



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

Consolidated Financial Statements and Supplementary Schedules

June 30, 2025 and 2024

(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, 2025 and 2024, 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, 2025 and 2024, 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
September 30, 2025

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

Consolidated Balance Sheets

June 30, 2025 and 2024
(Dollars in thousands)

Assets	2025	2024
Current assets:		
Cash and cash equivalents	\$ 24,977	30,556
Patient accounts receivable	934,495	811,504
Estimated third-party payor settlements, net	155,943	228,098
Other receivables	73,091	57,399
Inventories of drugs and supplies	157,051	140,841
Short-term investments	394,138	568,205
Assets limited as to use	15,790	18,551
Other current assets	47,750	50,572
Total current assets	1,803,235	1,905,726
Assets limited as to use	372,344	166,506
Investments	4,643,114	4,353,147
Property and equipment, net	2,248,012	2,154,775
Prepaid pension asset	189,583	124,367
Right-of-use operating lease assets	466,830	483,621
Other noncurrent assets	318,373	114,435
Total assets	\$ 10,041,491	9,302,577
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 260,976	187,758
Accrued salaries, wages, and vacation payable	416,511	363,506
Current portion of postretirement and postemployment benefit obligations	8,199	8,791
Commercial paper	248,970	148,731
Short-term borrowings	150,000	—
Current portion of long-term debt	35,089	34,339
Current portion of finance lease liabilities	8,744	12,418
Current portion of operating lease liabilities	39,960	33,233
Other current liabilities	52,247	84,498
Total current liabilities	1,220,696	873,274
Postretirement and postemployment benefit obligations, net of current portion	42,324	62,473
Long-term debt, net of current portion	1,555,481	1,567,945
Finance lease liabilities, net of current portion	135,952	139,555
Operating lease liabilities, net of current portion	457,562	478,172
Other noncurrent liabilities	146,129	139,666
Total liabilities	3,558,144	3,261,085
Net assets:		
Without donor restrictions	6,397,899	5,976,475
With donor restrictions	85,448	65,017
Total net assets	6,483,347	6,041,492
Total liabilities and net assets	\$ 10,041,491	9,302,577

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Operations

Years ended June 30, 2025 and 2024

(Dollars in thousands)

	2025	2024
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	\$ 7,086,229	6,630,995
Other revenue	198,460	190,937
Total revenues, gains, and other support	<u>7,284,689</u>	<u>6,821,932</u>
Expenses:		
Employee compensation and temporary labor	3,767,267	3,617,227
Medical supplies	1,824,009	1,591,001
Interest	74,703	77,118
Depreciation and amortization	203,402	204,742
State provider assessments	333,992	355,865
Other operating expenses	902,347	773,290
Total expenses	<u>7,105,720</u>	<u>6,619,243</u>
Operating income	<u>178,969</u>	<u>202,689</u>
Nonoperating income (loss):		
Net investment income	400,458	404,012
Nonoperating components of net periodic benefit cost	67,254	49,999
Other	332	(521)
Total nonoperating income	<u>468,044</u>	<u>453,490</u>
Excess of revenues over expenses	647,013	656,179
Change in funded status of defined benefit plans	49,915	141,220
Net assets released from restrictions for purchase of property and equipment	222	313
Transfers to the University, net	<u>(275,726)</u>	<u>(235,308)</u>
Increase in net assets without donor restrictions	<u>\$ 421,424</u>	<u>562,404</u>

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, 2025 and 2024

(Dollars in thousands)

	<u>2025</u>	<u>2024</u>
Net assets without donor restrictions:		
Excess of revenues over expenses	\$ 647,013	656,179
Change in funded status of defined benefit plans	49,915	141,220
Net assets released from restrictions for purchase of property and equipment	222	313
Transfers to the University, net	<u>(275,726)</u>	<u>(235,308)</u>
Increase in net assets without donor restrictions	<u>421,424</u>	<u>562,404</u>
Net assets with donor restrictions:		
Contributions for restricted purposes	23,521	8,000
Transfers from the University, net	478	139
Net assets released from restrictions used for operations	(4,637)	(4,870)
Net assets released from restrictions for purchase of property and equipment	(222)	(313)
Net realized and unrealized gains	<u>1,291</u>	<u>1,081</u>
Increase in net assets with donor restrictions	<u>20,431</u>	<u>4,037</u>
Increase in net assets	441,855	566,441
Net assets, beginning of year	<u>6,041,492</u>	<u>5,475,051</u>
Net assets, end of year	<u><u>\$ 6,483,347</u></u>	<u><u>6,041,492</u></u>

See accompanying notes to consolidated financial statements.

