DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements and Supplementary Schedules

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

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KPMG LLP
Suite 800
500 W 5th St
Winston-Salem, NC 27101

Independent Auditors' Report

Board of Directors
Duke University Health System, Inc. and Affiliates:

Opinion

We have audited the consolidated financial statements of Duke University Health System, Inc. and Affiliates (the Health System), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Health System as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Health System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted 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 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Winston-Salem, North Carolina
October 3, 2023

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Balance Sheets

June 30, 2023 and 2022

(Dollars in thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	115,088	161,284
Patient accounts receivable		623,984	550,509
Estimated third-party payor settlements, net		74,333	—
Other receivables		41,289	31,164
Inventories of drugs and supplies		122,981	143,050
Short-term investments		390,840	444,351
Assets limited as to use		22,108	17,045
Other current assets		57,366	46,037
Total current assets		1,447,989	1,393,440
Assets limited as to use		138,866	105,863
Investments		4,302,336	4,437,035
Property and equipment, net		2,163,362	2,274,057
Prepaid pension asset		—	83,654
Right-of-use operating lease assets		306,228	346,641
Other noncurrent assets		65,196	59,750
Total assets	$	8,423,977	8,700,440
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	202,645	233,469
Accrued salaries, wages, and vacation payable		264,882	269,906
Estimated third-party payor settlements, net		—	42,388
Current portion of postretirement and postemployment benefit obligations		8,657	8,850
Commercial paper		248,386	—
Current portion of long-term debt		32,987	30,963
Current portion of finance lease liabilities		7,984	9,864
Current portion of operating lease liabilities		22,778	28,202
Other current liabilities		47,985	82,563
Total current liabilities		836,304	706,205
Postretirement and postemployment benefit obligations, net of current portion		99,607	74,759
Long-term debt, net of current portion		1,455,042	1,491,073
Finance lease liabilities, net of current portion		133,022	160,635
Operating lease liabilities, net of current portion		310,769	344,280
Other noncurrent liabilities		114,182	121,665
Total liabilities		2,948,926	2,898,617
Net assets:			
Without donor restrictions		5,414,071	5,744,395
With donor restrictions		60,980	57,428
Total net assets		5,475,051	5,801,823
Total liabilities and net assets	$	8,423,977	8,700,440

See accompanying notes to consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Revenues, gains, and other support without donor restrictions:			
Patient service revenue	$	4,589,450	4,196,547
Other revenue		247,877	286,482
Total revenues, gains, and other support		4,837,327	4,483,029
Expenses:			
Employee compensation and temporary labor		2,474,569	2,215,310
Medical supplies		1,334,598	1,196,544
Interest		57,295	37,584
Depreciation and amortization		213,583	209,069
Other operating expenses		909,285	838,051
Total expenses		4,989,330	4,496,558
Operating loss		(152,003)	(13,529)
Nonoperating income (loss):			
Investment income (loss)		42,531	(88,170)
Nonoperating components of net periodic benefit cost		39,264	27,108
Other		(8,067)	(4,531)
Total nonoperating income (loss)		73,728	(65,593)
Deficit of revenues over expenses		(78,275)	(79,122)
Change in funded status of defined benefit plans		(119,082)	341,027
Net assets released from restrictions for purchase of property and equipment		85	16,460
Transfers to the University, net		(133,052)	(137,839)
(Decrease) increase in net assets without donor restrictions	$	(330,324)	140,526

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, 2023 and 2022

(Dollars in thousands)

		2023	2022
Net assets without donor restrictions:			
Deficit of revenues over expenses	$	(78,275)	(79,122)
Change in funded status of defined benefit plans		(119,082)	341,027
Net assets released from restrictions for purchase of property and equipment		85	16,460
Transfers to the University, net		(133,052)	(137,839)
(Decrease) increase in net assets without donor restrictions		(330,324)	140,526
Net assets with donor restrictions:			
Contributions for restricted purposes		10,278	5,160
Transfers from (to) the University, net		5	(61)
Net assets released from restrictions used for operations		(4,468)	(3,467)
Net assets released from restrictions for purchase of property and equipment		(85)	(16,460)
Net realized and unrealized losses		(2,178)	(2,443)
Increase (decrease) in net assets with donor restrictions		3,552	(17,271)
(Decrease) increase in net assets		(326,772)	123,255
Net assets, beginning of year		5,801,823	5,678,568
Net assets, end of year	$	5,475,051	5,801,823

See accompanying notes to consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(326,772)	123,255
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:			
Depreciation and amortization		213,583	209,069
Amortization of debt issuance costs and premium, net		(2,375)	(3,345)
Investment (income) loss		(40,365)	90,355
Net loss on other investments and disposals of property and equipment		11,157	5,508
Nonperiodic changes in defined benefit plans		119,082	(341,027)
Transfers to the University, net		133,047	137,900
Donor-restricted contributions for long-term investment and capital projects and associated investment income		(663)	(181)
Changes in operating assets and liabilities:			
Patient accounts receivable		(73,475)	(40,218)
Estimated third-party payor settlements, net		(116,721)	(186,715)
Other receivables		(9,968)	16,280
Inventories of drugs and supplies		20,069	(2,513)
Right-of-use operating lease assets, net of operating lease liabilities		1,478	10,624
Prepaid pension asset and postretirement and postemployment benefit obligations		(10,773)	30,863
Other assets		(18,934)	(3,767)
Accounts payable		1,922	30,919
Accrued salaries, wages, and vacation payable		(5,024)	10,289
Other liabilities		(28,157)	(60,233)
Net cash (used in) provided by operating activities		(132,889)	27,063
Cash flows from investing activities:			
Capital expenditures		(159,181)	(218,846)
(Increase) decrease in assets limited as to use		(6,019)	429
Sales of investments		1,581,121	2,045,494
Purchases of investments		(1,398,837)	(1,607,605)
Increase in other assets		(6,738)	(9,380)
Net cash provided by investing activities		10,346	210,092

(Continued)

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollars in thousands)

		2023	2022
Cash flows from financing activities:			
Payments on long-term debt	$	(30,963)	(307,270)
Proceeds from issuance of long-term debt		—	280,150
Proceeds from issuance of commercial paper		594,831	—
Payments on commercial paper		(347,114)	—
Proceeds from restricted contributions and associated investment income		663	181
Payments on finance lease liabilities		(10,467)	(10,047)
Transfers to the University, net		(130,603)	(137,413)
Net cash provided by (used in) financing activities		76,347	(174,399)
Net (decrease) increase in cash and cash equivalents		(46,196)	62,756
Cash and cash equivalents, beginning of year		161,284	98,528
Cash and cash equivalents, end of year	$	115,088	161,284
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amount capitalized	$	59,481	38,641
Recoupments of Medicare accelerated advance payments included in cash flows from operations		(43,665)	(202,727)
Supplemental disclosures of noncash investing/financing activities:			
Change in fixed asset payables as of June 30	$	(32,154)	4,093
Net transfers to the University of property and equipment		2,999	3,158
Net transfers payable (receivable) between the Health System and the University		31	(623)

