	—
Short-term investments	388,083	74,180	313,903	—	—
Fixed income	626,301	128,456	449,312	—	48,533
Equities	658,201	370,696	3,445	—	284,060
Hedged strategies	973,980	9,351	11,737	—	952,892
Private capital	586,198	461	—	61,193	524,544
Real assets	387,155	10,641	334	8,240	367,940
Other	75,592	60	37,695	—	37,837
Total investment assets	3,987,788	886,123	816,426	69,433	2,215,806
Basis swap derivative	685	—	685	—	—
Total assets	$ 3,988,473	886,123	817,111	69,433	2,215,806
Liabilities:					
Interest rate derivatives	$ 56,746	—	56,746	—	—

[1] Fund investments reported at NAV as a practical expedient estimate of fair value at June 30, 2018.

The following methods and assumptions are used by the Health System in estimating the fair value of each class of financial instruments:

Cash and cash equivalents, patient accounts receivable, other receivables, accounts payable, accrued salaries, wages, and vacation payable and related accruals, estimated third-party payor settlements, and other liabilities: The carrying amounts approximate fair value because of the short maturity of these instruments.

Investments and deposits with bond trustees: Reported at fair value as of the date of the consolidated financial statements.

Capital lease obligations: Estimated as the present value of future minimum lease payments during the lease term.

Derivative instruments: Based on a mid-market position obtained from the swap counterparties. The Health System engages a management advisor to validate the reasonableness of the swaps' recorded fair value. Collateral posting requirements are determined each month using the mid-market positions.

(Continued)

(In thousands)

The following tables present additional information about Level 3 financial instruments measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Health System has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

	Balance as of June 30, 2018	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers out	Balance as of June 30, 2019
Asset category:						
Fixed income	$ —	(239)	19,169	(4,835)	—	14,095
Private capital	61,193	19,505	9,844	(9,611)	(2,975)	77,956
Real assets	8,240	(141)	—	—	—	8,099
Total	$ 69,433	19,125	29,013	(14,446)	(2,975)	100,150

	Balance as of June 30, 2017	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers out	Balance as of June 30, 2018
Asset category:						
Private capital	$ 41,724	12,209	15,989	(8,729)	—	61,193
Real assets	4,594	29	3,766	(149)	—	8,240
Total	$ 46,318	12,238	19,755	(8,878)	—	69,433

The change in net unrealized gains (losses) related to Level 3 assets still held at June 30, 2019 and 2018 was $23,190 and $10,109, respectively. During fiscal years 2019 and 2018, there were net transfers of $2,975 and $0, respectively, between Level 3 investments and investments reported at NAV. There were no transfers between Level 1 and Level 2 investments during fiscal years 2019 and 2018.

(11) Professional Liability Risk Program

The accompanying consolidated financial statements include the assets and liabilities of DCC, a wholly owned subsidiary of the Health System that insures a portion of the medical malpractice risks and patient general liability risks of Health System clinical providers and the PDC. Policy limits were $110,000 per incident for fiscal years ended June 30, 2019 and 2018 and $145,000 in the aggregate for fiscal years ended June 30, 2019 and 2018. DCC limits its exposure to loss through reinsurance and excess loss agreements.

(Continued)

Estimated professional liability costs include the estimated cost of professional liability in fiscal years 2019 and 2018 for reported claims incurred in the DCC program. DCC evaluates its estimated professional liability on a discounted actuarial basis. The discount rate at June 30, 2019 and 2018 is 3.5%. Accrued professional liability costs excluding estimated incurred but not reported claims as of June 30, 2019 and 2018 amounted to $42,238 and $38,408, respectively. Cash, other receivables, and investments in this amount have been designated by the Health System to settle these claims. Also included in estimated professional liability costs are estimated claims incurred but not reported related to the Health System in the amounts of $6,276 and $7,000 as of June 30, 2019 and 2018, respectively.

The estimated liability for professional and patient general liability claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its professional and general liability accruals, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicate the estimation. In the opinion of management, adequate provision has been made for this related risk.

(12) Benefit Plans

(a) Pension and Retirement Plans

Staff members of the Health System are eligible to participate in the University's defined contribution retirement plan. For the years ended June 30, 2019 and 2018, the Health System contributed approximately $53,800 and $49,000, respectively, to this plan, which is reported in salaries, wages, and benefits expense in the consolidated statements of operations. The Health System expects to contribute $57,000 to this plan in fiscal year 2020.