**DUKE UNIVERSITY HEALTH SYSTEM, INC.
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Consolidated Statements of Cash Flows

Years ended June 30, 2025 and 2024

(Dollars in thousands)

	2025	2024
Cash flows from operating activities:		
Increase in net assets	\$ 441,855	566,441
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	203,402	204,742
Amortization of debt issuance costs and premium, net	1,712	(839)
Investment income	(313,790)	(404,831)
Net loss (gain) on other investments and disposals of property and equipment	1,475	(2,398)
Nonperiodic changes in defined benefit plans	(49,915)	(141,220)
Transfers to the University, net	275,248	235,169
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(15,466)	(1,328)
Changes in operating assets and liabilities:		
Patient accounts receivable	(122,991)	(182,770)
Estimated third-party payor settlements, net	72,155	(153,765)
Other receivables	(16,726)	(16,658)
Inventories of drugs and supplies	(11,172)	(8,379)
Right-of-use operating lease assets, net of operating lease liabilities	3,036	2,147
Pension asset and postretirement and postemployment benefit obligations	(36,042)	(8,536)
Other assets	(8,651)	(9,296)
Accounts payable	32,817	(33,100)
Accrued salaries, wages, and vacation payable	51,997	79,449
Other liabilities	(32,654)	34,074
Net cash provided by operating activities	<u>476,290</u>	<u>158,902</u>
Cash flows from investing activities:		
Capital expenditures	(159,292)	(127,331)
Sales of property and equipment	—	4,726
Acquisition of physician organization	—	(52,641)
Acquisition of Lake Norman Regional Medical Center	(284,324)	—
Increase in assets limited as to use	(181,882)	(2,831)
Sales of investments	1,447,357	1,406,594
Purchases of investments	(1,267,643)	(1,255,285)
(Increase) decrease in other assets	(5,477)	2,516
Net cash used in investing activities	<u>(451,261)</u>	<u>(24,252)</u>

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Consolidated Statements of Cash Flows

Years ended June 30, 2025 and 2024

(Dollars in thousands)

	<u>2025</u>	<u>2024</u>
Cash flows from financing activities:		
Payments on long-term debt and bank borrowings	\$ (528,984)	(32,987)
Proceeds from long-term debt and bank borrowings	672,841	150,000
Proceeds from issuance of commercial paper	1,175,844	838,953
Payments on commercial paper	(1,079,695)	(940,527)
Bond issuance costs	(2,487)	—
Proceeds from restricted contributions and associated investment income	15,466	1,328
Payments on finance lease liabilities	(12,754)	(17,020)
Transfers to the University, net	<u>(270,839)</u>	<u>(218,929)</u>
Net cash used in financing activities	<u>(30,608)</u>	<u>(219,182)</u>
Net decrease in cash and cash equivalents	(5,579)	(84,532)
Cash and cash equivalents, beginning of year	<u>30,556</u>	<u>115,088</u>
Cash and cash equivalents, end of year	<u><u>\$ 24,977</u></u>	<u><u>30,556</u></u>
Cash paid for interest, net of amount capitalized	\$ 71,001	76,104
Supplemental disclosures of noncash investing/financing activities:		
Change in fixed asset payables as of June 30	\$ 39,437	18,257
Net transfers to the University of property and equipment	1,137	773
Net transfers payable between the Health System and the University	19,674	27,108

See accompanying notes to consolidated financial statements.

**DUKE UNIVERSITY HEALTH SYSTEM, INC.
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Notes to Consolidated Financial Statements

June 30, 2025 and 2024

(Dollars in thousands)

(1) Description of Organization and Related Parties

(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 four hospitals, three of which are operated as divisions, and several subsidiaries and controlled affiliates, the most significant of which follow:

- **Duke University Hospital –**
 - **University campus** – the main location of Duke University Hospital, 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; Duke University Hospital 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 (Duke Raleigh)** – a remote location of Duke University Hospital located in Raleigh, North Carolina, licensed for 204 acute care beds and providing patient care; Duke Raleigh is leased from the University and operated by the Health System. As of June 1, 2024, the Health System combined two hospitals, Duke University Hospital and Duke Raleigh, to operate as a single multi-campus hospital with Duke University Hospital as the main provider and Duke Raleigh as a remote location of Duke University Hospital.
- **Duke Regional Hospital (Duke Regional)** – a full-service community hospital located in Durham, North Carolina, licensed for 381 acute and specialty care beds and providing patient care; Duke Regional is owned by Durham County, North Carolina and leased to the Durham County Hospital Corporation, which has in turn subleased Duke Regional to the Health System.
- **Duke Health Lake Norman Regional Medical Center, Inc.** - a North Carolina wholly-controlled nonprofit corporation that owns and operates Duke Health Lake Norman; On April 1, 2025, it acquired Lake Norman Regional Medical Center from a subsidiary of Community Health Systems, Inc., renaming it to Duke Health Lake Norman Hospital. Duke Health Lake Norman is in Mooresville, North Carolina in Iredell County and is licensed for 123 acute care beds, providing patient care.
- **Duke University Affiliated Physicians, Inc.** – a North Carolina wholly-controlled nonprofit corporation, doing business predominately as Duke Primary Care. Duke Primary Care consists of 33 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 5 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.

