

# DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements  
September 30, 2023 and 2022

(Unaudited)

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**  
Consolidated Balance Sheets (Unaudited)  
September 30, 2023 and 2022  
(\$000's Omitted)

<b>Assets</b>	<b>9/30/2023</b>	<b>9/30/2022</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 99,574	59,087
Patient accounts receivable	758,196	571,817
Estimated third-party payor settlements, net	86,649	37,424
Other receivables	67,905	63,851
Inventories of drugs and supplies	131,890	148,189
Short-term investments	481,006	322,122
Assets limited as to use	22,108	17,045
Other current assets	58,287	62,381
Total current assets	1,705,615	1,281,916
Assets limited as to use	162,376	132,616
Investments	4,225,218	4,482,513
Property and equipment, net	2,187,435	2,244,121
Prepaid pension asset	-	87,066
Right-of-use operating lease assets	497,014	333,142
Other noncurrent assets	102,153	62,743
Total assets	\$ 8,879,811	8,624,117
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 193,332	228,264
Accrued salaries, wages and vacation payable	311,966	257,599
Current portion of postretirement and postemployment benefit obligations	8,657	8,850
Commercial paper	296,928	-
Current portion of long-term debt	32,987	30,963
Current portion of finance lease liabilities	15,538	9,569
Current portion of operating lease liabilities	35,555	27,145
Other current liabilities	86,804	115,239
Total current liabilities	981,767	677,629
Postretirement and postemployment benefit obligations, net of current portion	88,200	74,469
Long-term debt, net of current portion	1,604,347	1,490,282
Finance lease liabilities, net of current portion	141,141	152,655
Operating lease liabilities, net of current portion	488,349	332,996
Other noncurrent liabilities	116,712	111,379
Total liabilities	3,420,516	2,839,410
<b>Net Assets:</b>		
Without donor restrictions	5,397,677	5,726,474
With donor restrictions	61,618	58,233
Total net assets	5,459,295	5,784,707
Total liabilities and net assets	\$ 8,879,811	8,624,117

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**  
Consolidated Statements of Operations (Unaudited)  
For the Three Months Ended September 30, 2023 and 2022  
(\$000's Omitted)

	<b>9/30/2023</b>	<b>9/30/2022</b>
Revenues, gains and other support without donor restrictions:		
Patient service revenue	\$ 1,423,558	1,113,533
Other revenue	44,325	56,996
Total revenues, gains and other support	1,467,883	1,170,529
Expenses:		
Employee compensation and temporary labor	854,734	607,429
Medical supplies	364,760	316,933
Interest	19,979	12,124
Depreciation and amortization	51,999	52,985
Other operating expenses	214,145	216,772
Total expenses	1,505,617	1,206,243
Operating loss	(37,734)	(35,714)
Nonoperating income (loss):		
Investment income	41,039	57,500
Nonoperating components of net periodic benefit cost	11,368	9,816
Other, net	(694)	117
Total nonoperating income	51,713	67,433
Excess of revenue over expenses	13,979	31,719
Change in funded status of defined benefit plans	(1,849)	1,034
Transfers to the University, net	(28,524)	(50,674)
Decrease in net assets without donor restrictions	\$ (16,394)	(17,921)

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**  
Consolidated Statements of Changes in Net Assets (Unaudited)  
For the Three Months Ended September 30, 2023 and 2022  
(\$000's Omitted)

	<b>9/30/2023</b>	<b>9/30/2022</b>
Net assets without donor restrictions:		
Excess of revenue over expenses	\$ 13,979	31,719
Change in funded status of defined benefit plans	(1,849)	1,034
Transfers to the University, net	(28,524)	(50,674)
Decrease in net assets without donor restrictions	(16,394)	(17,921)
Net assets with donor restrictions:		
Contributions for restricted purposes	1,020	736
Transfers from the University, net	139	-
Net assets released from restrictions used for operations	(1,249)	(665)
Net realized and unrealized gains	728	734
Increase in net assets with donor restrictions	638	805
Decrease in net assets	(15,756)	(17,116)
Net assets, beginning of year	5,475,051	5,801,823
Net assets, end of period	\$ 5,459,295	5,784,707

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

Consolidated Statements of Cash Flows (Unaudited)  
For the Three Months Ended September 30, 2023 and 2022  
(\$000's Omitted)