In addition, other full time Health System employees participate in the University's noncontributory defined benefit pension plan (ERP). The benefits for the defined benefit plan are based on years of service and the employee's compensation during the last ten years of employment. The Health System expects to contribute $16,800 to this plan in fiscal year 2020. The allocation of the prepaid pension asset or pension liability between the University and the Health System is based primarily on compensation expense of covered employees. Health System staff represent approximately 76% of the total University's defined benefit pension plan for fiscal years 2019 and 2018.

(b) Postretirement Medical Plan

In addition to the Health System's pension plans, the Health System sponsors an unfunded, defined benefit postretirement medical plan that covers all of its full time employees who elect coverage and satisfy the plan's eligibility requirements when they retire. The plan is contributory with retiree contributions established as a percentage of the total cost for retiree healthcare and for the healthcare of their dependents. The Health System pays all benefits on a current basis. Employees hired after June 30, 2002 are not eligible for Health System contribution to the cost of this benefit and must bear the full cost themselves if elected at retirement. As a healthcare provider, the Health System utilizes an incremental cost approach to determine its liability for the postretirement medical plan. The total liability reflects estimated additional costs to provide healthcare benefits to retirees within the Health System

(Continued)

(In thousands)

plus the full cost to provide healthcare benefits to retirees at facilities other than Health System facilities.

(c) Pension and Postretirement Medical Plans

The measurement date for both the defined benefit pension plan and the postretirement health benefit plan is June 30. Pension and postretirement expense, pension contributions, and the associated liabilities are included in the following tables, which provide a reconciliation of the changes in the Health System's portion of the plans' benefit obligations and fair value of assets for the years ended June 30:

	Pension benefits		Postretirement benefits	
	2019	**2018**	**2019**	**2018**
Reconciliation of projected benefit obligation:				
Obligation at beginning of year	$ 1,268,427	1,312,550	78,523	77,838
Service cost	53,880	57,071	890	743
Interest cost	53,122	48,593	3,245	2,851
Amendments	—	5,608	—	—
Actuarial loss (gain)	155,840	(120,100)	10,358	712
Benefits payments	(36,710)	(33,095)	(4,348)	(3,621)
Administrative expenses (estimated)	(3,501)	(2,200)	—	—
Projected benefit obligation at end of year	$ 1,491,058	1,268,427	88,668	78,523
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 1,075,610	985,355	—	—
Actual return on plan assets	62,044	108,555	—	—
Employer contributions	17,918	16,849	—	—
Benefits payments	(36,710)	(33,095)	—	—
Administrative expenses	(3,682)	(2,054)	—	—
Fair value of plan assets at end of year	$ 1,115,180	1,075,610	—	—
Funded status:				
Net accrued benefit liability	$ (375,878)	(192,817)	(88,668)	(78,523)

(Continued)

(In thousands)

The pension and postretirement benefits expected to be paid for the ten years subsequent to June 30, 2019 are as follows:

	Pension benefits	Postretirement benefits
2020	$ 40,023	4,137
2021	42,813	4,300
2022	46,157	4,506
2023	50,043	4,679
2024	54,185	4,853
2025-2029	338,582	26,760

The expected benefits to be paid are based on the same assumptions used to measure the Health System's benefit obligation at June 30 and include estimated future employee service.

The following table provides the components of net periodic benefit cost for the plans for the years ended June 30:

	Pension benefits		Postretirement benefits	
	2019	2018	2019	2018
Service cost	$ 53,880	57,071	890	743
Interest cost	53,122	48,593	3,245	2,851
Expected return on plan assets	(79,360)	(74,779)	—	—
Amortization of prior-service cost	1,208	847	—	—
Recognized actuarial loss	—	6,563	—	—
Net periodic benefit cost	$ 28,850	38,295	4,135	3,594

(Continued)

(In thousands)

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. The expected amortization of prior-service cost for fiscal year 2020 is $907 and $0 for the pension benefits and postretirement benefits, respectively. The expected amortization of actuarial losses for fiscal year 2020 is $8,548 and $129 for the pension and postretirement benefits, respectively. Included in net assets without donor restrictions are the following amounts that have not been recognized in net periodic benefit cost at June 30, 2019 and 2018, respectively:

