DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Financial Statements and Supplementary Schedules

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

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KPMG LLP
4242 Six Forks Road
Suite 850
Raleigh, NC 27609

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, 2024 and 2023, 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, 2024 and 2023, 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

Raleigh, North Carolina
October 1, 2024

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Balance Sheets

June 30, 2024 and 2023

(Dollars in thousands)

Assets		**2024**	**2023**
Current assets:			
Cash and cash equivalents	$	30,556	115,088
Patient accounts receivable		811,504	623,984
Estimated third-party payor settlements, net		228,098	74,333
Other receivables		57,399	41,289
Inventories of drugs and supplies		140,841	122,981
Short-term investments		568,205	390,840
Assets limited as to use		18,551	22,108
Other current assets		50,572	57,366
Total current assets		1,905,726	1,447,989
Assets limited as to use		166,506	138,866
Investments		4,353,147	4,302,336
Property and equipment, net		2,154,775	2,163,362
Prepaid pension asset		124,367	—
Right-of-use operating lease assets		483,621	306,228
Other noncurrent assets		114,435	65,196
Total assets	$	9,302,577	8,423,977
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	187,758	202,645
Accrued salaries, wages, and vacation payable		363,506	264,882
Current portion of postretirement and postemployment benefit obligations		8,791	8,657
Commercial paper		148,731	248,386
Current portion of long-term debt		34,339	32,987
Current portion of finance lease liabilities		12,418	7,984
Current portion of operating lease liabilities		33,233	22,778
Other current liabilities		84,498	47,985
Total current liabilities		873,274	836,304
Postretirement and postemployment benefit obligations, net of current portion		62,473	99,607
Long-term debt, net of current portion		1,567,945	1,455,042
Finance lease liabilities, net of current portion		139,555	133,022
Operating lease liabilities, net of current portion		478,172	310,769
Other noncurrent liabilities		139,666	114,182
Total liabilities		3,261,085	2,948,926
Net assets:			
Without donor restrictions		5,976,475	5,414,071
With donor restrictions		65,017	60,980
Total net assets		6,041,492	5,475,051
Total liabilities and net assets	$	9,302,577	8,423,977

See accompanying notes to consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2024 and 2023

(Dollars in thousands)

	2024	2023
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	$ 6,630,995	4,589,450
Other revenue	190,937	247,877
Total revenues, gains, and other support	6,821,932	4,837,327
Expenses:		
Employee compensation and temporary labor	3,617,227	2,474,569
Medical supplies	1,591,001	1,334,598
Interest	77,118	57,295
Depreciation and amortization	204,742	213,583
State provider assessments	355,865	101,188
Other operating expenses	773,290	808,097
Total expenses	6,619,243	4,989,330
Operating income (loss)	202,689	(152,003)
Nonoperating income (loss):		
Net investment income	404,012	42,531
Nonoperating components of net periodic benefit cost	49,999	39,264
Other	(521)	(8,067)
Total nonoperating income	453,490	73,728
Excess (deficit) of revenues over expenses	656,179	(78,275)
Change in funded status of defined benefit plans	141,220	(119,082)
Net assets released from restrictions for purchase of property and equipment	313	85
Transfers to the University, net	(235,308)	(133,052)
Increase (decrease) in net assets without donor restrictions	$ 562,404	(330,324)

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, 2024 and 2023

(Dollars in thousands)

	2024	2023
Net assets without donor restrictions:		
Excess (deficit) of revenues over expenses	$ 656,179	(78,275)
Change in funded status of defined benefit plans	141,220	(119,082)
Net assets released from restrictions for purchase of property and equipment	313	85
Transfers to the University, net	(235,308)	(133,052)
Increase (decrease) in net assets without donor restrictions	562,404	(330,324)
Net assets with donor restrictions:		
Contributions for restricted purposes	8,000	10,278
Transfers from the University, net	139	5
Net assets released from restrictions used for operations	(4,870)	(4,468)
Net assets released from restrictions for purchase of property and equipment	(313)	(85)
Net realized and unrealized gains (losses)	1,081	(2,178)
Increase in net assets with donor restrictions	4,037	3,552
Increase (decrease) in net assets	566,441	(326,772)
Net assets, beginning of year	5,475,051	5,801,823
Net assets, end of year	$ 6,041,492	5,475,051

See accompanying notes to consolidated financial statements.

DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

(Dollars in thousands)

	2024	2023
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 566,441	(326,772)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	204,742	213,583
Amortization of debt issuance costs and premium, net	(839)	(2,375)
Investment income	(404,831)	(40,365)
Net (gain) loss on other investments and disposals of property and equipment	(2,398)	11,157
Nonperiodic changes in defined benefit plans	(141,220)	119,082
Transfers to the University, net	235,169	133,047
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(1,328)	(663)
Changes in operating assets and liabilities:		
Patient accounts receivable	(182,770)	(73,475)
Estimated third-party payor settlements, net	(153,765)	(116,721)
Other receivables	(16,658)	(9,968)
Inventories of drugs and supplies	(8,379)	20,069
Right-of-use operating lease assets, net of operating lease liabilities	2,147	1,478
Pension asset and postretirement and postemployment benefit obligations	(8,536)	(10,773)
Other assets	(9,296)	(18,934)
Accounts payable	(33,100)	1,922
Accrued salaries, wages, and vacation payable	79,449	(5,024)
Other liabilities	34,074	(28,157)
Net cash provided by (used in) operating activities	158,902	(132,889)
Cash flows from investing activities:		
Capital expenditures	(127,331)	(159,181)
Sales of property and equipment	4,726	—
Acquisition of physician organization	(52,641)	—
Increase in assets limited as to use	(2,831)	(6,019)
Sales of investments	1,406,594	1,581,121
Purchases of investments	(1,255,285)	(1,398,837)
Decrease (increase) in other assets	2,516	(6,738)
Net cash (used in) provided by investing activities	(24,252)	10,346

