

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements
December 31, 2023 and 2022

(Unaudited)

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets (Unaudited)

December 31, 2023 and 2022

(\$000's Omitted)

Assets	12/31/2023	12/31/2022
Current Assets:		
Cash and cash equivalents	\$ 121,981	91,562
Patient accounts receivable	750,649	622,443
Estimated third-party payor settlements, net	157,012	59,394
Other receivables	61,161	38,342
Inventories of drugs and supplies	132,925	151,591
Short-term investments	466,216	307,758
Assets limited as to use	22,108	17,045
Other current assets	65,689	61,709
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Total current assets	1,777,741	1,349,844
Assets limited as to use	162,085	135,475
Investments	4,239,734	4,425,179
Property and equipment, net	2,164,803	2,232,774
Prepaid pension asset	-	90,892
Right-of-use operating lease assets	500,665	323,273
Other noncurrent assets	104,985	68,828
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Total assets	\$ 8,950,013	8,626,265
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Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 184,437	222,165
Accrued salaries, wages and vacation payable	354,243	263,118
Current portion of postretirement and postemployment benefit obligations	8,657	8,850
Commercial paper	248,490	49,762
Current portion of long-term debt	32,987	30,963
Current portion of finance lease liabilities	14,735	9,402
Current portion of operating lease liabilities	34,375	26,774
Other current liabilities	72,987	104,497
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Total current liabilities	950,911	715,531
Postretirement and postemployment benefit obligations, net of current portion	88,609	74,180
Long-term debt, net of current portion	1,603,651	1,489,546
Finance lease liabilities, net of current portion	139,905	152,390
Operating lease liabilities, net of current portion	493,615	323,443
Other noncurrent liabilities	126,539	114,337
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Total liabilities	3,403,230	2,869,427
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Net Assets:		
Without donor restrictions	5,485,524	5,697,693
With donor restrictions	61,259	59,145
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Total net assets	5,546,783	5,756,838
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Total liabilities and net assets	\$ 8,950,013	8,626,265
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DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations (Unaudited)
For the Six Months Ended December 31, 2023 and 2022
(\$000's Omitted)

	<u>12/31/2023</u>	<u>12/31/2022</u>
Revenues, gains and other support without donor restrictions:		
Patient service revenue	\$ 3,192,387	2,254,227
Other revenue	92,994	115,713
Total revenues, gains and other support	<u>3,285,381</u>	<u>2,369,940</u>
Expenses:		
Employee compensation and temporary labor	1,773,341	1,230,459
Medical supplies	753,562	637,817
Interest	40,576	25,598
Depreciation and amortization	103,821	105,864
Other operating expenses	512,334	440,186
Total expenses	<u>3,183,634</u>	<u>2,439,924</u>
Operating income (loss)	<u>101,747</u>	<u>(69,984)</u>
Nonoperating income (loss):		
Investment income	55,511	79,186
Nonoperating components of net periodic benefit cost	24,999	19,632
Other, net	(641)	(17)
Total nonoperating income	<u>79,869</u>	<u>98,801</u>
Excess of revenue over expenses	181,616	28,817
Change in funded status of defined benefit plans	(4,442)	2,068
Transfers to the University, net	<u>(105,721)</u>	<u>(77,587)</u>
Increase (decrease) in net assets without donor restrictions	\$ <u>71,453</u>	<u>(46,702)</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets (Unaudited)

For the Six Months Ended December 31, 2023 and 2022

(\$000's Omitted)

	<u>12/31/2023</u>	<u>12/31/2022</u>
Net assets without donor restrictions:		
Excess of revenue over expenses	\$ 181,616	28,817
Change in funded status of defined benefit plans	(4,442)	2,068
Transfers to the University, net	<u>(105,721)</u>	<u>(77,587)</u>
Increase (decrease) in net assets without donor restrictions	<u>71,453</u>	<u>(46,702)</u>
Net assets with donor restrictions:		
Contributions for restricted purposes	1,935	2,718
Transfers from the University, net	139	-
Net assets released from restrictions used for operations	(2,511)	(1,691)
Net realized and unrealized gains	<u>716</u>	<u>690</u>
Increase in net assets with donor restrictions	<u>279</u>	<u>1,717</u>
Increase (decrease) in net assets	71,732	(44,985)
Net assets, beginning of year	<u>5,475,051</u>	<u>5,801,823</u>
Net assets, end of period	<u>\$ 5,546,783</u>	<u>5,756,838</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended December 31, 2023 and 2022
(\$000's Omitted)