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(Dollars in thousands)

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.

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 SOM.

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 \$64,829 and \$61,820 in fiscal years 2025 and 2024, 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, 2025 and 2024, net unrestricted transfers to the University are as follows:

	<u>2025</u>	<u>2024</u>
Transfers to the School of Medicine, net	\$ 263,115	234,674
Transfers to the University, net	<u>11,474</u>	<u>11,472</u>
Total funded transfers, net	274,589	246,146
Pension asset, net of estimated postretirement liability	—	(11,611)
Fixed assets and other unfunded transfers, net	<u>1,137</u>	<u>773</u>
Unrestricted transfers to the University, net	<u>\$ 275,726</u>	<u>235,308</u>

The Health System plans to transfer \$243,043 in cash (and noncash) equity transfers to the University in fiscal year 2026.

(d) 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.

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Notes to Consolidated Financial Statements

June 30, 2025 and 2024

(Dollars in thousands)

(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 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 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

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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:

<u>Asset type</u>	<u>Useful life</u>
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. Interest on the 2025B bonds to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings. Total interest cost of \$5,062 and \$5,869 was capitalized in fiscal years 2025 and 2024, 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

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(Dollars in thousands)

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.

(h) Goodwill and Intangible Assets

The Health System evaluates the carrying amount of goodwill and intangible assets for impairment annually or when events or circumstances indicate potential impairment. The Health System has one reporting unit for evaluating whether goodwill and intangible assets are impaired. No impairment charges were recognized for the years ended June 30, 2025 and 2024. These assets are not amortized. As of June 30, 2025 and 2024, goodwill of \$184,360 and \$48,464, respectively, and other intangible assets of \$60,580 and \$11,680, respectively, are included in other noncurrent assets in the consolidated balance sheets.

(i) 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. Based on the Health System's evaluations, no impairment charges were recorded during the years ended June 30, 2025 and 2024.

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

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Notes to Consolidated Financial Statements

June 30, 2025 and 2024

(Dollars in thousands)

(k) Excess of Revenues over Expenses

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

(l) 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 of services being 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; and payor responsibilities. These groupings are also stratified based on aging of related receivables.

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- 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.

(m) 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.

(n) 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.

(o) 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, 2025 or 2024.

(p) 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, goodwill and other intangible assets,

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right-of-use operating lease assets and related lease liabilities, investments, and derivative instruments. Actual results could differ from those estimates.

(3) Acquisitions

(a) Lake Norman Regional Medical Center

On April 1, 2025, the Health System acquired certain assets and assumed certain liabilities of Lake Norman Regional Medical Center from a subsidiary of Community Health Systems, Inc. The hospital was renamed Duke Health Lake Norman Hospital (DHLN). DHLN is a 123-bed community hospital located in Mooresville, North Carolina, in southern Iredell County approximately 25 miles north of Charlotte. DHLN offers 24-hour emergency care, labor and delivery, neonatology, cardiology, general surgery, orthopedics, wound care, and outpatient imaging services including MRI and CT. It has several affiliated provider practices, including nine primary care and seven specialty practices, that joined DHIP on April 1, 2025. This acquisition establishes a local presence in the Charlotte-Metro area that allows the Health System to extend its clinical expertise to more patients within their home community.

This acquisition and the acquisition of a physician organization described in 3(b) below were accounted for using the acquisition method of accounting, in accordance with FASB ASC Topic 805, *Business Combinations*. The total purchase price for each acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date except for 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 acquisition was financed on an interim basis using proceeds from a combination of the Health System's commercial paper program and funds available under an existing line of credit. The following

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table summarizes the consideration paid and payable, assets recognized, and liabilities assumed at the acquisition date:

Consideration:

Cash paid	\$ 284,324
Additional consideration payable	<u>508</u>
Total consideration amount	<u><u>284,832</u></u>

Net assets recognized:

Inventories of drugs and supplies	5,038
Other current assets	712
Right-of-use operating lease assets	9,655
Property and equipment	95,315
Intangible assets	48,900
Accrued salaries, wages, and vacation payable	(1,008)
Other current liabilities	(149)
Operating lease liabilities	<u>(9,527)</u>
Total identifiable net assets	148,936
Goodwill recognized	<u>135,896</u>
Total net assets recognized	<u><u>\$ 284,832</u></u>

Goodwill arising from the acquisition represents the value of expected synergies, the workforce, and other intangible benefits that do not qualify for separate recognition. DHLN's balance sheet information as of June 30, 2025, and statement of operations information for the three months ended June 30, 2025 are disclosed in the supplemental information in schedules 1 and 2.