	<u>9/30/2023</u>	<u>9/30/2022</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (15,756)	(17,116)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	51,999	52,985
Amortization of debt issuance costs, premium and discount	(1,033)	(763)
Investment income	(41,284)	(57,837)
Net loss on other investments and disposals of property and equipment	566	23
Nonperiodic changes in defined benefit plans	1,849	(1,034)
Transfers to the University, net	28,385	50,674
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(501)	(897)
Changes in operating assets and liabilities:		
Patient accounts receivable	(129,462)	(21,308)
Estimated third-party payor settlements, net	(12,316)	(79,812)
Other receivables	(7,262)	(14,754)
Inventories of drugs and supplies	572	(5,139)
Right-of-use operating lease assets, net of operating lease liabilities	1,253	1,158
Pension asset and postretirement and postemployment benefit obligations	(1,339)	(2,668)
Other assets	(8,129)	(16,972)
Accounts payable	(9,152)	7,282
Accrued salaries, wages and vacation payable	27,909	(12,307)
Other liabilities	15,082	13,027
Net cash used in operating activities	<u>(98,619)</u>	<u>(105,458)</u>
Cash flows from investing activities:		
Capital expenditures	(26,815)	(36,041)
Increase in assets limited as to use	(298)	(743)
Sales of investments	328,209	385,086
Purchases of investments	(330,418)	(289,042)
Acquisition of physician organization	(50,320)	-
Decrease (increase) in other assets	2,642	(1,789)
Net cash (used in) provided by investing activities	<u>(77,000)</u>	<u>57,471</u>

**DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES**  
Consolidated Statements of Cash Flows, Continued (Unaudited)  
For the Three Months Ended September 30, 2023 and 2022  
(\$000's Omitted)

	<u>9/30/2023</u>	<u>9/30/2022</u>
Cash flows from financing activities:		
Payments on long-term debt	-	-
Proceeds from bank borrowings	\$ 150,000	-
Proceeds from issuance of commercial paper	344,981	-
Payments on commercial paper	(296,102)	-
Proceeds from restricted contributions and associated investment income	501	897
Payments on finance lease liabilities	(6,222)	(4,625)
Transfers to the University, net	(33,053)	(50,482)
Net cash provided by (used in) financing activities	<u>160,105</u>	<u>(54,210)</u>
Net decrease in cash and cash equivalents	(15,514)	(102,197)
Cash and cash equivalents, beginning of year	<u>115,088</u>	<u>161,284</u>
Cash and cash equivalents, end of period	<u>\$ 99,574</u>	<u>59,087</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 13,719	7,538
Recoupments of Medicare accelerated advance payments included in cash flow from operations	-	(43,665)
Supplemental disclosures of noncash investing/financing activities:		
Change in fixed asset payables as of September 30	\$ (117)	(12,201)
Net transfers to the University of property and equipment	191	768
Net transfers payable to the University	7,088	8
Supplemental cash flow information and noncash activity related to leases:		
Cash paid for operating lease liabilities	\$ 13,774	8,550
Increase (decrease) in right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	(2,480)	(5,613)
Finance leases	637	-

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Utilization Statistics (Unaudited)

For the Three Months Ended September 30, 2023 and 2022

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		DUHS Consolidated	
	3 months 9/30/2023	3 months 9/30/2022	3 months 9/30/2023	3 months 9/30/2022	3 months 9/30/2023	3 months 9/30/2022	3 months 9/30/2023	3 months 9/30/2022
Adult Patient Days	83,922	84,283	23,476	25,475	12,734	14,457	120,132	124,215
Average Adult Daily Census	912	916	255	277	138	157	1,306	1,350
Licensed Beds	1,062	1,048	388	388	186	186	1,636	1,622
Average Number of Available Beds	1,042	1,028	363	363	186	186	1,591	1,577
Full Time Equivalents	10,313	9,847	2,269	2,266	2,075	2,007	26,206	21,211
Average Adult Occupancy	88%	89%	70%	76%	74%	84%	82%	86%
Adult Discharges	10,810	10,244	3,991	3,872	2,511	2,392	17,312	16,508
Average Adult Length of Stay	7.8	8.2	5.9	6.6	5.1	6.0	6.9	7.5
Medicare Case Mix Index	2.6174	2.6328	1.6810	1.8133	2.0296	2.0273	2.2107	2.3270
Number of Deliveries	879	1,049	720	694	-	-	1,599	1,743
Surgical Procedures	10,061	9,327	5,901	5,941	4,532	4,184	20,494	19,452
Endoscopy Procedures	3,833	4,171	1,313	1,162	1,002	1,070	6,148	6,403
Emergency Department Visits	18,585	19,162	14,178	10,363	12,033	11,618	44,796	41,143
Hospital Outpatient Visits	316,706	308,568	63,349	55,844	101,030	97,906	481,085	462,318
Duke Primary Care Visits	-	-	-	-	-	-	241,068	223,794
Duke Health Integrated Practice Visits	-	-	-	-	-	-	514,678	-
Gross Revenues by Payor								
Medicare	22.5%	23.8%	21.1%	23.7%	26.4%	28.4%	22.2%	24.2%
Medicare Managed Care	21.4%	19.1%	27.4%	25.2%	27.5%	25.2%	22.5%	20.7%
Medicaid	12.2%	13.1%	9.3%	9.3%	6.4%	7.4%	10.7%	11.5%
Commercial	35.7%	34.8%	32.5%	31.9%	33.2%	33.0%	36.9%	35.0%
Self-pay	3.2%	3.9%	6.5%	6.6%	3.5%	3.4%	3.6%	4.1%
Other	5.0%	5.2%	3.1%	3.3%	3.0%	2.7%	4.2%	4.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100%	100%

