

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements
March 31, 2024 and 2023

(Unaudited)

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets (Unaudited)

March 31, 2024 and 2023

(\$000's Omitted)

Assets	3/31/2024	3/31/2023
Current Assets:		
Cash and cash equivalents	\$ 62,151	143,538
Patient accounts receivable	797,404	640,246
Estimated third-party payor settlements, net	53,968	65,422
Other receivables	66,741	44,880
Inventories of drugs and supplies	134,000	148,481
Short-term investments	457,650	444,844
Assets limited as to use	22,108	17,045
Other current assets	53,255	61,859
Total current assets	1,647,277	1,566,316
Assets limited as to use	166,787	146,851
Investments	4,349,192	4,255,696
Property and equipment, net	2,148,698	2,185,431
Prepaid pension asset	-	121,212
Right-of-use operating lease assets	490,816	313,825
Other noncurrent assets	110,572	70,448
Total assets	\$ 8,913,342	8,659,779
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 207,877	212,894
Accrued salaries, wages and vacation payable	344,982	256,250
Current portion of postretirement and postemployment benefit obligations	8,657	8,850
Commercial paper	99,375	149,432
Current portion of long-term debt	32,987	30,963
Current portion of finance lease liabilities	13,741	9,206
Current portion of operating lease liabilities	34,426	23,005
Other current liabilities	83,834	94,383
Total current liabilities	825,879	784,982
Postretirement and postemployment benefit obligations, net of current portion	112,523	71,698
Long-term debt, net of current portion	1,602,967	1,488,787
Finance lease liabilities, net of current portion	138,924	151,995
Operating lease liabilities, net of current portion	484,240	318,079
Other noncurrent liabilities	129,266	123,964
Total liabilities	3,293,799	2,939,504
Net Assets:		
Without donor restrictions	5,556,136	5,656,705
With donor restrictions	63,407	63,569
Total net assets	5,619,543	5,720,274
Total liabilities and net assets	\$ 8,913,342	8,659,779

See accompanying notes to the unaudited consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations (Unaudited)
For the Nine Months Ended March 31, 2024 and 2023
(\$000's Omitted)

	<u>3/31/2024</u>	<u>3/31/2023</u>
Revenues, gains and other support without donor restrictions:		
Patient service revenue	\$ 4,756,479	3,425,958
Other revenue	138,709	182,688
Total revenues, gains and other support	<u>4,895,188</u>	<u>3,608,646</u>
Expenses:		
Employee compensation and temporary labor	2,684,030	1,846,933
Medical supplies	1,181,207	972,544
Interest	58,827	40,759
Depreciation and amortization	154,670	159,710
Other operating expenses	758,768	681,078
Total expenses	<u>4,837,502</u>	<u>3,701,024</u>
Operating income (loss)	<u>57,686</u>	<u>(92,378)</u>
Nonoperating income (loss):		
Investment income	241,900	48,313
Nonoperating components of net periodic benefit cost	37,499	29,448
Other, net	(633)	18
Total nonoperating income	<u>278,766</u>	<u>77,779</u>
Excess (deficit) of revenue over expenses	336,452	(14,599)
Change in funded status of defined benefit plans	(30,079)	32,802
Net assets released from restrictions for purchase of property and equipment	274	78
Transfers to the University, net	<u>(164,582)</u>	<u>(105,971)</u>
Increase (decrease) in net assets without donor restrictions	<u>\$ 142,065</u>	<u>(87,690)</u>

See accompanying notes to the unaudited consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Changes in Net Assets (Unaudited)
For the Nine Months Ended March 31, 2024 and 2023
(\$000's Omitted)

	3/31/2024	3/31/2023
Net assets without donor restrictions:		
Excess (deficit) of revenue over expenses	\$ 336,452	(14,599)
Change in funded status of defined benefit plans	(30,079)	32,802
Net assets released from restrictions for purchase of property and equipment	274	78
Transfers to the University, net	(164,582)	(105,971)
Increase (decrease) in net assets without donor restrictions	142,065	(87,690)
Net assets with donor restrictions:		
Contributions for restricted purposes	4,270	8,687
Transfers from the University, net	139	-
Net assets released from restrictions used for operations	(3,788)	(2,758)
Net assets released from restrictions for purchase of property and equipment	(274)	(78)
Net realized and unrealized gains	2,080	290
Increase in net assets with donor restrictions	2,427	6,141
Increase (decrease) in net assets	144,492	(81,549)
Net assets, beginning of year	5,475,051	5,801,823
Net assets, end of period	\$ 5,619,543	5,720,274