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DUKE UNIVERSITY HEALTH SYSTEM, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

(Dollars in thousands)

		2024	2023
Cash flows from financing activities:			
Payments on long-term debt	$	(32,987)	(30,963)
Proceeds from bank borrowings		150,000	—
Proceeds from issuance of commercial paper		838,953	594,831
Payments on commercial paper		(940,527)	(347,114)
Proceeds from restricted contributions and associated investment income		1,328	663
Payments on finance lease liabilities		(17,020)	(10,467)
Transfers to the University, net		(218,929)	(130,603)
Net cash (used in) provided by financing activities		(219,182)	76,347
Net decrease in cash and cash equivalents		(84,532)	(46,196)
Cash and cash equivalents, beginning of year		115,088	161,284
Cash and cash equivalents, end of year	$	30,556	115,088
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amount capitalized	$	76,104	59,481
Recoupments of Medicare accelerated advance payments included in cash flows from operations		—	(43,665)
Supplemental disclosures of noncash investing/financing activities:			
Change in fixed asset payables as of June 30	$	18,257	(32,154)
Net transfers to the University of property and equipment		773	2,999
Net transfers payable between the Health System and the University		27,108	31

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)** –
  - **University campus** – the main location of 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 Raleigh Hospital campus (DRaH)** – a remote location of DUH located in Raleigh, North Carolina, licensed for 204 acute care beds and providing patient care; DRaH is leased from the University and operated by the Health System. As of June 1, 2024, the Health System combined two hospitals, DUH and DRaH, to operate as a single multi-campus hospital with DUH as the main provider and DRaH as a remote location of DUH.
- **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 University Affiliated Physicians, Inc. (DUAP)** – a North Carolina wholly-controlled 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 23 behavioral health practices are co-located within primary care sites of Duke Primary Care.
- **Duke Health Integrated Practice, Inc. (DHIP)** – a North Carolina wholly-controlled nonprofit corporation formed to provide physician clinical care to patients. DHIP employs faculty members in the SOM, community-based primary care and specialist physicians, and advanced practice providers, practicing primarily in Health System facilities and clinics throughout North Carolina. Clinical operations and financial activities of the physician faculty are reported in the Health System's consolidated financial statements, while medical education and research activities are accounted for within the SOM and reported in the Duke University consolidated financial statements.

- **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.

(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 $61,820 and $51,627 in fiscal years 2024 and 2023, 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 Executive

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(Dollars in thousands)

Vice President for Health Affairs and Dean of the SOM or a departmental chair. For the years ended June 30, 2024 and 2023, net unrestricted transfers to the University are as follows:

	2024	2023
Transfers to the School of Medicine, net	$ 234,674	118,959
Transfers to the University, net	11,472	11,094
Total funded transfers, net	246,146	130,053
Pension asset, net of estimated postretirement liability	(11,611)	—
Fixed assets and other unfunded transfers, net	773	2,999
Unrestricted transfers to the University, net	$ 235,308	133,052

Transfers to the School of Medicine, net in fiscal year 2024 includes $117,710 of transfers to the SOM from DHIP. The Health System plans to transfer $241,192 in cash (and noncash) equity transfers to the University in fiscal year 2025.

(d) Private Diagnostic Clinic, PLLC (PDC)

The PDC is a professional limited liability company that consisted of physicians practicing primarily within Health System facilities and PDC clinics. As disclosed in the acquisition of physician organization footnote (note 3), the Heath System purchased certain assets and assumed certain liabilities of the PDC as of July 1, 2023, and the PDC ceased to provide clinical services. 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.

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

(Continued)

(Dollars in thousands)

third parties. The following table summarizes the PDC-related revenue included in other revenue in the Health System's accompanying consolidated statement of operations for fiscal year 2023:

Billing and collection services	$	48,508
Revenue under service agreements		80,155
DCC malpractice insurance premiums		11,278
Rental income		17,797
Total	$	157,738

For the year ended June 30, 2023, other operating expenses in the Health System's consolidated statements of operations included PDC-related expenses under service agreements of $209,585. The Health System had net payables to the PDC of $10,425 as of June 30, 2023 related to various transactions. These agreements with the PDC ended on June 30, 2023 and became intercompany transactions in fiscal year 2024 that are eliminated in the Health System's consolidated financial statements.

(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) Inventories of Drugs and Supplies

Inventories of drugs and supplies are valued at the lower of average cost or net realizable value.

(c) 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.

(d) Investments

(i) Reporting

Investments are classified as trading securities. As such, investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess (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.

(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 10).

(e) 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.

(f) 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

(Dollars in thousands)

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 $5,869 and $4,863 was capitalized in fiscal years 2024 and 2023, respectively, and is included in property and equipment, net in the accompanying consolidated balance sheets.

(g) 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.

(h) 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.

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

(j) Excess (Deficit) of Revenues over Expenses

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

(k) 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.

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.

(l) 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.

(m) 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 net investment income in the consolidated statements of operations.

(n) 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, 2024 or 2023.

(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

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, commonly referred to as the Current Expected Credit Losses (CECL) model. Under the CECL model, the Health System is required to estimate expected credit losses over the contractual term of financial assets, including receivables. The estimation of expected credit losses involves considering relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. The Health System adopted ASU 2016-13 in fiscal year 2024 with no 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.