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

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

Consolidating Statements of Operations (Unaudited)

For the Three Months Ended September 30, 2023

(\$000's Omitted)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Duke Health Integrated Practice	All Other Affiliates & Eliminations	Consolidated
Revenues, gains and other support without donor restrictions:						
Patient service revenue	\$ 822,119	120,385	151,579	244,630	84,845	1,423,558
Other revenue	15,182	2,213	1,159	49,171	(23,400)	44,325
Total revenues, gains and other support	<u>837,301</u>	<u>122,598</u>	<u>152,738</u>	<u>293,801</u>	<u>61,445</u>	<u>1,467,883</u>
Expenses:						
Employee compensation and temporary labor	307,936	67,523	59,453	233,952	185,870	854,734
Medical supplies	251,221	22,782	39,093	20,513	31,151	364,760
Interest	13,400	3,107	3,245	219	8	19,979
Depreciation	23,647	7,006	8,100	4,411	8,835	51,999
Other operating expenses	245,194	34,737	41,930	51,668	(159,384)	214,145
Total expenses	<u>841,398</u>	<u>135,155</u>	<u>151,821</u>	<u>310,763</u>	<u>66,480</u>	<u>1,505,617</u>
Operating (loss) income	\$ <u>(4,097)</u>	<u>(12,557)</u>	<u>917</u>	<u>(16,962)</u>	<u>(5,035)</u>	<u>(37,734)</u>



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

Supplemental Notes to Consolidated Financial Statements (Unaudited)

September 30, 2023 and 2022

(000's Omitted)

**1. Acquisition of Physician Organization**

On July 1, 2023, the Health System acquired certain assets and assumed certain liabilities of the Private Diagnostic Clinic, PLLC (PDC). The PDC was a professional limited liability company consisting of physicians practicing primarily within Health System facilities and PDC clinics. The Health System formed Duke Health Integrated Practice, Inc. (DHIP), a new wholly-owned 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. The Health System believes that 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 Duke's integrated academic healthcare system.

The following table summarizes the consideration paid to the PDC and the amounts of assets recognized and liabilities assumed in the consolidated balance sheet as of July 1, 2023:

Cash paid	\$ 50,320
Patient accounts receivable	4,750
Inventories of drugs and supplies	9,481
Other current assets	1,546
Right-of-use operating lease assets	204,223
Property and equipment	48,990
Accrued vacation payable	(19,175)
Other current liabilities	(9,222)
Operating lease liabilities	(202,541)
Finance lease liabilities	(25,036)
Total identifiable net assets	<u>13,016</u>
Goodwill recognized	<u>\$ 37,304</u>

The University also made an initial noncash transfer to the Health System in the amount of \$11,917 for the estimated pension asset, net of the estimated postretirement liability, associated with employees previously leased by the PDC from the University. The amount transferred will be adjusted in the second quarter based on the final actuarial report. DHIP's total revenues, expenses and operating loss for the three months ended September 30, 2023 are disclosed in the Consolidating Statement of Operations (unaudited).

**2. Transfers to the University, net**

To accommodate the Health System's acquisition of the physician organization, both the Health System and the University have mutually decided to postpone the fiscal year 2024 transfers amounting to \$28,875 that are typically made in the first quarter. Instead, these transfers will be made in the second quarter of fiscal year 2024, in addition to the regularly scheduled second-quarter transfers.

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September 30, 2023 and 2022

(000's Omitted)

For the three months ended September 30, net unrestricted transfers to the University are as follows:

	<b>2023</b>	<b>2022</b>
Transfers, excluding DHIP	\$ 18,268	49,906
DHIP transfers	21,981	-
Transfer of pension asset, net of postretirement liability, for leased employees	(11,917)	-
Fixed asset and other unfunded transfers	192	768
Transfers to the University, net	\$ 28,524	50,674