	<u>12/31/2023</u>	<u>12/31/2022</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 71,732	(44,985)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	103,821	105,864
Amortization of debt issuance costs, premium and discount	(166)	(1,429)
Investment income	(55,262)	(79,080)
Net loss on other investments and disposals of property and equipment	602	286
Nonperiodic changes in defined benefit plans	4,442	(2,068)
Transfers to the University, net	105,582	77,587
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(1,017)	(1,335)
Changes in operating assets and liabilities:		
Patient accounts receivable	(121,915)	(71,934)
Estimated third-party payor settlements, net	(82,679)	(101,782)
Other receivables	(6,969)	(862)
Inventories of drugs and supplies	(463)	(8,541)
Right-of-use operating lease assets, net of operating lease liabilities	1,688	1,103
Pension asset and postretirement and postemployment benefit obligations	(3,829)	(5,749)
Other assets	(11,513)	(20,480)
Accounts payable	(19,944)	(4,970)
Accrued salaries, wages and vacation payable	70,187	(6,788)
Other liabilities	11,133	18,584
Net cash provided by (used in) operating activities	<u>65,430</u>	<u>(146,579)</u>
Cash flows from investing activities:		
Capital expenditures	(54,312)	(71,630)
Acquisition of physician organization	(50,320)	-
Increase in assets limited as to use	(461)	(2,055)
Sales of investments	633,462	969,208
Purchases of investments	(612,998)	(782,564)
Decrease (increase) in other assets	2,607	(6,738)
Net cash (used in) provided by investing activities	<u>(82,022)</u>	<u>106,221</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Cash Flows, Continued (Unaudited)
For the Six Months Ended December 31, 2023 and 2022
(\$000's Omitted)

	<u>12/31/2023</u>	<u>12/31/2022</u>
Cash flows from financing activities:		
Payments on long-term debt	-	-
Proceeds from bank borrowings	\$ 150,000	-
Proceeds from issuance of commercial paper	542,453	49,664
Payments on commercial paper	(543,574)	-
Proceeds from restricted contributions and associated investment income	1,017	1,335
Payments on finance lease liabilities	(9,854)	(6,557)
Transfers to the University, net	(116,557)	(73,806)
Net cash provided by (used in) financing activities	<u>23,485</u>	<u>(29,364)</u>
Net increase (decrease) in cash and cash equivalents	6,893	(69,722)
Cash and cash equivalents, beginning of year	<u>115,088</u>	<u>161,284</u>
Cash and cash equivalents, end of period	<u>\$ 121,981</u>	<u>91,562</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 40,790	28,299
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 December 31	\$ 1,812	(5,646)
Net transfers to the University of property and equipment	391	1,550
Net transfers payable to the University	274	2,815
Supplemental cash flow information and noncash activity related to leases:		
Cash paid for operating lease liabilities	\$ 28,724	18,135
Increase (decrease) in right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	12,167	(7,788)
Finance leases	620	196

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Utilization Statistics (Unaudited)

For the Six Months Ended December 31, 2023 and 2022

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		DUHS Consolidated	
	6 months	6 months	6 months	6 months	6 months	6 months	6 months	6 months
	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2022</u>
Adult Patient Days	170,360	167,984	48,504	50,866	26,293	28,526	245,157	247,376
Average Adult Daily Census	926	913	264	276	143	155	1,332	1,344
Licensed Beds	1,062	1,048	388	388	186	186	1,636	1,622
Average Number of Available Beds	1,051	1,033	363	363	186	186	1,600	1,582
Full Time Equivalents	10,341	9,914	2,285	2,280	2,085	2,022	26,362	21,336
Average Adult Occupancy	88%	88%	73%	76%	77%	83%	83%	85%
Adult Discharges	22,041	20,734	8,197	7,736	5,135	4,930	35,373	33,400
Average Adult Length of Stay	7.7	8.1	5.9	6.6	5.1	5.8	6.9	7.4
Medicare Case Mix Index	2.6382	2.6682	1.6592	1.8130	2.0247	2.0336	2.1899	2.3390
Number of Deliveries	1,805	2,073	1,404	1,340	-	-	3,209	3,413
Surgical Procedures	20,547	18,798	12,411	11,887	9,335	8,717	42,293	39,402
Endoscopy Procedures	7,860	8,406	2,449	2,501	2,107	2,092	12,416	12,999
Emergency Department Visits	37,743	38,700	28,969	22,284	24,247	23,494	90,959	84,478
Hospital Outpatient Visits	639,786	612,314	128,059	113,238	206,613	194,756	974,458	920,308
Duke Primary Care Visits	-	-	-	-	-	-	510,537	455,247
Duke Health Integrated Practice Visits	-	-	-	-	-	-	1,069,693	-
Gross Revenues by Payor								
Medicare	22.5%	24.2%	21.2%	24.0%	26.1%	28.8%	22.1%	24.5%
Medicare Managed Care	21.2%	19.3%	26.9%	25.2%	27.7%	24.5%	22.3%	20.7%
Medicaid	12.5%	13.1%	9.7%	9.1%	6.2%	7.0%	10.9%	11.4%
Commercial	35.9%	34.5%	33.4%	31.8%	34.0%	33.9%	37.3%	35.0%
Self-pay	2.9%	3.8%	5.8%	6.7%	3.2%	3.1%	3.3%	4.0%
Other	4.9%	5.1%	2.9%	3.2%	2.9%	2.7%	4.1%	4.3%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100%</u>	<u>100%</u>