(b) Physician Organization

On July 1, 2023, the Health System acquired certain assets and assumed certain liabilities of the Private Diagnostic Clinic, PLLC (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, and the PDC ceased to provide clinical services. 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.

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Consideration paid for the acquisition was \$52,641. The following table summarizes the amounts of assets recognized and liabilities assumed at the acquisition date:

Cash paid	\$ 52,641
Net assets recognized:	
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
Total net assets recognized	\$ <u>52,641</u>

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.

(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 Duke University Hospital, Duke Regional and Duke Raleigh. The acquisition of Lake Norman Regional Medical Center expanded the Health System's hospital facilities beyond Durham and Wake counties into southern Iredell County. 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.

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- 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 2025 and 2024 from major payor sources is as follows:

	2025		2024	
	Amount	Percentage	Amount	Percentage
Commercial payors	\$ 3,765,381	53.1 %	\$ 3,420,668	51.6 %
Medicare	958,045	13.5	966,377	14.5
Medicare managed care	1,115,468	15.8	933,695	14.1
Medicaid	81,557	1.2	203,082	3.1
Medicaid managed care	941,363	13.3	905,320	13.6
Self-pay patients	24,257	0.3	24,481	0.4
Other third-party payors	200,158	2.8	177,372	2.7
Total	<u>\$ 7,086,229</u>	<u>100.0 %</u>	<u>\$ 6,630,995</u>	<u>100.0 %</u>

Patient service revenue disaggregated by hospital, professional, and other services recognized in fiscal years 2025 and 2024 is as follows:

	2025		2024	
	Amount	Percentage	Amount	Percentage
Hospital services	\$ 5,174,400	73.0 %	\$ 4,910,252	74.1 %
Professional services	1,459,997	20.6	1,387,859	20.9
Other	451,832	6.4	332,884	5.0
Total	<u>\$ 7,086,229</u>	<u>100.0 %</u>	<u>\$ 6,630,995</u>	<u>100.0 %</u>

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 for a discount). 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

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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 2025 and 2024, 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. As of June 30, 2025, Medicare cost reports have been resolved with the Medicare Administrator Contractor for Duke University Hospital (through June 30, 2018), Duke Regional Hospital (through June 30, 2018 and for the fiscal year ending June 30, 2021), and Duke Raleigh (through June 30, 2021). Additionally, Medicaid cost 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 by \$33,290 and \$299,545 in fiscal years 2025 and 2024, 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 in fiscal year 2024 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 and pays provider assessments to the State of North Carolina. 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 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. In fiscal year 2024, patient service revenue included \$236,639 of HASP revenue and state provider assessments included \$90,834 of assessment

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expense related to fiscal year 2023. These retroactive adjustments are included in the HASP amounts disclosed below.

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

	2025	2024
HASP amounts included in patient service revenue	\$ 417,191	518,131
HASP assessments included in state provider assessments	(147,468)	(201,171)
Net HASP revenue in operating income	<u>\$ 269,723</u>	<u>316,960</u>
Net HASP receivable included in estimated third-party payor settlements, net	\$ 132,773	171,155

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.

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:

	2025	2024
Commercial payors	43.6 %	41.6 %
Medicare	14.6	14.8
Medicare managed care	22.5	20.5
Medicaid	4.6	5.6
Medicaid managed care	7.3	10.1
Self-pay patients	1.6	2.3
Other third-party payors	5.8	5.1
	<u>100.0 %</u>	<u>100.0 %</u>

(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.

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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.

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:

	<u>2025</u>	<u>2024</u>
Charity care at cost	\$ 168,573	174,936
Unreimbursed Medicaid	57,987	22,735
Total charity care and means-tested programs	<u>226,560</u>	<u>197,671</u>
Health professionals education	94,138	86,392
Cash and in-kind contributions and community health improvement services	18,639	16,924
Total other benefits	<u>112,777</u>	<u>103,316</u>
Total charity care and other community benefits at cost	<u>\$ 339,337</u>	<u>300,987</u>

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, 2025 and 2024, the estimated unreimbursed costs attributable to providing services under Medicare are \$708,572 and \$671,422, respectively. The Health System provides additional uncompensated care in the form of implicit price concessions. Estimated uncompensated costs associated with these uncollectible patient accounts were \$36,226 and \$48,941 for June 30, 2025 and 2024, 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,

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and the 2024 estimated unreimbursed Medicare costs are reduced by the 340B retroactive payment received of \$76,723.