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 1,062 acute and specialty care beds and providing patient care; DUH is leased from the University, operated by the Health System and serves 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 388 acute and specialty 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.
- **Duke Raleigh Hospital (DRaH)** – a community hospital located in Raleigh, North Carolina, licensed for 186 acute care beds and providing patient care; DRaH is leased from the University and operated by the Health System.
- **Duke University Affiliated Physicians, Inc. (DUAP)** – a North Carolina nonprofit corporation, doing business predominately as Duke Primary Care. Duke Primary Care consists of 31 primary care physician practices located in Alamance, Chatham, Durham, Franklin, Granville, Orange, Vance, and Wake Counties, North Carolina; 9 urgent care centers located in Durham, Orange, and Wake Counties; and 6 pediatric practices in Durham, Orange, and Wake Counties. Four diabetes education and nutrition and 16 behavioral health practices are co-located within primary care sites of Duke Primary Care.
- **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, privacy/cyber liability, and international 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, including Gothic HSP Corporation and Watts College of Nursing, Inc., 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.

(Dollars in thousands)

(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. 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 $51,627 and $48,190 in fiscal years 2023 and 2022, 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, 2023 and 2022, net unrestricted transfers to the University are as follows:

		2023	2022
Transfers to the School of Medicine, net	$	118,959	120,178
Transfers to the University, net		11,094	14,348
Total funded transfers, net		130,053	134,526
Fixed assets and other unfunded transfers, net		2,999	3,313
Unrestricted transfers to the University, net	$	133,052	137,839

The Health System plans to transfer $195,802 in cash (and noncash) equity transfers to the University in fiscal year 2024.

(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 PDC was originally created to provide a structure separate from the University and the Health System in which the members of the physician faculty of the SOM could engage in the private practice of medicine and still serve as members of the faculty of the University conducting clinical teaching and medical research. As disclosed in the subsequent events footnote (note 16), the Heath System purchased certain assets and assumed certain liabilities of the PDC as of July 1, 2023. The Health System formed Duke Health Integrated Practice, Inc. (DHIP), a new wholly-controlled nonprofit corporation, for the purpose of providing physician clinical care to patients. As a result of the transaction, most of the physicians and other employees of the PDC became employees of DHIP as of July 1, 2023.

(Dollars in thousands)

Through June 30, 2023, the PDC, under agreements with the University and the Health System, occupied and utilized certain of the Health System's facilities. With the exception of a small number of individuals performing administrative services for the Health System, PDC physicians were not employed by the Health System, nor was the PDC included in the Health System's or the University's consolidated financial statements through fiscal year 2023.

Through fiscal year 2023, the Health System had numerous agreements with the PDC. Many were 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 Management Organization (PRMO), had contractual responsibility for the billing and accounts receivable operations of the PDC. DCC was the principal source of malpractice, privacy/cyber, and international liability insurance for the PDC. The PDC subleased from the Health System, at market rates, clinical and administrative space owned by the University and leased to the Health System, and leased from the Health System, at market rates, space owned by the Health System. The Health System also subleased to the PDC, at full cost, leased space from nonaffiliated third parties. The following table summarizes the PDC-related revenue included in other revenue in the Health System's accompanying consolidated statements of operations:

		2023	2022
Billing and collection services	$	48,508	45,172
Revenue under service agreements		80,155	74,141
DCC malpractice insurance premiums		11,278	11,058
Rental income		17,797	16,682
Total	$	157,738	147,053

For the years ended June 30, 2023 and 2022, other operating expenses in the Health System's consolidated statements of operations include PDC-related expenses under service agreements of $209,585 and $205,710, respectively. The Health System has net payables to the PDC of $10,425 and $10,396 as of June 30, 2023 and 2022, respectively, related to various transactions. These agreements with the PDC ended on June 30, 2023 and will become intercompany transactions beginning in fiscal year 2024 that will be eliminated in the Health System's consolidated financial statements.

(Continued)

(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), the Long Term Pool (LTP), and the Health System Liquidity Management Account (LMA). 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 highly liquid investments with original maturities of three months or less. Cash and cash equivalents that are invested in the HSP, LTP, and LMA 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 deficit 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.

(Dollars in thousands)

(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, donor-restricted receivables, investments and other assets, investments designated by the Board of Directors for repayment of the Series 2017 taxable bonds, and receivables and investments 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 finance 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 finance 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 2020 and 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 $4,863 and $11,214 was capitalized in fiscal years 2023 and 2022, respectively, and is included in property and equipment, net in the accompanying consolidated balance sheets.

(f) Lease Right-of-use Assets

The Health System has operating and finance leases for real estate and equipment. Operating leases as a lessee are included in operating lease right-of-use assets and operating lease liabilities in the accompanying consolidated balance sheets. The assets and liabilities associated with finance leases as a lessee are included in property and equipment, net and finance lease liabilities, respectively, in the accompanying consolidated balance sheets.

The determination of whether a contract contains a lease is made at the inception of a contract. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. The Health System has agreements that require payments for lease and nonlease components. For these contracts, the Health System separates lease from nonlease components using information within the contract or by obtaining additional information from the respective parties in the contract.

Right-of-use assets represent the Health System's right to use an underlying asset during the lease term, and lease liabilities represent the Health System's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date, based on the present value of fixed lease payments over the lease term. Variable lease payments that depend on an index or a rate are included in the lease payments. Payments for taxes, common area maintenance, and utilities are typically separated from the lease payments and accounted for separately as nonlease components. The commencement date is when the Health System takes possession of the asset, and in the case of real estate is the date the landlord makes the building available for the Health System to use. The Health System's lease term includes options to extend or terminate the lease when it is reasonably certain that the options will be exercised. Since most of the Health System's operating and finance leases do not provide an implicit rate in the lease, the Health System primarily uses its incremental borrowing rate for the discount rate based on the most recent quarterly AA taxable municipal bond yields available at the commencement date to determine the present value of lease payments. For equipment finance leases that include an interest rate in the agreement, the Health System uses the rate per the agreement instead of its incremental borrowing rate to determine present value of lease payments.

(g) 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.

(h) 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 accompanying 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 deficit of revenues over expenses in the accompanying consolidated statements of operations.

(i) Deficit of Revenues over Expenses

Changes in net assets without donor restrictions that are excluded from deficit 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.

(j) Patient Service Revenue

Patient service revenue relates to contracts with patients in which the performance obligations are to provide healthcare 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, 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.