(Dollars in thousands)

(3) Acquisition of Physician Organization

On July 1, 2023, the Health System acquired certain assets and assumed certain liabilities of the PDC. 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 addition of DHIP allowed the Health System to become a fully integrated, nonprofit, and mission-centric health care system, enabling it to provide seamless, coordinated, and high quality clinical care to its patients.

Consideration paid for the acquisition was $52,641. The acquisition was accounted for using the acquisition method of accounting, in accordance with FASB ASC Topic 805, *Business Combinations*. The total purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the exception of lease right-of-use assets that were valued at the net present value of future lease payments in accordance with ASC Topic 842, *Leases*. The following table summarizes the amounts of assets recognized and liabilities assumed at the acquisition date:

Cash paid	$	52,641
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		51,311
Accrued vacation payable		(19,175)
Other current liabilities		(9,222)
Operating lease liabilities		(202,541)
Finance lease liabilities		(25,036)
Total identifiable net assets		15,337
Goodwill recognized	$	37,304

Goodwill arising from the acquisition represents the value of expected synergies, the workforce, and other intangible benefits that do not qualify for separate recognition.

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 balance sheet information as of June 30, 2024 and statement of operations information for the year ended June 30, 2024 are disclosed in the supplemental information in schedules 1 and 2.

Due to the PDC's use of cash-basis accounting for financial statement reporting and its adherence to a calendar year-end, it is impracticable to provide the pro forma financial information required under ASC

(Dollars in thousands)

Topic 805. Consequently, the Health System is unable to disclose revenue and earnings of the Health System as if the acquisition had occurred on July 1, 2022.

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

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 hospital and professional 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 or per occasion of service.

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.

Patient service revenue, net of price concessions, recognized in fiscal years 2024 and 2023 from major payor sources is as follows:

	2024		2023	
	Amount	Percentage	Amount	Percentage
Commercial payors	$ 3,420,668	51.6 %	$ 2,462,073	53.7 %
Medicare	966,377	14.5	763,655	16.6
Medicare managed care	933,695	14.1	690,914	15.1
Medicaid	203,082	3.1	230,660	5.0
Medicaid managed care	905,320	13.6	290,323	6.3
Self-pay patients	24,481	0.4	9,593	0.2
Other third-party payors	177,372	2.7	142,232	3.1
Total	$ 6,630,995	100.0 %	$ 4,589,450	100.0 %

(Continued)

(Dollars in thousands)

Patient service revenue disaggregated by hospital, professional, and other services recognized in fiscal years 2024 and 2023 is as follows:

	2024		2023	
	Amount	Percentage	Amount	Percentage
Hospital services	$ 4,910,252	74.1 %	$ 4,045,653	88.2 %
Professional services	1,387,859	20.9	255,922	5.6
Other	332,884	5.0	287,875	6.2
Total	$ 6,630,995	100.0 %	$ 4,589,450	100.0 %

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 2024 and 2023, 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. The Medicare reports for DUH through June 30, 2007, DRaH through June 30, 2012, and DRH through June 30, 2013, have been substantially resolved with the Medicare Administrative Contractor. Additionally, the Medicaid reports for all three hospitals through June 30, 2019, have been substantially resolved with the North Carolina Department of Health and Human Services. 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

(Continued)

(Dollars in thousands)

by $299,545 and $51,986 in fiscal years 2024 and 2023, respectively. The fiscal year 2024 retroactive adjustments include a $76,723 recovery for prior years' 340B Program underpayments and payments received for fiscal year 2023 under the Healthcare Access and Stabilization Program (HASP) described below. These amounts were partially offset by a $16,474 reduction due to the reversal of prior-year revenue accrued under a reimbursement program that was replaced by HASP.

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. In March 2023, North Carolina enacted Medicaid expansion through NC House Bill 76, and the Centers for Medicare & Medicaid Services (CMS) approved Medicaid expansion in North Carolina on December 1, 2023. The expansion, funded 90% by the federal government, is designed to extend coverage to approximately 600,000 uninsured residents of North Carolina. North Carolina hospitals contribute through an increased state provider assessment to cover most of the State's 10% share of the expansion cost.

NC House Bill 76 also introduced the Healthcare Access and Stabilization Program. HASP is a directed payment initiative that enhances Medicaid reimbursements for hospitals. It covers a portion of the difference between current Medicaid rates and average commercial rates, helping hospitals manage their share of North Carolina's Medicaid expansion cost. On September 28, 2023, CMS approved HASP payments retroactive to July 1, 2022, for fiscal year 2023. Patient service revenue includes $236,639 of HASP revenue and state provider assessments include $90,834 of assessment expense related to fiscal year 2023. These retroactive adjustments are included in the Medicaid DSH and HASP table below.

Amounts recognized in the Health System's accompanying consolidated financial statements related to Medicaid DSH and HASP are as follows:

		2024	2023
Supplemental Medicaid amounts included in patient service revenue	$	556,734	74,268
Medicaid assessments included in state provider assessments		(355,865)	(101,187)
Net supplemental Medicaid revenue (expense) in operating income (loss)	$	200,869	(26,919)
Net receivable from supplemental Medicaid included in estimated third-party payor settlements, net	$	171,299	16,474

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

(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:

	2024	2023
Commercial payors	41.6 %	39.8 %
Medicare	14.8	16.4
Medicare managed care	20.5	20.1
Medicaid	5.6	7.1
Medicaid managed care	10.1	9.0
Self-pay patients	2.3	2.6
Other third-party payors	5.1	5.0
	100.0 %	100.0 %

(5) 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:

		2024	2023
Charity care at cost	$	174,936	159,367
Unreimbursed Medicaid		22,735	297,693
Total charity care and means-tested programs		197,671	457,060
Health professionals education		86,392	79,847
Cash and in-kind contributions and community health improvement services		16,924	16,339
Total other benefits		103,316	96,186
Total charity care and other community benefits at cost	$	300,987	553,246

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. For the fiscal years ended June 30, 2024 and 2023, the estimated unreimbursed costs attributable to providing services under Medicare are $671,422 and $502,845, respectively, with the 2024 figure including an estimated $222,700 of unreimbursed costs for DHIP services. The Health System provides additional uncompensated care in the form of implicit price concessions. Estimated uncompensated costs associated with these uncollectible patient accounts were $48,941 and $31,791 for June 30, 2024 and 2023, respectively. As disclosed in note 4, the 2024 estimated unreimbursed Medicaid costs in the above table are reduced by the $145,805 of HASP payments net of assessment expense related to fiscal year 2023, and the 2024 estimated unreimbursed Medicare costs are reduced by the 340B retroactive payment received of $76,723.