See accompanying notes to the unaudited consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended March 31, 2024 and 2023
(\$000's Omitted)

	<u>3/31/2024</u>	<u>3/31/2023</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 144,492	(81,549)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	154,670	159,710
Amortization of debt issuance costs, premium and discount	35	(1,524)
Investment income	(242,531)	(47,406)
Net loss on other investments and disposals of property and equipment	950	1,052
Nonperiodic changes in defined benefit plans	30,079	(32,802)
Transfers to the University, net	164,443	105,971
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(1,511)	(1,755)
Changes in operating assets and liabilities:		
Patient accounts receivable	(168,670)	(89,737)
Estimated third-party payor settlements, net	20,365	(107,810)
Other receivables	(19,001)	(10,558)
Inventories of drugs and supplies	(1,538)	(5,431)
Right-of-use operating lease assets, net of operating lease liabilities	2,213	1,418
Pension asset and postretirement and postemployment benefit obligations	(5,552)	(7,817)
Other assets	(10,784)	(19,451)
Accounts payable	(6,959)	16,613
Accrued salaries, wages and vacation payable	60,926	(13,655)
Other liabilities	34,729	19,696
Net cash provided by (used in) operating activities	<u>156,356</u>	<u>(115,035)</u>
Cash flows from investing activities:		
Capital expenditures	(79,154)	(110,563)
Acquisition of physician organization	(50,320)	-
Increase in assets limited as to use	(1,619)	(7,337)
Sales of investments	965,488	1,258,774
Purchases of investments	(866,797)	(1,074,541)
Decrease (increase) in other assets	2,607	(6,738)
Net cash (used in) provided by investing activities	<u>(29,795)</u>	<u>59,595</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Cash Flows, Continued (Unaudited)
For the Nine Months Ended March 31, 2024 and 2023
(\$000's Omitted)

	3/31/2024	3/31/2023
Cash flows from financing activities:		
Proceeds from bank borrowings	\$ 150,000	-
Proceeds from issuance of commercial paper	641,464	248,100
Payments on commercial paper	(792,585)	(99,430)
Proceeds from restricted contributions and associated investment income	1,511	1,755
Payments on finance lease liabilities	(13,464)	(8,463)
Transfers to the University, net	(166,424)	(104,268)
Net cash (used in) provided by financing activities	(179,498)	37,694
Net decrease in cash and cash equivalents	(52,937)	(17,746)
Cash and cash equivalents, beginning of year	115,088	161,284
Cash and cash equivalents, end of period	\$ 62,151	143,538
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 49,762	34,092
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 March 31	\$ 9,943	(36,588)
Net transfers to the University of property and equipment	594	2,272
Net transfers payable to the University	9,069	15
Supplemental cash flow information and noncash activity related to leases:		
Cash paid for operating lease liabilities	\$ 43,612	27,182
Increase (decrease) in right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	13,408	(9,829)
Finance leases	704	206

See accompanying notes to the unaudited consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Utilization Statistics (Unaudited)