(6) Cash, cash equivalents, and Investments

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

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 24,977	30,556
Short-term investments	394,138	568,205
Investments	<u>4,643,114</u>	<u>4,353,147</u>
Cash, cash equivalents, and investments available for operations	5,062,229	4,951,908
Assets limited as to use, current	15,790	18,551
Assets limited as to use, noncurrent	372,344	166,506
Less receivables and other assets included in assets limited as to use	<u>(7,375)</u>	<u>(4,415)</u>
Total cash, cash equivalents, and investments	<u>\$ 5,442,988</u>	<u>5,132,550</u>

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

	<u>2025</u>	<u>2024</u>	<u>Unfunded commitments²</u>	<u>Redemption frequency (in days)</u>	<u>Redemption notice period (in days)</u>
Cash and cash equivalents	\$ 24,977	30,556		N/A	N/A
Deposits with bond trustees	165,437	1,319		N/A	N/A
Short-term investments	430,957	589,664		daily	1
Fixed income	876,586	786,686		1 to 30	1 to 30
Equities	747,117	829,332		1 to 90	1 to 90
Hedged strategies	1,007,439	804,308		30 to > 365	2 to 100
Private capital	1,526,630	1,450,518	228,997	N/A	N/A
Real assets	503,813	497,516	99,817	N/A	N/A
Other	160,032	142,651		N/A	N/A
	<u>5,442,988</u>	<u>5,132,550</u>	<u>\$ 328,814</u>		
Total cash, cash equivalents, and investments ¹					
Less cash, cash equivalents, and investments included in assets limited as to use	<u>(380,759)</u>	<u>(180,642)</u>			
Cash, cash equivalents, and investments available for operations	<u>\$ 5,062,229</u>	<u>4,951,908</u>			

¹ Includes the Health System's participation in pooled assets of \$117,407 and \$135,188 at June 30, 2025 and 2024, respectively, which are managed by DUMAC.

² Future commitments generally extend over the next 3 to 10 years. 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 \$11,994 and \$4,146 at June 30, 2025 and 2024, respectively, were posted as collateral under investment derivative agreements and thus are not readily available for use.

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

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Equities include 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.

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.

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

	2025	2024
Net realized gains from sales of investments	\$ 221,591	192,738
Net unrealized gains	94,778	121,138
Total net gains	316,369	313,876
Investment income	100,108	97,228
Investment gains	416,477	411,104
Net realized losses on debt derivatives	(1,504)	(413)
Net unrealized gains on debt derivatives	(1,063)	5,307
Total net investment income	<u>\$ 413,910</u>	<u>415,998</u>

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

	2025	2024
Other operating revenue	\$ 12,161	10,905
Nonoperating income	400,458	404,012
Increase in net assets with donor restrictions	1,291	1,081
Total net investment income	<u>\$ 413,910</u>	<u>415,998</u>

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

	2025	2024
Assets limited as to use:		
Deposits with bond trustees	\$ 165,437	1,319
Receivables and investments designated to settle estimated professional liability costs	41,249	46,721
Board-designated debt repayment funds	96,000	72,000
Donor-restricted receivables, investments, and other assets	85,448	65,017
Total assets limited as to use	388,134	185,057
Less current portion of assets limited as to use	(15,790)	(18,551)
Assets limited as to use, excluding current portion	<u>\$ 372,344</u>	<u>166,506</u>

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(7) Liquidity and Availability

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

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 24,977	30,556
Patient accounts receivable	934,495	811,504
Estimated third-party payor settlements, net	155,943	228,098
Other receivables	73,091	57,399
Short-term investments	394,138	568,205
Noncurrent investments	<u>2,612,073</u>	<u>2,327,527</u>
Total	<u>\$ 4,194,717</u>	<u>4,023,289</u>

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, 2025 and 2024, the Health System has \$150,000 in availability under unsecured line of credit agreements with two commercial banks and \$550,000 and \$350,000, respectively, in availability under its taxable commercial paper program.

(8) Property and Equipment

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

	<u>2025</u>	<u>2024</u>
Buildings and utilities	\$ 3,105,520	2,872,814
Furnishings and equipment	1,174,137	1,134,873
Buildings and equipment under finance lease liabilities	175,252	187,801
Computer software	<u>363,975</u>	<u>361,304</u>
Depreciable property and equipment	4,818,884	4,556,792
Less accumulated depreciation and amortization	<u>(2,938,543)</u>	<u>(2,786,973)</u>
Depreciable property and equipment, net	1,880,341	1,769,819
Land and land improvements	205,926	187,486
Construction in progress	<u>161,745</u>	<u>197,470</u>
Property and equipment, net	<u>\$ 2,248,012</u>	<u>2,154,775</u>

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The following table summarizes other property and equipment information for fiscal years 2025 and 2024:

	2025	2024
Depreciation expense	\$ 185,737	180,983
Finance leases' accumulated amortization	80,210	83,875
Computer software amortization expense	3,576	6,211
Computer software's accumulated amortization	350,266	350,911