(Continued)

The Health System applies the following practical expedients provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, to its contracts with patients:

i. The Health System applies the portfolio approach allowed as a practical expedient under ASC Subtopic 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 for patient service revenue to differ materially using the portfolio approach than if applied at an individual contract level. The Health System groups contracts 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 to apply the practical expedient allowed under ASC Subtopic 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 allowed under ASC Subtopic 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.

(k) 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 patient service revenue or included in patient accounts receivable.

(l) 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 at fair value and are included within other noncurrent liabilities in the accompanying consolidated balance sheets. Realized and unrealized gains and losses on derivatives are included in investment income (loss) in the consolidated statements of operations.

(Dollars in thousands)

(m) 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. There were no material uncertain tax positions as of June 30, 2023 or 2022.

(n) Coronavirus Disease (COVID-19)

The following table summarizes the impact of the various forms of COVID-19 relief recognized under provisions of the Coronavirus Aid, Relief and Economic Security (CARES) and American Rescue Plan (ARP) Acts and in reimbursement from the Federal Emergency Management Agency (FEMA) to the Health System's consolidated financial statements as of and for the years ended June 30:

		2023	2022
Recognized in the consolidated statements of operations:			
CARES and ARP relief funds included in other operating revenue	$	—	47,975
FEMA reimbursement included in other operating revenue		7,946	18,497
COVID-19 relief benefits in operating income	$	7,946	66,472
Liabilities recognized in the consolidated balance sheets:			
Deferred payroll taxes in other current liabilities	$	—	30,119
MAAP in estimated third-party payor settlements, net		—	43,665
Deferrals and advance payments in total liabilities	$	—	73,784

The deferred payroll taxes in the above table represent the remaining 50% of the employer portion of the Social Security payroll taxes normally due between March 27, 2020 and December 31, 2020 but deferred under the CARES Act. The remaining deferred payroll taxes of $30,119 as of June 30, 2022 were paid during fiscal year 2023.

The Health System received $282,129 in Medicare accelerated and advance payments (MAAP in above table) from the Centers for Medicare & Medicaid Services (CMS) in April 2020, and CMS began recouping these advance payments against Medicare claims beginning in April 2021. The Health System reduced the liability as Medicare recouped the advance payments against claims for services provided during the recoupment period. The Medicare accelerated and advance payments were fully recouped in August 2022.

(Dollars in thousands)

(o) Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Items subject to such estimates and assumptions include implicit and explicit price concessions, third-party reimbursement settlements, self-insurance liabilities, retirement obligations, and the carrying amounts of property, equipment, right-of-use operating lease assets and related lease liabilities, investments, and derivative instruments. Actual results could differ from those estimates.

(p) Recently Adopted Accounting Standard

The Health System adopted FASB Accounting Standards Update (ASU) 2017-04, *Simplifying the Test for Goodwill Impairment*, in fiscal year 2023. This ASU eliminates Step 2 of the goodwill impairment test. Instead, a single-step test identifies and measures impairment by using the difference between the carrying amount and fair value of the reporting unit. The adoption of ASU 2017-04 did not have a material impact on the consolidated financial statements.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have not changed the results of operations, cash flows, or financial position of the prior period.

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

Patient service revenue, net of price concessions, recognized in fiscal years 2023 and 2022 from major payor sources is as follows:

	2023		2022	
	Amount	Percentage	Amount	Percentage
Commercial payors	$ 2,462,073	53.7 %	$ 2,251,855	53.6 %
Medicare	763,655	16.6	738,039	17.6
Medicare managed care	690,914	15.1	577,506	13.8
Medicaid	230,660	5.0	233,960	5.6
Medicaid managed care	290,323	6.3	248,586	5.9
Self-pay patients	9,593	0.2	12,401	0.3
Other third-party payors	142,232	3.1	134,200	3.2
Total	$ 4,589,450	100.0 %	$ 4,196,547	100.0 %

The Health System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, and reimbursement method. The Health System's operations are primarily located in Durham and Wake counties in North Carolina, and its patient service revenues are generated predominately from inpatient and outpatient acute care services to patients from the seven North Carolina counties surrounding its three hospitals. The Health System has entered into payment agreements with third-party payors, and payment arrangements by primary payor include the following:

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

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

c) Commercial payors – 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.

North Carolina Medicaid transitioned from the state administered fee for services (NC Medicaid Direct) to private managed care (NC Medicaid Managed Care) for most Medicaid beneficiaries on July 1, 2021. Some Medicaid beneficiaries did not transition to NC Medicaid Managed Care but remained in NC Medicaid Direct.

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 patient service revenue in the period of the change. For fiscal years 2023 and 2022, adjustments arising from changes in implicit price concessions related to prior period performance obligations were not material.

Patient service revenue includes variable consideration for estimated retroactive adjustments under reimbursement agreements with government 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 amounts due to and from government programs (Medicare and Medicaid) for final settlement of reimbursements are determined based upon cost reports filed annually with the respective programs. For DUH, the reports for all years through June 30, 2007 for Medicare and June 30, 2016 for Medicaid have been substantially resolved with the Medicare Administrative Contractor and North Carolina Department of Health and Human

(Continued)

(Dollars in thousands)

Services, respectively. For DRH and DRaH, the reports for all years through June 30, 2012 for Medicare and June 30, 2017 for Medicaid have been substantially resolved with the Medicare Administrator Contractor and the North Carolina 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. With the transition to NC Medicaid Managed Care, there is no longer a final settlement of reimbursements based upon the annual filed cost report for Medicaid for the year ended June 30, 2022 and going forward. The Health System, in part through its Compliance Program, seeks to ensure compliance with government program rules. The effects of retroactive adjustments from government programs' settlement adjustments and compliance reviews increased patient service revenue by $51,986 and $3,787 in fiscal years 2023 and 2022, 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 partially offset Medicaid losses. Amounts recognized in the Health System's accompanying consolidated financial statements related to supplemental Medicaid are as follows:

		2023	2022
Supplemental Medicaid amounts included in patient service revenue	$	74,268	73,773
Medicaid assessments included in other operating expenses		(101,187)	(73,918)
Net supplemental Medicaid expense in operating loss	$	(26,919)	(145)
Net receivable from (payable to) supplemental Medicaid included in estimated third-party payor settlements, net	$	16,474	(5,880)

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 as North Carolina Medicaid continues to transition to private managed care.

(Dollars 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:

	2023	2022
Commercial payors	39.8 %	41.8 %
Medicare	16.4	17.2
Medicare managed care	20.1	16.5
Medicaid	7.1	8.0
Medicaid managed care	9.0	7.8
Self-pay patients	2.6	3.1
Other third-party payors	5.0	5.6
	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 patient service 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.