For the Nine Months Ended March 31, 2024 and 2023

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		DUHS Consolidated	
	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months
	<u>3/31/2024</u>	<u>3/31/2023</u>	<u>3/31/2024</u>	<u>3/31/2023</u>	<u>3/31/2024</u>	<u>3/31/2023</u>	<u>3/31/2024</u>	<u>3/31/2023</u>
Adult Patient Days	258,198	250,433	75,544	75,923	40,829	42,306	374,571	368,662
Average Adult Daily Census	939	914	275	277	148	154	1,362	1,345
Licensed Beds	1,062	1,062	388	388	204	186	1,654	1,636
Average Number of Available Beds	1,056	1,037	363	363	204	186	1,623	1,586
Full Time Equivalents	10,346	9,921	2,304	2,287	2,086	2,032	26,447	21,385
Average Adult Occupancy	89%	88%	76%	76%	73%	83%	84%	85%
Adult Discharges	33,488	31,091	12,798	11,505	8,013	7,605	54,299	50,201
Average Adult Length of Stay	7.7	8.1	5.9	6.6	5.1	5.6	6.9	7.3
Medicare Case Mix Index	2.6120	2.6991	1.6440	1.7874	1.9983	2.0554	2.2573	2.3620
Number of Deliveries	2,682	2,967	2,062	2,003	-	-	4,744	4,970
Surgical Procedures	31,616	28,887	19,134	18,211	14,452	13,377	65,202	60,475
Endoscopy Procedures	12,205	12,771	3,923	4,105	3,082	3,125	19,210	20,001
Emergency Department Visits	57,122	57,536	44,206	34,320	35,879	35,011	137,207	126,867
Hospital Outpatient Visits	990,044	931,751	197,191	175,004	317,015	296,909	1,504,250	1,403,664
Duke Primary Care Visits	-	-	-	-	-	-	784,385	690,692
Duke Health Integrated Practice Visits	-	-	-	-	-	-	1,651,087	-
Gross Revenues by Payor								
Medicare	22.6%	24.0%	20.9%	23.3%	26.1%	28.4%	22.1%	24.3%
Medicare Managed Care	21.9%	19.9%	27.6%	25.8%	28.3%	25.1%	22.9%	21.3%
Medicaid	12.6%	13.0%	9.9%	9.4%	6.5%	6.9%	11.0%	11.4%
Commercial	35.6%	34.3%	33.3%	31.6%	33.3%	33.9%	37.0%	34.9%
Self-pay	2.5%	3.7%	5.3%	6.7%	2.8%	3.1%	2.9%	3.9%
Other	4.9%	5.0%	2.9%	3.1%	3.0%	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 Nine Months Ended March 31, 2024
(\$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	\$ 2,810,943	406,899	506,809	790,066	173,112	68,650	4,756,479
Other revenue	42,447	6,817	3,165	154,981	1,499	(70,200)	138,709
Total revenues, gains and other support	<u>2,853,390</u>	<u>413,716</u>	<u>509,974</u>	<u>945,047</u>	<u>174,611</u>	<u>(1,550)</u>	<u>4,895,188</u>
Expenses:							
Employee compensation and temporary labor	939,864	211,563	182,341	767,801	153,405	429,056	2,684,030
Medical supplies	803,912	74,402	127,900	75,408	21,360	78,225	1,181,207
Interest	39,482	9,157	9,560	604	-	24	58,827
Depreciation	69,912	20,869	24,240	13,939	5,600	20,110	154,670
Other operating expenses	819,185	119,708	143,107	171,402	33,033	(527,667)	758,768
Total expenses	<u>2,672,355</u>	<u>435,699</u>	<u>487,148</u>	<u>1,029,154</u>	<u>213,398</u>	<u>(252)</u>	<u>4,837,502</u>
Operating income (loss)	<u>\$ 181,035</u>	<u>(21,983)</u>	<u>22,826</u>	<u>(84,107)</u>	<u>(38,787)</u>	<u>(1,298)</u>	<u>57,686</u>

See accompanying notes to the unaudited consolidated financial statements.

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

Supplemental Notes to Consolidated Financial Statements (Unaudited)

March 31, 2024 and 2023

(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 nine months ended March 31, 2024 are disclosed in the Consolidating Statement of Operations (unaudited).

**DUKE UNIVERSITY HEALTH SYSTEM, INC.
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Supplemental Notes to Consolidated Financial Statements (Unaudited)

March 31, 2024 and 2023

(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 nine months ended March 31, net unrestricted transfers to the University are as follows:

	2024	2023
Transfers, excluding DHIP	\$ 100,172	103,699
DHIP transfers	75,429	-
Transfer of pension asset, net of postretirement liability, for leased employees	(11,611)	-
Fixed asset and other unfunded transfers	592	2,272
Transfers to the University, net	\$ 164,582	105,971

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.

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 nine months ended March 31, 2024, 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)

March 31, 2024 and 2023

(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 nine months ended March 31, 2024.