(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	
					2025	2024
Tax-exempt revenue bonds:						
2005A	Direct placement	June 1, 2028	2028	— %	\$ —	42,555
2005B	Direct placement	June 1, 2028	2028	—	—	13,775
2006A/B/C	Direct placement	February 29, 2032	2039	—	—	121,620
2016B	Direct placement	February 29, 2032	2042	—	—	90,000
2016C	Direct placement	February 29, 2032	2042	—	—	90,000
	Total variable rate				—	357,950
2016A	Fixed rate	N/A	2028	1.8	57,595	74,925
2016D	Fixed rate	N/A	2042	3.4	125,100	125,100
2025A	Fixed rate	N/A	2042	4.5	324,450	—
2025B	Long-term rate	June 4, 2030	2055	4.9	164,330	—
Taxable bonds:						
2017	Fixed rate	N/A	2047	3.9	600,000	600,000
2020	Fixed rate	N/A	2042	2.9	288,328	292,032
	Total fixed rate/long-term rate				1,559,803	1,092,057
Taxable commercial paper		N/A	<1 year	4.7	250,000	150,000
Line of credit agreement		N/A	2026	5.0	150,000	150,000
	Total debt				1,959,803	1,750,007
	Plus unamortized premiums and discounts – net				46,597	15,674
	Less unamortized debt issuance costs – net				(15,830)	(13,397)
	Less current portion of long-term debt and commercial paper				(435,089)	(184,339)
	Long-term debt, net of current portion				\$ 1,555,481	1,567,945

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

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On June 25, 2025, the Health System expanded its taxable commercial paper program, increasing the maximum aggregate face amount from \$500,000 to \$800,000. The commercial paper can be issued in \$100,000 tranches and in multiples of \$1,000 above \$100,000. No notes are issued if more than \$75,000 of notes would mature within any five consecutive business days.

On June 25, 2025, the Series 2025A and Series 2025B tax-exempt revenue bonds (collectively, Series 2025 bonds) were issued in the aggregate par amount of \$488,780 to (1) refund the 2005A bonds, 2005B bonds, 2006 A/B/C bonds, 2016B bonds, and 2016C bonds (2) finance part of the cost of additional health care facilities and (3) pay certain expenses of issuing the Series 2025 bonds. The Series 2025 bonds were issued at a premium of \$34,061. Unless the Health System rescinds its option to convert the 2025B bonds to a new interest rate period, the 2025B bonds are subject to mandatory purchase after the initial long-term interest rate period ends on June 4, 2030.

All Duke University Health System, Inc. Tax-Exempt Revenue Bonds were issued by the North Carolina Medical Care Commission (NCMCC). The Health System is obligated to make payments of principal and interest that correspond to the obligations of the NCMCC under the bond agreements.

The aggregate annual maturities of debt for each of the five fiscal years subsequent to June 30, 2025 and thereafter are as follows:

2026	\$	435,089
2027		35,587
2028		37,200
2029		37,739
2030		39,213
Thereafter		<u>1,374,975</u>
Total	\$	<u><u>1,959,803</u></u>

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.

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(10) Derivatives and Other Financial Instruments

(a) Debt Derivatives

The Health System has two interest rate swap agreements that were designed to synthetically reduce the variable rate exposure associated with its portfolio of debt. The following summarizes the general terms for each of the Health System's swap agreements:

<u>Effective date</u>	<u>Associated debt series</u>	<u>Original term</u>	<u>Current notional amount</u>	<u>Health System pays</u>	<u>Health System receives</u>
May 19, 2005	N/A	23 years	\$ 97,505	3.601 %	61.52% of 30-day compounded daily SOFR ¹ plus 0.28%
April 1, 2009	N/A	30 years	127,505	4.107	67.00% of 30-day compounded daily SOFR ¹

¹ 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:

<u>Financial Information Related to Debt Derivative Instruments</u>					
	<u>2025</u>			<u>2024</u>	
	<u>Fair value ¹</u>	<u>Unrealized loss recognized in income ²</u>	<u>Realized loss recognized in income ²</u>	<u>Fair value ¹</u>	<u>Unrealized gain recognized in income ²</u>
May 19, 2005	\$ (2,005)	(361)	(411)	(1,644)	912
April 1, 2009	(15,611)	(702)	(1,093)	(14,909)	4,395
Total debt derivatives instruments	\$ (17,616)	(1,063)	(1,504)	(16,553)	5,307
					(413)

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.

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,

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the counterparty could request immediate payment on derivatives in net liability positions. At June 30, 2025 and 2024, 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, 2025 and 2024 is \$17,616 and \$16,553, 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, 2025 and 2024, the Health System would be required to post collateral of \$17,616 and \$16,553, 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 amounts for the years ended June 30:

	<u>2025</u>	<u>2024</u>	<u>Location in financial statements</u>
Net notional amounts	\$ 4,120,551	4,174,392	N/A
Derivative assets	94,390	78,176	Investments
Derivative liabilities	(57,399)	(56,705)	Investments
Net gain	5,984	15,641	Net investment income
Posted collateral	11,994	4,146	Short-term investments

(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

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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.