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.

(Dollars 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:

		2023	2022
Charity care at cost	$	159,367	145,256
Unreimbursed Medicaid		297,693	167,039
Total charity care and means-tested programs		457,060	312,295
Health professionals education		79,847	85,195
Cash and in-kind contributions and community health improvement services		16,339	13,348
Total other benefits		96,186	98,543
Total charity care and other community benefits at cost	$	553,246	410,838

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 $502,845 and $501,257 for the years ended June 30, 2023 and 2022, respectively. The Health System provides additional uncompensated care in the form of implicit price concessions. Estimated uncompensated costs associated with these uncollectible patient accounts were $31,791 and $32,755 for June 30, 2023 and 2022, respectively.

(Dollars in thousands)

(5) Cash and Investments

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

		2023	2022
Cash and cash equivalents	$	115,088	161,284
Short-term investments		390,840	444,351
Investments		4,302,336	4,437,035
Cash and investments available for operations		4,808,264	5,042,670
Assets limited as to use, current		22,108	17,045
Assets limited as to use, noncurrent		138,866	105,863
Less receivables and other assets included in assets limited as to use		(4,084)	(3,574)
Total cash and investments	$	4,965,154	5,162,004

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:

		2023	2022		Unfunded commitments[2]	Redemption frequency (in days)	Redemption notice period (in days)
Cash and cash equivalents	$	115,088	161,284		—	daily	1
Deposits with bond trustees		1,493	382		—	N/A	N/A
Short-term investments		409,077	458,346		—	daily	1
Fixed income		713,775	657,197		—	1 to 30	1 to 30
Equities		722,206	631,611		—	1 to 90	1 to 90
Hedged strategies		857,865	1,057,189		—	30 to > 365	2 to 100
Private capital		1,477,578	1,593,332		276,865	N/A	N/A
Real assets		501,276	461,528		130,184	N/A	N/A
Other		166,796	141,135		—	N/A	N/A
Total cash and investments[1]		4,965,154	5,162,004	$	407,049		
Less cash and investments included in assets limited as to use		(156,890)	(119,334)				
Cash and investments available for operations	$	4,808,264	5,042,670				

[1] Includes the Health System's participation in pooled assets of $164,891 and $226,560 at June 30, 2023 and 2022, respectively, which are managed by DUMAC.

[2] Future commitments likely to be called at various dates through 2027. 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 $30,748 and $27,069 at June 30, 2023 and 2022, respectively, were posted as collateral under investment derivative agreements and thus are not readily available for use.

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: 35% domestic, 30% developed international, 20% emerging international, and 15% global and real estate.

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, 15% through credit strategies, and 5% 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.

Other primarily includes other derivative instruments and the Health System's participation in the University LTP.

(Dollars in thousands)

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.

The Health System's total investment income (loss) for the years ended June 30 is detailed below:

		2023	2022
Net realized gains from sales of investments	$	15,926	361,686
Net unrealized losses		(60,181)	(489,204)
Total net losses		(44,255)	(127,518)
Investment income		82,150	23,144
Investment gains (losses)		37,895	(104,374)
Net realized losses on debt derivatives		(3,692)	(11,805)
Net unrealized gains on debt derivatives		15,889	36,051
Total investment income (loss)	$	50,092	(80,128)

Investment income (loss) is classified in the accompanying consolidated statements of operations and changes in net assets as follows:

		2023	2022
Other operating revenue	$	9,739	10,485
Nonoperating income (loss)		42,531	(88,170)
Increase (decrease) in net assets with donor restrictions		(2,178)	(2,443)
Total investment income (loss)	$	50,092	(80,128)

(Dollars in thousands)

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

		2023	2022
Assets limited as to use:			
Deposits with bond trustees	$	1,493	382
Receivables and investments designated to settle estimated professional liability costs		50,501	41,098
Board-designated debt repayment funds		48,000	24,000
Donor-restricted receivables, investments, and other assets		60,980	57,428
Total assets limited as to use		160,974	122,908
Less current portion of assets limited as to use		(22,108)	(17,045)
Assets limited as to use, excluding current portion	$	138,866	105,863

(6) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30 are as follows:

		2023	2022
Cash and cash equivalents	$	115,088	161,284
Patient accounts receivable		623,984	550,509
Estimated third-party payor settlements, net		74,333	—
Other receivables		41,289	31,164
Due from the University, net		14,662	9,585
Short-term investments		390,840	444,351
Noncurrent investments		2,357,312	2,298,191
Total	$	3,617,508	3,495,084

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. As of June 30, 2023, the Health System also has $300,000 in availability under unsecured line of credit agreements with two commercial banks and $250,000 in availability under its taxable commercial paper program.

(Dollars in thousands)

(7) Property and Equipment

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

		2023	2022
Buildings and utilities	$	2,820,411	2,765,004
Furnishings and equipment		1,079,292	1,048,725
Buildings and equipment under finance lease liabilities		165,280	189,489
Computer software		358,742	355,225
Depreciable property and equipment		4,423,725	4,358,443
Less accumulated depreciation and amortization		(2,605,259)	(2,425,446)
Depreciable property and equipment, net		1,818,466	1,932,997
Land and land improvements		187,200	182,945
Construction in progress		157,696	158,115
Property and equipment, net	$	2,163,362	2,274,057

The following table summarizes other property and equipment information for fiscal years 2023 and 2022:

		2023	2022
Depreciation expense	$	181,154	173,771
Finance leases' accumulated amortization		70,695	64,604
Computer software amortization expense		21,564	24,279
Computer software's accumulated amortization		346,267	324,729

(Dollars in thousands)

(8) Debt

A summary of debt at June 30 is as follows:

Series	Underlying structure	Mandatory tender date[1]	Fiscal year of maturity	Effective interest rate	Outstanding principal 2023	Outstanding principal 2022
Tax-exempt revenue bonds:						
2005A	Direct placement	June 1, 2028	2028	3.5 %	$ 52,245	59,400
2005B	Direct placement	June 1, 2028	2028	3.5	16,910	19,225
2006A/B/C	Direct placement	February 29, 2032	2039	3.5	121,620	121,620
2012B	Direct placement	June 1, 2023	2023	3.4	—	6,330
2016B	Direct placement	February 29, 2032	2042	3.5	90,000	90,000
2016C	Direct placement	February 29, 2032	2042	3.5	90,000	90,000
	Total variable rate				370,775	386,575
2016A	Fixed rate	N/A	2028	1.9	91,450	102,850
2016D	Fixed rate	N/A	2042	3.4	125,100	125,100
Taxable bonds:						
2017	Fixed rate	N/A	2047	3.9	600,000	600,000
2020	Fixed rate	N/A	2042	2.9	295,669	299,432
	Total fixed rate				1,112,219	1,127,382
Taxable commercial paper		N/A	<1 year	5.0	250,000	—
	Total debt				1,732,994	1,513,957
	Plus unamortized premiums and discounts, net				19,213	23,063
	Less unamortized debt issuance costs, net				(14,178)	(14,984)
	Less current portion of long-term debt and commercial paper				(282,987)	(30,963)
	Long-term debt, net of current portion				$ 1,455,042	1,491,073

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

During fiscal year 2023, the Health System established a $500,000 taxable commercial paper program with two commercial banks serving as co-dealers for issuances and remarketing of the commercial paper. The commercial paper has been issued in $50,000 tranches with no more than $50,000 of notes maturing within any consecutive five business day period or no more than $100,000 in notes maturing within any consecutive fifteen business day period.