	Pension benefits		Postretirement benefits	
	2019	2018	2019	2018
Unrecognized prior service cost	$ 6,606	7,814	—	—
Unrecognized actuarial losses (gains)	245,866	72,529	4,085	(6,273)

The assumptions used in the measurement of the Health System's benefit obligation and benefit cost are shown in the following table:

	Pension benefits				Postretirement benefits			
	2019		2018		2019		2018	
	Obligation	Cost	Obligation	Cost	Obligation	Cost	Obligation	Cost
Weighted average assumptions as of measurement date:								
Discount rate	3.60%	4.25%	4.25%	3.75%	3.48%	4.25%	4.25%	3.75%
Expected return on plan assets	N/A	7.5%	N/A	7.5%	N/A	N/A	N/A	N/A
Rate of compensation increase	3.0%/2.0%[1]	3.0%/2.0%[1]	3.0%/2.0%[1]	2.5%	N/A	N/A	N/A	N/A

[1]Compensation increase for first 20 years of service/thereafter

In order to determine the benefit obligation as of June 30, 2019, the per capita costs of covered healthcare benefits was assumed to increase 8.0% for non-Medicare eligible employees and 7.9% for Medicare eligible employees, declining to an ultimate annual rate of increase of 4.5% by 2035 for non-Medicare and 2030 for Medicare eligible employees. The benefit expense for fiscal year 2019 was driven by the rates of increase used to determine the benefit obligation as of June 30, 2018, which were 8.0% for non-Medicare eligible employees and 8.3% for Medicare eligible employees, declining to an ultimate annual rate of increase of 5.0% by 2033 for non-Medicare and 2028 for Medicare eligible employees.

(Continued)

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A 1.0% change in assumed healthcare cost trend rates would have the following effects:

	One percentage increase	One percentage decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 594	(463)
Effect on the healthcare component of the accumulated postretirement benefit obligation	11,867	(9,600)

The defined benefit pension plan's investment strategy focuses on maximizing total return and places limited emphasis on liability matching and no emphasis on generating income. Over the long term, the plan's average exposure target is 48% equity (public and private investments in companies), 9% commodity (direct commodity exposure, commodity related equities, and private investments in energy, power, infrastructure and timber), 9% real estate (private real estate and REITs), 15% credit (investment-grade bonds, corporate bonds, bank debt, asset backed securities, etc.), 13% absolute return oriented strategies, 4% rates (public obligations including treasuries and agencies) and 2% U.S. Treasury Inflation Protected Securities.

The expected return on plan assets is established at an amount that reflects the targeted asset allocation and expected returns for each component of the plan assets. The expected return on pension plan assets was developed using a stochastic forecast model of long term expected returns for each asset class. The rate is reviewed periodically and adjusted as appropriate to reflect changes in the expected market performance or in targeted asset allocation ranges.

(Continued)

(In thousands)

The same levels of the fair value hierarchy as described in note 10 are used to categorize the pension plan assets. The Health System's portion of the assets was initially based on the Health System's employee liability as of June 30, 2008 and rolled forward each fiscal year using the Health System's associated employee benefit payments since fiscal year 2008. The fair value of the Health System's portion of assets available for pension benefits as of the June 30 measurement date is as follows:

	June 30, 2019	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Asset category:					
Short-term investments	$ 62,898	26,224	36,674	—	—
Fixed income	159,662	20,627	115,435	—	23,600
Equities	176,435	126,827	2,146	—	47,462
Hedged strategies	259,848	1,576	—	—	258,272
Private capital	291,843	627	—	30,401	260,815
Real assets	157,579	2,801	1,695	—	153,083
Other investments	6,915	(4,620)	11,535	—	—
	$ 1,115,180	174,062	167,485	30,401	743,232

[1] Fund investments reported at NAV as a practical expedient estimate of fair value.

	June 30, 2018	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Asset category:					
Short-term investments	$ 61,108	22,138	38,970	—	—
Fixed income	136,883	29,916	106,967	—	—
Equities	186,514	116,392	1,302	—	68,820
Hedged strategies	263,731	18,774	—	—	244,957
Private capital	252,599	203	—	24,281	228,115
Real assets	165,353	4,245	112	—	160,996
Other investments	9,422	(4,423)	13,845	—	—
	$ 1,075,610	187,245	161,196	24,281	702,888

[1] Fund investments reported at NAV as a practical expedient estimate of fair value.