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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:

	2025	Level 1	Level 2	Level 3	Investments reported at NAV¹
Assets:					
Cash and cash equivalents	\$ 24,977	24,977	—	—	—
Deposits with bond trustees	165,437	165,437	—	—	—
Short-term investments	430,957	321,646	109,311	—	—
Fixed income	876,586	35,610	728,056	39,757	73,163
Equities	747,117	393,580	172,174	989	180,374
Hedged strategies	1,007,439	7,450	18	—	999,971
Private capital	1,526,630	2,133	—	71,696	1,452,801
Real assets	503,813	25,632	12,669	9,245	456,267
Other	160,032	509	94,852	—	64,671
Total assets	<u>\$ 5,442,988</u>	<u>976,974</u>	<u>1,117,080</u>	<u>121,687</u>	<u>3,227,247</u>
Liabilities:					
Interest rate derivatives	\$ 17,616		17,616		

¹ Fund investments reported at NAV as a practical expedient estimate of fair value at June 30, 2025.

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	<u>2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments reported at NAV¹</u>
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	<u>142,651</u>	<u>—</u>	<u>81,939</u>	<u>—</u>	<u>60,712</u>
Total assets	<u>\$ 5,132,550</u>	<u>994,760</u>	<u>1,124,639</u>	<u>124,089</u>	<u>2,889,062</u>
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.

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.

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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.

	<u>2025</u>	<u>2024</u>
Level 3 investments at beginning of year	\$ 124,089	121,204
Net realized and unrealized losses	(3,009)	(7,746)
Purchases	26,764	30,581
Sales	(26,433)	(19,495)
Transfers into Level 3	596	43
Transfers out of Level 3	(320)	(498)
Level 3 investments at end of year	<u>\$ 121,687</u>	<u>124,089</u>

(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. 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 2025 and 2024 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, 2025 and 2024 was 3.5%. Accrued professional liability costs excluding estimated incurred but not reported claims as of June 30, 2025 and 2024 amounted to \$41,249 and \$46,721, 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 \$20,627 and \$19,096 as of June 30, 2025 and 2024, 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 \$153,867 and \$153,551 to this plan in fiscal years 2025 and 2024, respectively, which are reported in employee compensation and temporary labor expense in the accompanying consolidated statement of operations. The Health System expects to contribute \$166,000 to this plan in fiscal year 2026.

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 \$30,403 to this plan in fiscal year 2026. 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 89% and 88% of the total University's defined benefit pension plan for fiscal years 2025 and 2024, 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.

(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

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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	
	2025	2024	2025	2024
Reconciliation of projected benefit obligation:				
Obligation at beginning of year	\$ 1,603,063	1,552,339	59,130	58,421
Transfer from the University	—	79,504	—	10,641
Service cost	68,778	71,830	291	1,068
Interest cost	86,703	82,460	3,061	3,389
Actuarial gain	(36,372)	(123,864)	(16,076)	(9,681)
Benefits paid	(58,898)	(55,506)	(5,089)	(4,708)
Amendments	369	—	—	—
Administrative expenses (estimated)	(3,900)	(3,700)	—	—
Projected benefit obligation at end of year	<u>\$ 1,659,743</u>	<u>1,603,063</u>	<u>41,317</u>	<u>59,130</u>
Reconciliation of fair value of plan assets:				
Fair value of plan assets at beginning of year	\$ 1,727,430	1,514,295	—	—
Transfer from the University	—	101,105	—	—
Actual return on plan assets	154,785	144,098	—	—
Employer contributions	29,840	27,062	—	—
Benefits paid	(58,898)	(55,506)	—	—
Administrative expenses	(3,831)	(3,624)	—	—
Fair value of plan assets at end of year	<u>\$ 1,849,326</u>	<u>1,727,430</u>	<u>—</u>	<u>—</u>
Funded status:				
Net accrued benefit asset (liability)	\$ 189,583	124,367	(41,317)	(59,130)

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

	Pension benefits		Postretirement benefits	
	2025	2024	2025	2024
Service cost	\$ 68,778	71,830	291	1,068
Interest cost	86,703	82,460	3,061	3,389
Expected return on plan assets	(138,787)	(128,883)	—	—
Amortization of prior-service cost and losses	1,390	1,564	38	38
Recognized actuarial gain	<u>(19,159)</u>	<u>(8,283)</u>	<u>(500)</u>	<u>(284)</u>
Net periodic benefit cost	<u>\$ (1,075)</u>	<u>18,688</u>	<u>2,890</u>	<u>4,211</u>

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, 2025 and 2024, respectively:

	Pension benefits		Postretirement benefits	
	2025	2024	2025	2024
Unrecognized prior service cost	\$ 8,652	10,042	222	260
Unrecognized actuarial gains	(381,777)	(349,866)	(45,841)	(30,265)