On June 1, 2023, the Health System executed two revolving line of credit agreements with two separate commercial banks for a maximum principal amount of $150,000 on each agreement. Interest is due monthly, and both line of credit agreements mature on June 8, 2026. The outstanding principal balance under these line of credit agreements was $0 as of June 30, 2023.

(Dollars in thousands)

The Health System refinanced its tax-exempt, variable rate revenue bonds in three tranches during fiscal year 2022 to a new floating rate index (from one-month LIBOR to one-month BSBY). The refinancing also extended the put dates of the Series 2005B bonds by five years (to maturity, 2028), the Series 2016B and 2016C bonds by six years (to 2032), and the Series 2006A/B/C bonds by seven years (to 2032). The Health System assessed whether the refinancing of the 2005A/B, 2006A/B/C, 2012B, and 2016B/C resulted in an insubstantial modification or an extinguishment of the debt for each variable rate revenue bond series. The Health System determined that $280,150 of the 2005A/B, 2012B, and 2016B/C series was extinguished and debt was remarketed to and purchased by a lender for the same amount, which is disclosed as an outflow for and inflow from financing activities in the accompanying 2022 consolidated statement of cash flows. The 2006A/B/C variable rate revenue bonds had insubstantial modifications as the lender continued to participate in the bond series.

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 debt for each of the five fiscal years subsequent to June 30, 2023 and thereafter are as follows:

2024	$	282,987
2025		34,339
2026		35,754
2027		37,247
2028		38,800
Thereafter		1,303,867
Total	$	1,732,994

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 reduce the variable rate exposure associated with its portfolio of debt. The 1993 interest rate swap matured on June 1, 2023 matching the maturity of the associated 2012B bonds.

(Dollars in thousands)

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	$ 6,330	5.090 %	SIFMA
May 19, 2005	N/A	23 years	156,725	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

[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.

Interest rate swap agreements are recorded at 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 which approximates fair value. The fair value is included other noncurrent liabilities 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 (loss) on the accompanying 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.

(Dollars in thousands)

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

Financial Information Related to Debt Derivative Instruments

		2023			2022		
		Fair value [1]	Unrealized gain recognized in income [2]	Realized loss recognized in income [2]	Fair value [1]	Unrealized gain 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	$	—	159	(148)	(159)	686	(582)
May 2005:							
Interest rate swap		(2,556)	6,670	(1,635)	(9,226)	14,057	(6,223)
April 2009:							
Interest rate swap		(19,304)	9,060	(1,909)	(28,364)	21,308	(5,001)
July 2001:							
Basis swap		—	—	—	—	—	1
Total derivatives not designated as hedging instruments	$	(21,860)	15,889	(3,692)	(37,749)	36,051	(11,805)

[1] Balance sheet classification is noncurrent liabilities.

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

The Health System's 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. 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, 2023 and 2022, 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 were in a liability position on June 30, 2023 and 2022 is $21,860 and $37,749, respectively, for which the Health System was not required to post any collateral in the normal course of business. If the credit risk-related features underlying these agreements were triggered on June 30, 2023 and 2022, the Health System would be required to post collateral of $21,860 and $37,749, respectively, to its counterparties.

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.

(Dollars in thousands)

(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, fair values, and posted collateral of the Health System's investment derivative activities at June 30, 2023 and 2022. It also provides net (loss) gain amounts during fiscal years 2023 and 2022:

	2023	2022	Location in financial statements
Net notional amounts	$ 4,457,899	3,865,470	N/A
Derivative assets	106,659	146,258	Investments
Derivative liabilities	(53,597)	(89,898)	Investments
Net (loss) gain	(20,459)	92,946	Investment income (loss)
Posted collateral	30,748	27,069	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 assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources and a lower priority to unobservable inputs that would reflect the Health System's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. 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 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.

(Dollars in thousands)

The three levels of the hierarchy of inputs used to measure fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which little or no market activity exists for the asset or liability at the measurement date.

The categorization of fair value measurements by level of the hierarchy is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability. In the event that changes in the inputs used in the fair value measurement of an asset or liability result in a transfer of the fair value measurement to a different categorization (i.e., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

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 at June 30:

	2023	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 115,088	115,088	—	—	—
Deposits with bond trustees	1,493	1,493	—	—	—
Short-term investments	409,077	343,679	65,398	—	—
Fixed income	713,775	167,172	461,495	17,067	68,041
Equities	722,206	440,428	132,035	1,021	148,722
Hedged strategies	857,865	20,617	—	—	837,248
Private capital	1,477,578	5,109	—	91,881	1,380,588
Real assets	501,276	19,372	19,840	11,235	450,829
Other	166,796	—	107,826	—	58,970
Total assets	$ 4,965,154	1,112,958	786,594	121,204	2,944,398
Liabilities:					
Interest rate derivatives	$ 21,860	—	21,860	—	—

[1] Fund investments reported at NAV as a practical expedient estimate of fair value at June 30, 2023.

(Dollars in thousands)

	2022	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 161,284	161,284	—	—	—
Deposits with bond trustees	382	382	—	—	—
Short-term investments	458,346	232,251	226,095	—	—
Fixed income	657,197	43,713	534,882	16,890	61,712
Equities	631,611	387,757	97,900	—	145,954
Hedged strategies	1,057,189	21,857	—	5,763	1,029,569
Private capital	1,593,332	4,476	—	94,062	1,494,794
Real assets	461,528	17,919	(25,644)	14,199	455,054
Other	141,135	—	83,201	—	57,934
Total assets	$ 5,162,004	869,639	916,434	130,914	3,245,017
Liabilities:					
Interest rate derivatives	$ 37,749	—	37,749	—	—

[1] Fund investments reported at NAV as a practical expedient estimate of fair value at June 30, 2022.

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, estimated third-party payor settlements, other receivables, accounts payable, accrued salaries, wages, and vacation payable and related accruals, commercial paper, 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.