(Continued)

(In thousands)

The following tables present additional information about the Level 3 financial instruments available for pension benefits measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Health System has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs:

	Balance as of June 30, 2018	Net realized and unrealized losses	Purchases	Sales	Net transfers out	Balance as of June 30, 2019
Private capital	$ 24,281	7,662	2,394	(3,015)	(921)	30,401

	Balance as of June 30, 2017	Net realized and unrealized losses	Purchases	Sales	Net transfers out	Balance as of June 30, 2018
Private capital	$ 17,930	5,073	4,728	(3,450)	—	24,281

The change in net unrealized gains (losses) related to Level 3 assets still held at June 30, 2019 and 2018 was $9,546 and $4,511, respectively, and was recorded within change in funded status of defined benefit plans on the consolidated statements of changes in net assets. During fiscal years 2019 and 2018, there were net transfers of $921 and $0, respectively, between Level 3 and investments reported at NAV.

At June 30, 2019 and 2018, the accumulated benefit obligation for pension benefits is $1,363,452 and $1,164,470, respectively, as compared to the fair value of the plan assets of $1,115,180 and $1,075,610, respectively. At June 30, 2019 and 2018, the plan is underfunded in relation to accumulated benefits by $(248,272) and $(88,860), respectively.

(Continued)

(In thousands)

(13) Functional Expenses

The Health System provides general healthcare services to residents within its geographic location. The following table presents expenses related to providing these services by both their nature and function for the year ended June 30, 2019 as follows:

		Healthcare services	General and administrative	Total
Salaries, wages, and benefits	$	1,158,661	530,947	1,689,608
Medical supplies		934,185	—	934,185
Interest		55,445	—	55,445
Depreciation and amortization		139,606	23,352	162,958
Other operating expenses		488,362	222,715	711,077
Total	$	2,776,259	777,014	3,553,273

Expenses related to healthcare services and general and administrative were $2,578,247 and $734,278, respectively, for the fiscal year ended June 30, 2018. The accompanying consolidated financial statements report certain natural expense classifications that are attributed to both healthcare services and general and administrative functions. Natural expenses attributed to more than one functional expense category are allocated using a variety of cost allocation techniques such as occupancy, services utilized, and time and effort.

(14) Commitments and Contingencies

(a) Leases

(i) Capital

The DRH facility lease, which is a forty year automatically renewing “evergreen” lease, is classified as a capital lease. The Health System made principal and interest payments for this lease of $8,337 and $9,667 in fiscal years 2019 and 2018, respectively.

(ii) Operating

The Health System leases various machinery, equipment, healthcare facilities, and office space under operating leases expiring at various dates through fiscal year 2037. Total rental expense in fiscal year 2019 for all operating leases is $42,647, consisting of $11,729 for machinery and equipment leases and $30,918 for facilities and office space leases. Total rental expense in fiscal year 2018 for all operating leases is $41,994, consisting of $10,445 for machinery and equipment leases and $31,549 for facilities and office space leases.

(Continued)

(In thousands)

(iii) Commitments

The following is a schedule by year of future minimum lease payments under leases as of June 30, 2019 that have initial or remaining lease terms in excess of one year and future minimum capital lease payments:

	Capital leases	Operating leases	Total
Year ending June 30:			
2020	$ 10,698	39,015	49,713
2021	10,862	35,372	46,234
2022	11,031	34,324	45,355
2023	10,849	28,538	39,387
2024	9,372	24,198	33,570
Thereafter	248,252	117,558	365,810
Total minimum lease payments	301,064	279,005	580,069
Less sublease rentals from the PDC	—	(18,232)	(18,232)
Total minimum lease payments less subleases	301,064	$ 260,773	561,837
Less: interest portion	(167,947)		
Capital lease obligations	133,117		
Less: current portion capital lease obligations	(3,105)		
Capital lease obligations, net of current portion	$ 130,012		

(b) Construction and Purchase Commitments

At June 30, 2019, open contracts for the construction of physical properties and other capital expenditures amounted to approximately $454,000 and outstanding purchase orders for normal operating supplies and equipment amounted to approximately $5,800.