(Continued)

(Dollars in thousands)

(6) Cash and Investments

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

	2024	2023
Cash and cash equivalents	$ 30,556	115,088
Short-term investments	568,205	390,840
Investments	4,353,147	4,302,336
Cash and investments available for operations	4,951,908	4,808,264
Assets limited as to use, current	18,551	22,108
Assets limited as to use, noncurrent	166,506	138,866
Less receivables and other assets included in assets limited as to use	(4,415)	(4,084)
Total cash and investments	$ 5,132,550	4,965,154

(Continued)

(Dollars in thousands)

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

	2024	2023	Unfunded commitments[2]	Redemption frequency (in days)	Redemption notice period (in days)
Cash and cash equivalents	$ 30,556	115,088	—	N/A	N/A
Deposits with bond trustees	1,319	1,493	—	N/A	N/A
Short-term investments	589,664	409,077	—	daily	1
Fixed income	786,686	713,775	—	1 to 30	1 to 30
Equities	829,332	722,206	—	1 to 90	1 to 90
Hedged strategies	804,308	857,865	—	30 to > 365	2 to 100
Private capital	1,450,518	1,477,578	249,692	N/A	N/A
Real assets	497,516	501,276	117,035	N/A	N/A
Other	142,651	166,796	—	N/A	N/A
Total cash and investments [1]	5,132,550	4,965,154	$ 366,727		
Less cash and investments included in assets limited as to use	(180,642)	(156,890)			
Cash and investments available for operations	$ 4,951,908	4,808,264			

1 Includes the Health System's participation in pooled assets of $135,188 and $164,891 at June 30, 2024 and 2023, 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 $4,146 and $30,748 at June 30, 2024 and 2023, respectively, were posted as collateral under investment derivative agreements and thus are not readily available for use.

(Continued)

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

Equities includes U.S. and non-U.S. stocks and interests in funds that invest predominantly long but also short stocks and in certain cases are nonredeemable. The allocation by market is approximately: 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.

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.

(Continued)

(Dollars in thousands)

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

		2024	2023
Net realized gains from sales of investments	$	192,738	15,926
Net unrealized gains (losses)		121,138	(60,181)
Total net gains (losses)		313,876	(44,255)
Investment income		97,228	82,150
Investment gains		411,104	37,895
Net realized losses on debt derivatives		(413)	(3,692)
Net unrealized gains on debt derivatives		5,307	15,889
Total net investment income	$	415,998	50,092

Net investment income is classified in the accompanying consolidated statements of operations and changes in net assets as follows:

		2024	2023
Other operating revenue	$	10,905	9,739
Nonoperating income		404,012	42,531
Increase in net assets with donor restrictions		1,081	(2,178)
Total net investment income	$	415,998	50,092

(Continued)

(Dollars in thousands)

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

	2024	2023
Assets limited as to use:		
Deposits with bond trustees	$ 1,319	1,493
Receivables and investments designated to settle estimated professional liability costs	46,721	50,501
Board-designated debt repayment funds	72,000	48,000
Donor-restricted receivables, investments, and other assets	65,017	60,980
Total assets limited as to use	185,057	160,974
Less current portion of assets limited as to use	(18,551)	(22,108)
Assets limited as to use, excluding current portion	$ 166,506	138,866

(7) Liquidity and Availability

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

	2024	2023
Cash and cash equivalents	$ 30,556	115,088
Patient accounts receivable	811,504	623,984
Estimated third-party payor settlements, net	228,098	74,333
Other receivables	57,399	41,289
Due from the University, net	—	14,662
Short-term investments	568,205	390,840
Noncurrent investments	2,327,527	2,357,312
Total	$ 4,023,289	3,617,508

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, 2024 and 2023, the Health System has $150,000 and $300,000, respectively, in availability under unsecured line of credit agreements with two commercial banks and $350,000 and $250,000, respectively, in availability under its taxable commercial paper program.

(Continued)

(Dollars in thousands)

(8) Property and Equipment

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

		2024	2023
Buildings and utilities	$	2,872,814	2,820,411
Furnishings and equipment		1,134,873	1,079,292
Buildings and equipment under finance lease liabilities		187,801	165,280
Computer software		361,304	358,742
Depreciable property and equipment		4,556,792	4,423,725
Less accumulated depreciation and amortization		(2,786,973)	(2,605,259)
Depreciable property and equipment, net		1,769,819	1,818,466
Land and land improvements		187,486	187,200
Construction in progress		197,470	157,696
Property and equipment, net	$	2,154,775	2,163,362

The following table summarizes other property and equipment information for fiscal years 2024 and 2023:

		2024	2023
Depreciation expense	$	180,983	181,154
Finance leases' accumulated amortization		83,875	70,695
Computer software amortization expense		6,211	21,564
Computer software's accumulated amortization		350,911	346,267

(Continued)