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

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Statements of Operations (Unaudited)

For the Six Months Ended December 31, 2023

(\$000's Omitted)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Duke Health Integrated Practice	Duke Primary Care	All Other Affiliates & Eliminations	Consolidated
Revenues, gains and other support without donor restrictions:							
Patient service revenue	\$ 1,895,113	267,982	342,075	521,354	113,548	52,315	3,192,387
Other revenue	26,507	4,502	2,383	105,339	1,033	(46,770)	92,994
Total revenues, gains and other support	<u>1,921,620</u>	<u>272,484</u>	<u>344,458</u>	<u>626,693</u>	<u>114,581</u>	<u>5,545</u>	<u>3,285,381</u>
Expenses:							
Employee compensation and temporary labor	627,286	138,550	121,020	501,105	101,504	283,876	1,773,341
Medical supplies	510,929	46,789	82,741	46,642	14,414	52,047	753,562
Interest	27,232	6,313	6,594	421	-	16	40,576
Depreciation	46,975	14,010	16,127	9,179	3,748	13,782	103,821
Other operating expenses	552,837	80,752	97,563	110,427	22,291	(351,536)	512,334
Total expenses	<u>1,765,259</u>	<u>286,414</u>	<u>324,045</u>	<u>667,774</u>	<u>141,957</u>	<u>(1,815)</u>	<u>3,183,634</u>
Operating income (loss)	\$ <u>156,361</u>	<u>(13,930)</u>	<u>20,413</u>	<u>(41,081)</u>	<u>(27,376)</u>	<u>7,360</u>	<u>101,747</u>

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

Supplemental Notes to Consolidated Financial Statements (Unaudited)

December 31, 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 a noncash transfer to the Health System in the amount of \$11,611 for the pension asset, net of the estimated postretirement liability, associated with employees previously leased by the PDC from the University. DHIP's total revenues, expenses and operating loss for the six months ended December 31, 2023 are disclosed in the Consolidating Statement of Operations (unaudited).

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

Supplemental Notes to Consolidated Financial Statements (Unaudited)

December 31, 2023 and 2022

(000's Omitted)

2. Transfers to the University, net

Transfers from the Health System to the University increased from fiscal year 2023 as a result of the formation of DHIP. For the six months ended December 31, net unrestricted transfers to the University are as follows:

	2023	2022
Transfers, excluding DHIP	\$ 72,589	76,037
DHIP transfers	44,351	-
Transfer of pension asset, net of postretirement liability, for leased employees	(11,611)	-
Fixed asset and other unfunded transfers	392	1,550
Transfers to the University, net	\$ 105,721	77,587

3. Impact from Government Programs

a) Medicaid Expansion

In March 2023, North Carolina enacted Medicaid expansion through NC House Bill 76. The expansion, funded 90% by the federal government, is designed to extend coverage to 600,000 uninsured residents of North Carolina. North Carolina hospitals will contribute through an increased assessment to cover most of the State's 10% share of the expansion cost. North Carolina received final federal approval from the Centers for Medicare & Medicaid Services (CMS) to launch Medicaid expansion on December 1, 2023. Medicaid expansion did not have a material impact on the consolidated financial statements for the six months ended December 31, 2023.

b) Healthcare Access and Stabilization Program (HASP)

HASP is a directed payment initiative under NC House Bill 76, providing hospitals enhanced Medicaid reimbursements. HASP covers a portion of the difference between current Medicaid rates and average commercial rates, helping hospitals afford their share of the State's Medicaid expansion cost.

- (i) In September 2023 CMS approved an interim HASP payment retroactive to July 1, 2022. Final settlement of FY2023 is expected in the Spring of 2024. For the six months ended December 31, 2023, patient service revenue includes \$194,802 of HASP revenue and other operating expenses includes \$80,211 of assessment expense related to the Health System's fiscal year ended June 30, 2023.
- (ii) HASP approval for fiscal year 2024 is currently being pursued by North Carolina but has not yet been achieved. While the Health System expects a positive impact to the consolidated statement of operations for fiscal year 2024, the Health System does not plan to recognize revenue or expense until approval is received and the amounts are reasonably estimable.

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

Supplemental Notes to Consolidated Financial Statements (Unaudited)

December 31, 2023 and 2022

(000's Omitted)

c) 340B Underpayment Recovery

In June 2022, the U.S. Supreme Court overturned a Medicare Part B payment reduction for 340B Program hospitals. In a November 2023 final rule, CMS outlined repayments for 2018-2022 underpayments which clarified that affected 340B hospitals would receive a one-time, lump sum payment for applicable drugs, addressing underpayments and capturing additional beneficiary cost-sharing lost due to the 340B reimbursement policy. The Health System recognized \$76,723 in net patient revenue related to the 340B underpayment recovery during the six months ended December 31, 2023 and received payment of this amount in January 2024.