Finance and operating lease liabilities: Estimated as the present value of future minimum lease payments over the lease term.

Debt-related 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.

(Dollars 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, 2022	Net realized and unrealized gains	Purchases	Sales	Net transfers in (out)	Balance as of June 30, 2023
Asset category:							
Equities	$	—	282	739	—	—	1,021
Fixed income		16,890	536	5,882	(6,336)	95	17,067
Hedged strategies		5,763	—	—	—	(5,763)	—
Private capital		94,062	199	2,305	(2,320)	(2,365)	91,881
Real assets		14,199	16	57	(1,316)	(1,721)	11,235
Total	$	130,914	1,033	8,983	(9,972)	(9,754)	121,204

		Balance as of June 30, 2021	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out)	Balance as of June 30, 2022
Asset category:							
Fixed income	$	16,731	(1,996)	9,635	(7,623)	143	16,890
Hedged strategies		—	(495)	6,258	—	—	5,763
Private capital		76,932	12,487	9,060	(4,810)	393	94,062
Real assets		10,799	2,808	2,063	(552)	(919)	14,199
Total	$	104,462	12,804	27,016	(12,985)	(383)	130,914

(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, privacy/cyber liability, and international liability risks of Health System clinical providers and the PDC. DCC limits its exposure to loss through reinsurance and excess loss agreements.

Estimated professional liability costs include the estimated cost of professional liability in fiscal years 2023 and 2022 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, 2023 and 2022 was 3.5%. Accrued professional liability costs excluding estimated incurred but not reported claims as of June 30, 2023 and 2022 amounted to $50,501 and $41,098, respectively. 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 $7,587 and $6,830 as of June 30, 2023 and 2022, respectively. Estimated professional liability costs are included in other current and other noncurrent liabilities in the accompanying consolidated balance sheets.

The estimated liability for professional and patient general liability claims may be 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 and are eligible to receive employer-provided contributions in this plan. The Health System contributed $75,373 and $67,565 to this plan in fiscal years 2023 and 2022, respectively, which are reported in employee compensation and temporary labor expense in the accompanying consolidated statement of operations. The Health System expects to contribute $131,400 to this plan in fiscal year 2024.

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 10 years of employment. The Health System expects to contribute $25,128 to this plan in fiscal year 2024. 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 83% and 82% of the total University's defined benefit pension plan for fiscal years 2023 and 2022, respectively.

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

(Dollars in thousands)

(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	
		2023	**2022**	**2023**	**2022**
Reconciliation of projected benefit obligation:					
Obligation at beginning of year	$	1,458,994	1,829,719	71,293	73,937
Service cost		58,201	82,819	894	988
Interest cost		67,786	53,999	3,225	2,031
Actuarial loss (gain)		13,869	(457,264)	(12,230)	(1,636)
Benefits paid		(51,388)	(47,279)	(4,761)	(4,363)
Plan changes		7,977	—	—	336
Administrative expenses (estimated)		(3,100)	(3,000)	—	—
Projected benefit obligation at end of year	$	1,552,339	1,458,994	58,421	71,293
Reconciliation of fair value of plan assets:					
Fair value of plan assets at beginning of year	$	1,542,648	1,605,413	—	—
Actual return on plan assets		879	(34,391)	—	—
Employer contributions		25,326	21,913	—	—
Benefits paid		(51,388)	(47,279)	—	—
Administrative expenses		(3,170)	(3,008)	—	—
Fair value of plan assets at end of year	$	1,514,295	1,542,648	—	—
Funded status:					
Net accrued benefit (liability) asset	$	(38,044)	83,654	(58,421)	(71,293)

(Dollars in thousands)

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

		Pension benefits		Postretirement benefits	
		2023	**2022**	**2023**	**2022**
Service cost	$	58,201	82,819	894	988
Interest cost		67,786	53,999	3,225	2,031
Expected return on plan assets		(105,235)	(95,150)	—	—
Amortization of prior-service cost and losses (gains)		907	907	38	(437)
Recognized actuarial (gain) loss		(5,837)	11,542	(148)	—
Net periodic benefit cost	$	15,822	54,117	4,009	2,582

The service cost component of net periodic benefit cost is included in employee compensation and temporary labor in operating expenses with the other components of net periodic benefit cost included in nonoperating components of net periodic benefit cost in the consolidated statements of operations. The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. Included in net assets without donor restrictions are the following amounts that have not been recognized in net periodic benefit cost at June 30, 2023 and 2022, respectively:

		Pension benefits		Postretirement benefits	
		2023	**2022**	**2023**	**2022**
Unrecognized prior service cost	$	10,955	3,885	298	336
Unrecognized actuarial gains		(217,994)	(342,126)	(20,868)	(8,786)

(Dollars in thousands)

The following table provides details of nonperiodic changes in the defined benefit obligations:

		Pension benefits		Postretirement benefits	
		2023	2022	2023	2022
Actuarial loss due to investment performance	$	(104,426)	(129,549)	—	—
Actuarial gain due to change in discount rate		102,838	489,656	1,586	11,338
Actuarial (loss) due to demographic changes		(85,200)	(26,085)	(10,388)	(2,447)
New prior service cost		(7,977)	—	—	(336)
Amortization of prior service cost		907	907	38	—
Actuarial (loss) gain recognized in current year expense		(5,837)	11,542	(148)	(437)
Other changes in net actuarial assumptions		(31,507)	(6,307)	21,032	(7,255)
Nonperiodic changes in defined benefit obligations	$	(131,202)	340,164	12,120	863

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			
	2023		2022		2023		2022	
	Obligation	Cost	Obligation	Cost	Obligation	Cost	Obligation	Cost
Weighted average assumptions as of measurement date:								
Discount rate	5.14 %	4.73 %	4.73 %	2.99 %	5.08 %	4.68 %	4.68 %	2.83 %
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	5.0%/1.0%[1]	3.0%/2.0%[2]	3.0%/2.0%[2]	3.0%/2.0%[2]	N/A	N/A	N/A	N/A

[1]Compensation increases are calculated on a sliding scale based on length of service beginning with 5.0% in the first year of service, and declining to 1.0% at 60 years of service and thereafter.

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

In order to determine the benefit obligation as of June 30, 2023, the per capita costs of covered healthcare benefits was assumed to increase 7.25% for non-Medicare eligible employees and 7.0% for Medicare eligible employees, declining to an ultimate annual rate of increase of 4.5% by 2035 for non-Medicare and 2034 for Medicare eligible employees. The benefit expense for fiscal year 2023 was driven by the rates used to determine the benefit obligation as of June 30, 2022, which were 7.5% for non-Medicare eligible employees and 6.7% 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.