(Dollars in thousands)

(9) 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 2024	Outstanding principal 2023
Tax-exempt revenue bonds:						
2005A	Direct placement	June 1, 2028	2028	4.8 %	$ 42,555	52,245
2005B	Direct placement	June 1, 2028	2028	4.8	13,775	16,910
2006A/B/C	Direct placement	February 29, 2032	2039	4.8	121,620	121,620
2016B	Direct placement	February 29, 2032	2042	4.8	90,000	90,000
2016C	Direct placement	February 29, 2032	2042	4.8	90,000	90,000
	Total variable rate				357,950	370,775
2016A	Fixed rate	N/A	2028	1.9	74,925	91,450
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	292,032	295,669
	Total fixed rate				1,092,057	1,112,219
Taxable commercial paper		N/A	<1 year	5.5	150,000	250,000
Line of credit agreement		N/A	2026	4.9	150,000	—
	Total debt				1,750,007	1,732,994
	Plus unamortized premiums and discounts – net				15,674	19,213
	Less unamortized debt issuance costs – net				(13,397)	(14,178)
	Less current portion of long-term debt and commercial paper				(184,339)	(282,987)
	Long-term debt, net of current portion				$ 1,567,945	1,455,042

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

During fiscal year 2023, the Health System established a taxable commercial paper program up to $500,000. The commercial paper has been issued in $50,000 tranches. No notes are issued if more than $50,000 of notes would mature within any five consecutive business days or if more than $100,000 of notes would mature within any fifteen consecutive business days.

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.

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.

(Dollars in thousands)

The aggregate annual maturities of debt for each of the five fiscal years subsequent to June 30, 2024 and thereafter are as follows:

2025	$	184,339
2026		185,754
2027		37,247
2028		38,800
2029		39,344
Thereafter		1,264,523
Total	$	1,750,007

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.

(10) Derivatives and Other Financial Instruments

(a) Debt Derivatives

In managing its debt portfolio, the Health System has executed derivative financial instruments, which are not designated as hedging instruments under ASC Topic 815. The Health System has two 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. Effective July 1, 2023, the reference rate for all outstanding swaps transitioned from 1-month LIBOR to a 30-day compounded average of the daily Secured Overnight Financing Rate (SOFR), with an added spread adjustment of 11.45 basis points.

(Continued)

(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	127,660	3.601	61.52% of 30-day compounded daily SOFR[2] plus 0.28%
April 1, 2009	Portfolio[1]	30 years	127,505	4.107	67.00% of 30-day compounded daily SOFR[2]

[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.

[2] Rate includes a spread adjustment of 11.45 basis points as dictated by terms of the ISDA Fallbacks Protocol.

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 net investment income 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.

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

	Financial Information Related to Debt Derivative Instruments					
	2024			2023		
	Fair value [1]	Unrealized gain recognized in income [2]	Realized gain or (loss) recognized in income [2]	Fair value [1]	Unrealized gain recognized in income [2]	Realized loss recognized in income [2]
August 1993	$ —	—	—	—	159	(148)
May 2005	(1,644)	912	116	(2,556)	6,670	(1,635)
April 2009	(14,909)	4,395	(529)	(19,304)	9,060	(1,909)
Total debt derivatives instruments	$ (16,553)	5,307	(413)	(21,860)	15,889	(3,692)

[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).

(Continued)

(Dollars in thousands)

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, 2024 and 2023, 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, 2024 and 2023 is $16,553 and $21,860, 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, 2024 and 2023, the Health System would be required to post collateral of $16,553 and $21,860, 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.

(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. It also provides net gain (loss) amounts for the years ended June 30:

	2024	2023	Location in financial statements
Net notional amounts	$ 4,174,392	4,457,899	N/A
Derivative assets	78,176	106,659	Investments
Derivative liabilities	(56,705)	(53,597)	Investments
Net (loss) gain	15,641	(20,459)	Net investment income
Posted collateral	4,146	30,748	Short-term investments

(Continued)

(11) 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.

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.

(Continued)

(Dollars in thousands)

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:

	2024	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 30,556	30,556	—	—	—
Deposits with bond trustees	1,319	1,319	—	—	—
Short-term investments	589,664	366,996	222,668	—	—
Fixed income	786,686	33,793	652,526	30,603	69,764
Equities	829,332	515,492	151,271	796	161,773
Hedged strategies	804,308	23,510	—	—	780,798
Private capital	1,450,518	2,241	—	81,743	1,366,534
Real assets	497,516	20,853	16,235	10,947	449,481
Other	142,651	—	81,939	—	60,712
Total assets	$ 5,132,550	994,760	1,124,639	124,089	2,889,062
Liabilities:					
Interest rate derivatives	$ 16,553	—	16,553	—	—

[1] Fund investments reported at NAV as a practical expedient estimate of fair value at June 30, 2024.

(Continued)

(Dollars in thousands)

	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.

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.

(Continued)

(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.

		2024	2023
Level 3 investments at beginning of year	$	121,204	130,914
Net realized and unrealized (losses) gains		(7,746)	1,033
Purchases		30,581	8,983
Sales		(19,495)	(9,972)
Transfers into Level 3		43	2,581
Transfers out of Level 3		(498)	(12,335)
Level 3 investments at end of year	$	124,089	121,204

(12) 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 2024 and 2023 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, 2024 and 2023 was 3.5%. Accrued professional liability costs excluding estimated incurred but not reported claims as of June 30, 2024 and 2023 amounted to $46,721 and $50,501, 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 accrued in the amounts of $19,096 and $7,587 as of June 30, 2024 and 2023, 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.