(c) Line of Credit

The Health System has an agreement with a commercial bank for a line of credit providing unsecured advances to the Health System of up to $50,000 for working capital needs that expires as of June 30, 2020. At June 30, 2019 and 2018, there was no balance due under the agreement. Management expects to renew this line of credit annually under the same general terms and conditions as the existing facility.

(Continued)

(d) Self Insurance

The Health System provides employee healthcare benefits, long term disability benefits, unemployment benefits, and workers' compensation benefits primarily through employer contributions, participant contributions, and excess loss insurance and manages those programs through third party administrators. In the opinion of management, adequate provision has been made for the related risks.

(e) Legal Considerations

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. The Health System, in part through its Compliance Program, seeks to ensure compliance with such laws and regulations, and to rectify instances of noncompliance with governmental program (Medicare, Medicaid, and Tricare) rules. The Health System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Health System's consolidated financial statements. Compliance with such laws and regulations is subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

In addition to the above, the Health System is involved in various legal actions occurring in the normal course of business. While the final outcomes cannot be determined at this time, management is of the opinion that the resolution of these matters will not have a material adverse effect on the Health System's financial position.

(15) Subsequent Events

The Health System has evaluated subsequent events from the balance sheet date through September 30, 2019, the date on which the consolidated financial statements were issued, and determined that there are no other items to disclose.

Schedule 1

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Combined Group under April 13, 1999 Master Trust Indenture (MTI) and Consolidated

Combining and Consolidating Balance Sheet Information

June 30, 2019

(In thousands)

Assets	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Other MTI	MTI Combined Group	Duke Univ. Affiliated Physicians	Durham Casualty Company	Other Non-MTI	2019 total DUHS consolidated
Current assets:									
Cash and cash equivalents	$ (7)	—	—	230,660	230,653	—	20,161	133	250,947
Patient accounts receivable, net	345,827	41,545	51,839	7,947	447,158	10,609	—	2,776	460,543
Other receivables	16,701	1,872	4,118	11,515	34,206	1,321	—	1,946	37,473
Due from the University	(181,593)	(30,730)	(34,203)	244,508	(2,018)	3,590	(1,704)	2,609	2,477
Inventories of drugs and supplies	67,229	10,077	17,304	5,143	99,753	1,057	—	1,129	101,939
Other assets	2,650	663	434	32,496	36,243	235	—	393	36,871
Short-term investments	—	—	—	562,095	562,095	—	—	—	562,095
Assets limited as to use	—	—	—	—	—	—	17,334	—	17,334
Total current assets	250,807	23,427	39,492	1,094,364	1,408,090	16,812	35,791	8,986	1,469,679
Assets limited as to use	—	—	—	61,534	61,534	—	24,904	—	86,438
Investments	—	—	—	3,067,166	3,067,166	—	177,030	—	3,244,196
Property and equipment, net	1,004,480	192,903	224,503	269,877	1,691,763	50,796	—	8,636	1,751,195
Due from the University	—	—	—	288	288	—	—	—	288
Derivative instruments	—	—	—	580	580	—	—	—	580
Other noncurrent assets	—	—	21,466	24,440	45,906	—	—	2,794	48,700
Total assets	$ 1,255,287	216,330	285,461	4,518,249	6,275,327	67,608	237,725	20,416	6,601,076
Liabilities and Net Assets									
Current liabilities:									
Accounts payable	$ 88,574	18,578	31,354	39,691	178,197	3,204	100	6,815	188,316
Accrued salaries, wages, and vacation payable	80,375	18,052	17,283	53,196	168,906	22,611	—	12,362	203,879
Estimated third-party payor settlements, net	3,736	(817)	447	—	3,366	(919)	—	2,577	5,024
Current portion of postretirement and postemployment benefit obligations	—	—	—	7,404	7,404	—	—	—	7,404
Current portion of indebtedness	—	—	—	24,925	24,925	—	—	—	24,925
Current portion of capital lease obligations	—	—	—	3,105	3,105	—	—	—	3,105
Current portion of estimated professional liability costs	—	—	—	—	—	—	17,334	—	17,334
Other current liabilities	11,570	2,145	1,520	20,782	36,017	985	—	1,273	38,275
Total current liabilities	184,255	37,958	50,604	149,103	421,920	25,881	17,434	23,027	488,262
Postretirement and postemployment benefit obligations, net of current portion	—	—	—	470,164	470,164	—	—	—	470,164
Indebtedness, net of current portion	—	—	—	1,574,392	1,574,392	—	—	—	1,574,392
Capital lease obligations, net of current portion	—	—	—	129,517	129,517	—	—	495	130,012
Derivative instruments	—	—	—	77,028	77,028	—	—	—	77,028
Estimated professional liability costs, net of current portion	—	—	—	6,276	6,276	—	24,904	—	31,180
Other noncurrent liabilities	12,784	6,137	5,345	17,700	41,966	3,841	—	4,009	49,816
Total liabilities	197,039	44,095	55,949	2,424,180	2,721,263	29,722	42,338	27,531	2,820,854
Net assets:									
Without donor restrictions	1,058,248	172,235	229,512	2,033,420	3,493,415	37,886	195,387	(7,115)	3,719,573
With donor restrictions	—	—	—	60,649	60,649	—	—	—	60,649
Total net assets	1,058,248	172,235	229,512	2,094,069	3,554,064	37,886	195,387	(7,115)	3,780,222
Total liabilities and net assets	$ 1,255,287	216,330	285,461	4,518,249	6,275,327	67,608	237,725	20,416	6,601,076