(Dollars in thousands)

The pension and postretirement benefits expected to be paid for the 10 years subsequent to June 30, 2023 are as follows:

	Pension benefits	Postretirement benefits
2024	$ 55,222	4,614
2025	58,808	4,760
2026	62,832	4,787
2027	67,602	4,975
2028	72,705	5,032
2029–2033	448,553	25,862

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.

(d) Defined Benefit Pension Plan Assets

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% inflation-linked strategies.

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.

(Dollars 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:

	2023	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Asset category:					
Short-term investments	$ 104,300	53,792	50,508	—	—
Fixed income	210,207	39,157	120,347	—	50,703
Equities	207,200	154,155	2,932	—	50,113
Hedged strategies	274,151	8,235	(297)	—	266,213
Private capital	526,409	1,470	—	31,555	493,384
Real assets	176,279	10,159	2,534	—	163,586
Other investments	15,749	(11,202)	26,951	—	—
	$ 1,514,295	255,766	202,975	31,555	1,023,999

	2022	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Asset category:					
Short-term investments	$ 110,124	54,406	55,718	—	—
Fixed income	180,906	10,634	137,305	—	32,967
Equities	184,444	139,476	(4,267)	—	49,235
Hedged strategies	301,120	330	1,931	—	298,859
Private capital	568,715	1,402	—	32,020	535,293
Real assets	163,165	6,052	(12,760)	—	169,873
Other investments	34,175	(106)	34,281	—	—
	$ 1,542,649	212,194	212,208	32,020	1,086,227

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

(Dollars 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, 2022	Net realized and unrealized gains	Purchases	Sales	Net transfers out	Balance as of June 30, 2023
Private capital	$ 32,020	258	1,065	(819)	(969)	31,555

	Balance as of June 30, 2021	Net realized and unrealized gains	Purchases	Sales	Net transfers in	Balance as of June 30, 2022
Private capital	$ 26,388	3,307	3,975	(1,650)	—	32,020

At June 30, 2023 and 2022, the accumulated benefit obligation for pension benefits was $1,366,751 and $1,338,809, respectively, as compared to the fair value of the plan assets of $1,514,295 and $1,542,648, respectively. At June 30, 2023 and 2022, the plan was over funded in relation to accumulated benefits by $147,544 and $203,839, respectively.

(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 as follows:

	Healthcare services	General and administrative	Total
For the year ended June 30, 2023:			
Employee compensation and temporary labor	$ 1,940,734	533,835	2,474,569
Medical supplies	1,334,598	—	1,334,598
Interest	57,295	—	57,295
Depreciation and amortization	190,344	23,239	213,583
Other operating expenses	618,801	290,484	909,285
Total	$ 4,141,772	847,558	4,989,330

(Dollars in thousands)

		Healthcare services	General and administrative	Total
For the year ended June 30, 2022:				
Employee compensation and temporary labor	$	1,728,918	486,392	2,215,310
Medical supplies		1,196,544	—	1,196,544
Interest		37,584	—	37,584
Depreciation and amortization		183,157	25,912	209,069
Other operating expenses		565,799	272,252	838,051
Total	$	3,712,002	784,556	4,496,558

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) Leases

The following table shows operating expenses related to the Health System's leasing activity for the years ended June 30:

Lease type:	Classification in Statement of Operations		2023	2022
Finance lease expense:				
Amortization of right-of-use assets	Depreciation and amortization	$	10,865	11,019
Interest on lease liabilities	Interest		5,541	5,247
Operating lease expense	Other operating expenses		37,670	43,503
Short-term lease expense	Other operating expenses		15,557	16,940
Total lease expense		$	69,633	76,709

(Dollars in thousands)

Other information related to the Health System's operating and finance right-of-use assets and lease liabilities for the years ended June 30 is reported in the below table:

		2023	2022
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for finance leases	$	5,143	5,273
Operating cash flows for operating leases		36,222	40,294
(Decrease) increase in right-of-use assets obtained in exchange for lease liabilities:			
Finance leases	$	(19,425)	4,542
Operating leases		(10,364)	33,221
Weighted-average remaining lease term:			
Finance leases		35.9	35.1 years
Operating leases		13.4	13.5 years
Weighted-average discount rate:			
Finance leases		4.97	3.40 %
Operating leases		2.47	1.98

(Dollars in thousands)

The aggregate future lease payments under finance and operating leases as of June 30, 2023 are as follows:

		Finance leases	Operating leases
Year ending June 30:			
2024	$	14,482	30,458
2025		11,527	30,729
2026		9,548	28,901
2027		8,380	28,799
2028		8,282	28,724
Thereafter		250,337	245,487
Total minimum lease payments		302,556	393,098
Less amount of lease payments representing interest		(161,550)	(59,551)
Present value of future minimum lease payments		141,006	333,547
Less current portion		(7,984)	(22,778)
Lease liabilities, net of current portion	$	133,022	310,769

The DRH facility lease, which is a forty-year-minimum automatically renewing "evergreen" lease, is the Health System's largest finance lease, accounting for approximately 92% and 89% of the total finance lease liability as of June 30, 2023 and 2022, respectively. The Health System made principal and interest payments for this lease of $7,591 and $7,307 in fiscal years 2023 and 2022, respectively.

(15) Commitments and Contingencies

(a) Construction and Purchase Commitments

At June 30, 2023, open contracts for the construction of physical properties and other capital expenditures amounted to approximately $85,600 and outstanding purchase orders for normal operating supplies and equipment amounted to approximately $28,500.

(b) 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.

(c) 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 government 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.

(16) Subsequent Events

(a) PDC

On July 1, 2023, the Health System acquired certain assets and assumed certain liabilities of the PDC. In conjunction with this transaction, approximately 3,000 PDC members and employees accepted offers of employment and became employees of DHIP and approximately 2,000 Duke University employees who were previously leased by the University to the PDC were reassigned to DHIP as of July 1, 2023. The Health System believes the combined entity will establish a collaborative, unified and fully-integrated nonprofit, mission-centric, clinical care delivery, teaching, and research structure that effectively promotes seamless, coordinated, high quality, and connected clinical care across the Health System and the University's integrated academic healthcare system.

The Health System paid consideration of $50,320 to the PDC and is still working with the PDC to finalize the list of assets acquired and liabilities assumed, which may result in adjustments to the consideration paid or payable to the PDC. Because the initial accounting for the business combination is not complete, the Health System is unable to disclose quantitative information about the assets acquired, liabilities assumed, or resulting goodwill balance. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Health System and the PDC.

(b) Line of Credit Drawdown and Commercial Paper Issuance

On July 3, 2023, the Health System accessed one of its revolving line of credit agreements for $150,000 at a fixed interest rate of 4.65% per year. On September 13, 2023, the Health System issued an additional $50,000 tranche through its taxable commercial paper program.