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(13) 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 $153,551 and $75,373 to this plan in fiscal years 2024 and 2023, respectively, which are reported in employee compensation and temporary labor expense in the accompanying consolidated statement of operations. The fiscal year 2024 contribution amount includes $60,005 of contributions related to the employees of DHIP as described in note 3. The Health System expects to contribute $153,000 to this plan in fiscal year 2025.

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 $28,148 to this plan in fiscal year 2025. 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 employees represent approximately 88% and 83% of the total University's defined benefit pension plan for fiscal years 2024 and 2023, 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.

(Continued)

(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	
	2024	2023	2024	2023
Reconciliation of projected benefit obligation:				
Obligation at beginning of year	$ 1,552,339	1,458,994	58,421	71,293
Transfer from the University	79,504	—	10,641	
Service cost	71,830	58,201	1,068	894
Interest cost	82,460	67,786	3,389	3,225
Actuarial (gain) loss	(123,864)	13,869	(9,681)	(12,230)
Benefits paid	(55,506)	(51,388)	(4,708)	(4,761)
Plan changes	—	7,977	—	—
Administrative expenses (estimated)	(3,700)	(3,100)	—	—
Projected benefit obligation at end of year	$ 1,603,063	1,552,339	59,130	58,421
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 1,514,295	1,542,648	—	—
Transfer from the University	101,105	—	—	—
Actual return on plan assets	144,098	879	—	—
Employer contributions	27,062	25,326	—	—
Benefits paid	(55,506)	(51,388)	—	—
Administrative expenses	(3,624)	(3,170)	—	—
Fair value of plan assets at end of year	$ 1,727,430	1,514,295	—	—
Funded status:				
Net accrued benefit (liability) asset	$ 124,367	(38,044)	(59,130)	(58,421)

(Continued)

(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	
	2024	2023	2024	2023
Service cost	$ 71,830	58,201	1,068	894
Interest cost	82,460	67,786	3,389	3,225
Expected return on plan assets	(128,883)	(105,235)	—	—
Amortization of prior-service cost and losses	1,564	907	38	38
Recognized actuarial (gain) loss	(8,283)	(5,837)	(284)	(148)
Net periodic benefit cost	$ 18,688	15,822	4,211	4,009

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, 2024 and 2023, respectively:

	Pension benefits		Postretirement benefits	
	2024	2023	2024	2023
Unrecognized prior service cost	$ 10,042	10,955	260	298
Unrecognized actuarial gains	(349,866)	(217,994)	(30,265)	(20,868)

(Continued)

(Dollars in thousands)

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

	Pension benefits		Postretirement benefits	
	2024	2023	2024	2023
Transfer from the University	$ (651)	—	—	
Actuarial gain (loss) due to investment performance	15,291	(104,426)	—	—
Actuarial gain due to change in discount rate	92,337	102,838	1,130	1,586
Actuarial gain (loss) due to demographic changes	34,091	(85,200)	920	(10,388)
New prior service cost	—	(7,977)	—	—
Amortization of prior service cost	1,564	907	38	38
Actuarial (gain) loss recognized in current year expense	(8,283)	(5,837)	(284)	(148)
Other changes in net actuarial assumptions	(2,564)	(31,507)	7,631	21,032
Nonperiodic changes in defined benefit obligations	$ 131,785	(131,202)	9,435	12,120

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			
	2024		2023		2024		2023	
	Obligation	Cost	Obligation	Cost	Obligation	Cost	Obligation	Cost
Weighted average assumptions as of measurement date:								
Discount rate	5.51 %	5.14 %	5.14 %	4.73 %	5.41 %	5.08 %	5.08 %	4.68 %
Expected return on plan assets	N/A	8.0 %	N/A	7.5 %	N/A	N/A	N/A	N/A
Rate of compensation increase	5.0%/1.0%[1]	5.0%/1.0%[2]	5.0%/1.0%[1]	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, 2024, the per capita costs of covered healthcare benefits was assumed to increase 7.5% for non-Medicare eligible employees and 6.75% for

(Continued)

(Dollars in thousands)

Medicare eligible employees, declining to an ultimate annual rate of increase of 4.5% by 2037 for non-Medicare and 2034 for Medicare eligible employees. The benefit expense for fiscal year 2024 was driven by the rates used to determine the benefit obligation as of June 30, 2023, which were 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 pension and postretirement benefits expected to be paid for the 10 years subsequent to June 30, 2024 are as follows:

	Pension benefits	Postretirement benefits
2025	$ 59,806	5,089
2026	64,041	5,191
2027	68,976	5,433
2028	74,252	5,416
2029	79,899	5,481
2030–2034	490,711	28,338

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 55% equity (public and private investments in companies), 9% commodity (direct commodity exposure, commodity-related equities, and private investments in energy, power, infrastructure, and timber), 7% real estate (private real estate and REITs), 7% high yield credit (investment-grade bonds, corporate bonds, bank debt, asset-backed securities, etc.), 15% absolute return oriented strategies, and 7% investment-grade fixed income (inflation-linked strategies and rates, public obligations including treasuries and agencies).

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

(Continued)

(Dollars in thousands)

The same levels of the fair value hierarchy as described in note 11 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:

	2024	Level 1	Level 2	Level 3	Investments reported at NAV[1]
Asset category:					
Short-term investments	$ 150,317	84,226	66,091	—	—
Fixed income	263,651	14,256	190,853	—	58,542
Equities	269,825	210,963	79	—	58,783
Hedged strategies	290,775	35	(147)	—	290,887
Private capital	547,844	983	—	31,268	515,593
Real assets	185,356	13,936	(3,521)	—	174,941
Other investments	19,662	(12,927)	32,589	—	—
	$ 1,727,430	311,472	285,944	31,268	1,098,746

	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

[1] Fund Investments reported at NAV as a practical expedient estimate of fair value at June 30, 2024 and 2023.