See accompanying independent auditors' report.

Schedule 2

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Combined Group under April 13, 1999 Master Trust Indenture (MTI) and Consolidated

Combining and Consolidating Statement of Operations Information

Year ended June 30, 2019

(In thousands)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Other MTI	MTI Group eliminations	MTI Combined Group	Duke Univ. Affiliated Physicians	Durham Casualty Company	Other Non-MTI	Other eliminations	2019 total DUHS consolidated
Revenues, gains, and other support without donor restrictions:											
Net patient service revenue	$ 2,533,214	359,686	513,871	62,502	—	3,469,273	136,709	—	25,433	(24)	3,631,391
Other revenue	64,621	8,987	14,307	170,260	(118,667)	139,508	2,685	27,470	166,447	(130,715)	205,395
Total revenues, gains, and other support	2,597,835	368,673	528,178	232,762	(118,667)	3,608,781	139,394	27,470	191,880	(130,739)	3,836,786
Expenses:											
Salaries, wages, and benefits	831,882	172,554	149,106	296,107	—	1,449,649	123,742	—	116,217	—	1,689,608
Medical supplies	633,167	65,789	158,211	56,510	—	913,677	11,385	—	9,123	—	934,185
Interest	40,488	6,730	7,444	748	—	55,410	—	—	35	—	55,445
Depreciation and amortization	80,201	14,732	19,020	43,297	—	157,250	3,526	—	2,182	—	162,958
Other operating expenses	784,307	105,250	136,336	(173,788)	(118,667)	733,438	28,626	14,437	65,315	(130,739)	711,077
Total expenses	2,370,045	365,055	470,117	222,874	(118,667)	3,309,424	167,279	14,437	192,872	(130,739)	3,553,273
Operating income (loss)	227,790	3,618	58,061	9,888	—	299,357	(27,885)	13,033	(992)	—	283,513
Nonoperating income (loss):											
Investment income (loss)	4	—	—	154,690	—	154,694	—	(1,311)	—	—	153,383
Other	93	54	—	73	—	220	—	—	(151)	—	69
Total nonoperating income	97	54	—	154,763	—	154,914	—	(1,311)	(151)	—	153,452
Excess (deficit) of revenues over expenses	227,887	3,672	58,061	164,651	—	454,271	(27,885)	11,722	(1,143)	—	436,965
Change in funded status of defined benefit plans	(43,719)	(9,307)	(7,966)	(118,446)	—	(179,438)	(3,049)	—	—	—	(182,487)
Net assets released from restrictions for purchase of property and equipment	500	34	—	16	—	550	—	—	—	—	550
Intracompany transfers, net	(59,874)	22,354	(31,074)	31,296	—	(37,298)	36,465	—	833	—	—
Transfers (to) from the University, net	(99,711)	12	94	2,380	—	(97,225)	62	—	607	—	(96,556)
Increase (decrease) in net assets without donor restrictions	$ 25,083	16,765	19,115	79,897	—	140,860	5,593	11,722	297	—	158,472

See accompanying independent auditors' report.