The Health System has evaluated subsequent events from the balance sheet date through October 3, 2023, 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, 2023

(Dollars 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	2023 total DUHS consolidated
Current assets:									
Cash and cash equivalents	$ —	—	—	95,047	95,047	—	18,582	1,459	115,088
Patient accounts receivable	464,416	54,222	67,132	17,157	602,927	13,470	—	7,587	623,984
Estimated third-party payor settlements, net	58,270	9,308	6,519	—	74,097	236	—	—	74,333
Other receivables	22,506	1,717	3,522	12,063	39,808	184	—	1,297	41,289
Inventories of drugs and supplies	81,903	9,979	17,232	8,547	117,661	1,757	—	3,563	122,981
Short-term investments	—	—	—	390,840	390,840	—	—	—	390,840
Assets limited as to use	—	—	—	—	—	—	22,108	—	22,108
Other current assets	(163,359)	(23,814)	(25,629)	267,323	54,521	7,582	(818)	(3,919)	57,366
Total current assets	463,736	51,412	68,776	790,977	1,374,901	23,229	39,872	9,987	1,447,989
Assets limited as to use	—	—	—	110,473	110,473	—	28,393	—	138,866
Investments	—	—	—	4,053,380	4,053,380	—	248,956	—	4,302,336
Property and equipment, net	1,175,538	246,979	331,554	308,599	2,062,670	60,602	—	40,090	2,163,362
Right-of-use operating lease assets	5,379	576	821	297,613	304,389	157	—	1,682	306,228
Other noncurrent assets	—	—	21,966	42,356	64,322	—	—	874	65,196
Total assets	$ 1,644,653	298,967	423,117	5,603,398	7,970,135	83,988	317,221	52,633	8,423,977
Liabilities and Net Assets									
Current liabilities:									
Accounts payable	$ 111,435	13,511	21,439	43,544	189,929	2,304	153	10,259	202,645
Accrued salaries, wages, and vacation payable	102,447	23,573	22,595	70,899	219,514	28,507	—	16,861	264,882
Current portion of postretirement and postemployment benefit obligations	—	—	—	8,657	8,657	—	—	—	8,657
Commercial paper	—	—	—	248,386	248,386	—	—	—	248,386
Current portion of long-term debt	—	—	—	32,987	32,987	—	—	—	32,987
Current portion of finance lease liabilities	2,584	3,632	238	1,530	7,984	—	—	—	7,984
Current portion of operating lease liabilities	3,228	374	657	18,195	22,454	157	—	167	22,778
Other current liabilities	6,583	1,757	1,162	11,380	20,882	2,128	22,108	2,867	47,985
Total current liabilities	226,277	42,847	46,091	435,578	750,793	33,096	22,261	30,154	836,304
Postretirement and postemployment benefit obligations, net of current portion	—	—	—	99,607	99,607	—	—	—	99,607
Long-term debt, net of current portion	—	—	—	1,455,042	1,455,042	—	—	—	1,455,042
Finance lease liabilities, net of current portion	1,702	128,247	178	2,871	132,998	—	—	24	133,022
Operating lease liabilities, net of current portion	2,179	202	166	306,681	309,228	—	—	1,541	310,769
Other noncurrent liabilities	12,064	7,132	6,922	45,864	71,982	11,975	28,393	1,832	114,182
Total liabilities	242,222	178,428	53,357	2,345,643	2,819,650	45,071	50,654	33,551	2,948,926
Net assets:									
Without donor restrictions	1,402,431	120,539	369,760	3,196,775	5,089,505	38,917	266,567	19,082	5,414,071
With donor restrictions	—	—	—	60,980	60,980	—	—	—	60,980
Total net assets	1,402,431	120,539	369,760	3,257,755	5,150,485	38,917	266,567	19,082	5,475,051
Total liabilities and net assets	$ 1,644,653	298,967	423,117	5,603,398	7,970,135	83,988	317,221	52,633	8,423,977

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, 2023

(Dollars 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	2023 total DUHS consolidated
Revenues, gains, and other support without donor restrictions:											
Patient service revenue	$ 3,156,783	423,033	687,216	63,770	—	4,330,802	198,730	—	59,918	—	4,589,450
Other revenue	81,594	8,472	21,684	232,223	(183,944)	160,029	2,125	29,189	211,680	(155,146)	247,877
Total revenues, gains, and other support	3,238,377	431,505	708,900	295,993	(183,944)	4,490,831	200,855	29,189	271,598	(155,146)	4,837,327
Expenses:											
Employee compensation and temporary labor	1,218,200	259,026	238,218	405,225	—	2,120,669	191,353	—	162,547	—	2,474,569
Medical supplies	920,076	73,154	194,842	99,659	—	1,287,731	21,720	—	25,147	—	1,334,598
Interest	38,736	8,966	9,553	35	—	57,290	—	—	5	—	57,295
Depreciation and amortization	97,930	24,027	33,207	44,760	—	199,924	7,423	—	6,236	—	213,583
Other operating expenses	1,024,044	139,320	181,920	(246,967)	(183,944)	914,373	41,137	24,703	84,218	(155,146)	909,285
Total expenses	3,298,986	504,493	657,740	302,712	(183,944)	4,579,987	261,633	24,703	278,153	(155,146)	4,989,330
Operating (loss) income	(60,609)	(72,988)	51,160	(6,719)	—	(89,156)	(60,778)	4,486	(6,555)	—	(152,003)
Nonoperating income (loss):											
Investment income (loss)	5	—	—	27,387	—	27,392	—	15,139	—	—	42,531
Nonoperating components of net periodic benefit cost	—	—	—	39,264	—	39,264	—	—	—	—	39,264
Other	346	56	—	(7,529)	—	(7,127)	—	—	(940)	—	(8,067)
Total nonoperating income (loss)	351	56	—	59,122	—	59,529	—	15,139	(940)	—	73,728
(Deficit) excess of revenues over expenses	(60,258)	(72,932)	51,160	52,403	—	(29,627)	(60,778)	19,625	(7,495)	—	(78,275)
Change in funded status of defined benefit plans	—	—	—	(119,082)	—	(119,082)	—	—	—	—	(119,082)
Net assets released from restrictions for purchase of property and equipment	78	—	—	7	—	85	—	—	—	—	85
Intracompany transfers, net	285,200	82,260	(22,022)	(395,899)	—	(50,461)	58,871	—	(8,410)	—	—
Transfers (to) from the University, net	(133,459)	(16)	354	(420)	—	(133,541)	(1,038)	—	1,527	—	(133,052)
(Decrease) increase in net assets without donor restrictions	$ 91,561	9,312	29,492	(462,991)	—	(332,626)	(2,945)	19,625	(14,378)	—	(330,324)

See accompanying independent auditors' report.