(Continued)

(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:

		2024	2023
Level 3 investments at beginning of year	$	31,555	32,020
Net realized and unrealized gains		(3,880)	258
Purchases		6,358	1,065
Sales		(2,765)	(819)
Transfers into Level 3		—	800
Transfers out of Level 3		—	(1,769)
Level 3 investments at end of year	$	31,268	31,555

At June 30, 2024 and 2023, the accumulated benefit obligation for pension benefits was $1,450,945 and $1,366,751, respectively, as compared to the fair value of the plan assets of $1,727,430 and $1,514,295, respectively. At June 30, 2024 and 2023, the plan was over funded in relation to accumulated benefits by $276,485 and $147,544, respectively.

(14) 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, 2024:				
Employee compensation and temporary labor	$	2,870,880	746,347	3,617,227
Medical supplies		1,591,001	—	1,591,001
Interest		77,118	—	77,118
Depreciation and amortization		184,888	19,854	204,742
State provider assessments		355,865	—	355,865
Other operating expenses		471,452	301,838	773,290
Total	$	5,551,204	1,068,039	6,619,243

(Continued)

(Dollars in thousands)

	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
State provider assessments	101,188	—	101,188
Other operating expenses	517,613	290,484	808,097
Total	$ 4,141,772	847,558	4,989,330

The accompanying consolidated statements of operations include 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.

(15) 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	2024	2023
Finance lease expense:			
Amortization of right-of-use assets	Depreciation and amortization	$ 17,548	10,865
Interest on lease liabilities	Interest	7,329	5,541
Operating lease expense	Other operating expenses	60,680	37,670
Short-term lease expense	Other operating expenses	22,868	15,557
Total lease expense		$ 108,425	69,633

(Continued)

(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:

		2024	2023
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows for finance leases	$	6,232	5,143
Operating cash flows for operating leases		58,934	36,222
Increase (decrease) in right-of-use assets obtained in exchange for lease liabilities[1]:			
Finance leases	$	1,853	(19,425)
Operating leases		17,213	(10,364)
Weighted-average remaining lease term:			
Finance leases		33.6	35.9 years
Operating leases		12.3	13.4 years
Weighted-average discount rate:			
Finance leases		5.23	4.97 %
Operating leases		3.37	2.47 %

[1]Excludes right-of-use-assets as disclosed in note 3

(Continued)

(Dollars in thousands)

The aggregate future lease payments under finance and operating leases as of June 30, 2024 are as follows:

	Finance leases	Operating leases
Year ending June 30:		
2025	$ 19,656	49,419
2026	15,541	52,723
2027	12,184	52,471
2028	10,170	51,545
2029	8,411	49,962
Thereafter	259,225	369,200
Total minimum lease payments	325,187	625,320
Less amount of lease payments representing interest	(173,214)	(113,915)
Present value of future minimum lease payments	151,973	511,405
Less current portion	(12,418)	(33,233)
Lease liabilities, net of current portion	$ 139,555	478,172

The DRH facility lease, which is a 40-year-minimum automatically renewing “evergreen” lease, is the Health System’s largest finance lease, accounting for approximately 85% and 92% of the total finance

(Continued)

lease liability as of June 30, 2024 and 2023, respectively. The Health System made principal and interest payments for this lease of $8,099 and $7,591 in fiscal years 2024 and 2023, respectively.

(16) Commitments and Contingencies

(a) Construction and Purchase Commitments

At June 30, 2024, open contracts for the construction of physical properties and other capital expenditures amounted to approximately $100,300.

(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.

(17) Subsequent Events

Commercial Paper Issuance

On August 22, 2024, 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 1, 2024, 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, 2024

(Dollars in thousands)

Assets	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Other MTI	MTI Combined Group	Duke Health Integrated Practice	Duke Univ. Affiliated Physicians	Durham Casualty Company	Other Non-MTI	DUHS consolidated
Current assets:										
Cash and cash equivalents	$ (13)	(6)	—	7,939	7,920	3	—	20,804	1,829	30,556
Patient accounts receivable	513,973	57,170	80,181	16,754	668,078	117,697	18,238	—	7,491	811,504
Estimated third-party payor settlements, net	186,944	20,302	14,666	—	221,912	5,452	734	—	—	228,098
Other receivables	22,674	1,771	3,411	13,473	41,329	13,723	319	—	2,028	57,399
Inventories of drugs and supplies	89,586	9,792	18,578	8,049	126,005	8,698	2,026	—	4,112	140,841
Short-term investments	—	—	—	568,205	568,205	—	—	—	—	568,205
Assets limited as to use	—	—	—	—	—	—	—	18,551	—	18,551
Other current assets	6,345	1,207	1,103	36,330	44,985	4,586	124	—	877	50,572
Total current assets	819,509	90,236	117,939	650,750	1,678,434	150,159	21,441	39,355	16,337	1,905,726
Assets limited as to use	—	—	—	138,336	138,336	—	—	28,170	—	166,506
Investments	—	—	—	4,058,566	4,058,566	—	—	294,581	—	4,353,147
Property and equipment, net	1,157,469	234,959	315,706	292,586	2,000,720	61,282	55,744	—	37,029	2,154,775
Prepaid pension asset	—	—	—	124,367	124,367	—	—	—	—	124,367
Right-of-use operating lease assets	2,659	607	2,092	476,658	482,016	389	—	—	1,216	483,621
Other noncurrent assets	—	—	21,966	54,164	76,130	37,305	—	—	1,000	114,435
Total assets	$ 1,979,637	325,802	457,703	5,795,427	8,558,569	249,135	77,185	362,106	55,582	9,302,577
Liabilities and Net Assets										
Current liabilities:										
Accounts payable	$ 103,742	9,351	16,127	31,720	160,940	14,680	2,646	155	9,337	187,758
Accrued salaries, wages, and vacation payable	103,960	23,689	22,929	75,162	225,740	88,907	31,633	—	17,226	363,506
Current portion of postretirement and postemployment benefit obligations	—	—	—	8,791	8,791	—	—	—	—	8,791
Commercial paper	—	—	—	148,731	148,731	—	—	—	—	148,731
Current portion of long-term debt	—	—	—	34,339	34,339	—	—	—	—	34,339
Current portion of finance lease liabilities	1,384	2,227	149	1,439	5,199	7,219	—	—	—	12,418
Current portion of operating lease liabilities	2,033	202	686	29,893	32,814	325	—	—	94	33,233
Other current liabilities	208,104	35,281	40,493	(250,651)	33,227	28,611	(2,184)	27,415	(2,571)	84,498
Total current liabilities	419,223	70,750	80,384	79,424	649,781	139,742	32,095	27,570	24,086	873,274
Postretirement and postemployment benefit obligations, net of current portion	—	—	—	62,473	62,473	—	—	—	—	62,473
Long-term debt, net of current portion	—	—	—	1,567,945	1,567,945	—	—	—	—	1,567,945
Finance lease liabilities, net of current portion	838	127,190	29	1,432	129,489	10,054	—	—	12	139,555
Operating lease liabilities, net of current portion	637	405	1,407	474,523	476,972	64	—	—	1,136	478,172
Other noncurrent liabilities	22,040	8,352	10,066	55,235	95,693	2,465	11,028	28,170	2,310	139,666
Total liabilities	442,738	206,697	91,886	2,241,032	2,982,353	152,325	43,123	55,740	27,544	3,261,085
Net assets:										
Without donor restrictions	1,536,899	119,105	365,817	3,489,378	5,511,199	96,810	34,062	306,366	28,038	5,976,475
With donor restrictions	—	—	—	65,017	65,017	—	—	—	—	65,017
Total net assets	1,536,899	119,105	365,817	3,554,395	5,576,216	96,810	34,062	306,366	28,038	6,041,492
Total liabilities and net assets	$ 1,979,637	325,802	457,703	5,795,427	8,558,569	249,135	77,185	362,106	55,582	9,302,577

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, 2024

(Dollars in thousands)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Other MTI	MTI Group eliminations	MTI Combined Group	Duke Health Integrated Practice	Duke Univ. Affiliated Physicians	Durham Casualty Company	Other Non-MTI	Other eliminations	DUHS consolidated
Revenues, gains, and other support without donor restrictions:												
Patient service revenue	$ 3,960,501	502,064	706,897	84,342	—	5,253,804	1,078,673	227,959	—	70,559	—	6,630,995
Other revenue	60,289	3,893	7,736	223,809	(189,150)	106,577	207,856	2,032	32,576	28,620	(186,724)	190,937
Total revenues, gains, and other support	4,020,790	505,957	714,633	308,151	(189,150)	5,360,381	1,286,529	229,991	32,576	99,179	(186,724)	6,821,932
Expenses:												
Employee compensation and temporary labor	1,261,498	264,259	245,791	429,870	—	2,201,418	1,035,971	206,109	—	173,729	—	3,617,227
Medical supplies	1,089,096	73,596	171,513	103,409	—	1,437,614	101,605	26,889	—	24,893	—	1,591,001
Interest	51,773	12,011	12,536	26	—	76,346	770	—	—	2	—	77,118
Depreciation and amortization	92,363	23,456	32,402	24,342	—	172,563	18,770	7,440	—	5,969	—	204,742
State provider assessments	261,527	41,131	53,207	—	—	355,865	—	—	—	—	—	355,865
Other operating expenses	923,831	122,831	155,841	(248,689)	(189,150)	764,664	233,239	41,987	23,932	(103,808)	(186,724)	773,290
Total expenses	3,680,088	537,284	671,290	308,958	(189,150)	5,008,470	1,390,355	282,425	23,932	100,785	(186,724)	6,619,243
Operating income (loss)	340,702	(31,327)	43,343	(807)	—	351,911	(103,826)	(52,434)	8,644	(1,606)	—	202,689
Nonoperating income (loss):												
Net investment income	7	—	—	372,850	—	372,857	—	—	31,155	—	—	404,012
Nonoperating components of net periodic benefit cost	—	—	—	49,999	—	49,999	—	—	—	—	—	49,999
Other	(68)	49	—	(509)	—	(528)	—	—	—	7	—	(521)
Total nonoperating income (loss)	(61)	49	—	422,340	—	422,328	—	—	31,155	7	—	453,490
Excess (deficit) of revenues over expenses	340,641	(31,278)	43,343	421,533	—	774,239	(103,826)	(52,434)	39,799	(1,599)	—	656,179
Change in funded status of defined benefit plans	—	—	—	141,220	—	141,220	—	—	—	—	—	141,220
Net assets released from restrictions for purchase of property and equipment	313	—	—	—	—	313	—	—	—	—	—	313
Intracompany transfers, net	(75,781)	29,849	(47,531)	(258,140)	—	(351,603)	296,282	46,251	—	9,070	—	—
Transfers (to) from the University, net	(130,705)	(5)	245	(12,011)	—	(142,476)	(95,646)	1,328	—	1,486	—	(235,308)
Increase (decrease) in net assets without donor restrictions	$ 134,468	(1,434)	(3,943)	292,602	—	421,693	96,810	(4,855)	39,799	8,957	—	562,404

See accompanying independent auditors' report.