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

	Pension benefits		Postretirement benefits	
	2025	2024	2025	2024
Transfer from the University	\$ —	(651)	—	—
Actuarial gain due to investment performance	16,067	15,291	—	—
Actuarial gain due to change in discount rate	32,134	92,337	45	1,130
Actuarial gain due to demographic changes	4,272	34,091	47	920
New prior service cost	(369)	—	—	—
Amortization of prior service cost	1,390	1,564	38	38
Actuarial gain recognized in current year expense	(19,159)	(8,283)	(500)	(284)
Other changes in net actuarial assumptions	(34)	(2,564)	15,984	7,631
Nonperiodic changes in defined benefit obligations	\$ 34,301	131,785	15,614	9,435

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			
	2025		2024		2025		2024	
	Obligation	Cost	Obligation	Cost	Obligation	Cost	Obligation	Cost
Weighted average assumptions as of measurement date:								
Discount rate	5.64 %	5.51 %	5.51 %	5.14 %	5.20 %	5.41 %	5.41 %	5.08 %
Expected return on plan assets	N/A	8.0 %	N/A	8.0 %	N/A	N/A	N/A	N/A
Rate of compensation increase	5.0%/1.0% ¹	5.0%/1.0% ¹	5.0%/1.0% ¹	5.0%/1.0% ²	N/A	N/A	N/A	N/A

¹Compensation 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.

²Compensation increase for first 20 years of service/thereafter

In order to determine the benefit obligation as of June 30, 2025, the per capita costs of covered healthcare benefits was assumed to increase 8.5% for non-Medicare eligible employees and 11.0% for Medicare eligible employees, declining to an ultimate annual rate of increase of 4.5% by 2037 for non-Medicare and 2036 for Medicare eligible employees. The benefit expense for fiscal year 2025 was driven by the rates used to determine the benefit obligation as of June 30, 2024, which were 7.5% for

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non-Medicare eligible employees and 6.75% for 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 pension and postretirement benefits expected to be paid for the 10 years subsequent to June 30, 2025 are as follows:

	Pension benefits	Postretirement benefits
2026	\$ 65,067	4,686
2027	69,572	5,086
2028	74,380	5,165
2029	79,638	5,245
2030	85,306	5,208
2031–2035	518,399	27,870

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 (high yield corporate bonds, private credit, levered loans, etc.), 15% absolute return oriented strategies, and 7% investment-grade fixed income (public obligations including treasuries and agencies, investment-grade corporate bonds, etc.).

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.

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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:

		2025	Level 1	Level 2	Level 3	Investments reported at NAV¹
Asset category:						
Short-term investments	\$	148,067	68,155	79,860	—	52
Fixed income		315,143	18,894	234,254	—	61,995
Equities		226,889	155,266	4,618	—	67,005
Hedged strategies		362,922	251	(1,421)	—	364,092
Private capital		583,526	688	—	27,057	555,781
Real assets		196,881	20,661	1,999	—	174,221
Other investments		15,898	(19,723)	35,621	—	—
	\$	<u>1,849,326</u>	<u>244,192</u>	<u>354,931</u>	<u>27,057</u>	<u>1,223,146</u>
						Investments reported at NAV¹
		2024	Level 1	Level 2	Level 3	
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	—	—
	\$	<u>1,727,430</u>	<u>311,472</u>	<u>285,944</u>	<u>31,268</u>	<u>1,098,746</u>

¹ Fund Investments reported at NAV as a practical expedient estimate of fair value at June 30, 2025 and 2024.

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.

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(Dollars in thousands)

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:

	<u>2025</u>	<u>2024</u>
Level 3 investments at beginning of year	\$ 31,268	31,555
Net realized and unrealized losses	(1,730)	(3,880)
Purchases	3,125	6,358
Sales	(5,606)	(2,765)
Level 3 investments at end of year	<u>\$ 27,057</u>	<u>31,268</u>

At June 30, 2025 and 2024, the accumulated benefit obligation for pension benefits was \$1,518,763 and \$1,450,945, respectively, as compared to the fair value of the plan assets of \$1,849,326 and \$1,727,430, respectively. At June 30, 2025 and 2024, the plan was over funded in relation to accumulated benefits by \$330,563 and \$276,485, 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:

	<u>Healthcare services</u>	<u>General and administrative</u>	<u>Total</u>
For the year ended June 30, 2025:			
Employee compensation and temporary labor	\$ 3,082,134	685,133	3,767,267
Medical supplies	1,824,009	—	1,824,009
Interest	74,703	—	74,703
Depreciation and amortization	183,322	20,080	203,402
State provider assessments	333,992	—	333,992
Other operating expenses	567,870	334,477	902,347
Total	<u>\$ 6,066,030</u>	<u>1,039,690</u>	<u>7,105,720</u>

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	<u>Healthcare services</u>	<u>General and administrative</u>	<u>Total</u>
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	<u>\$ 5,551,204</u>	<u>1,068,039</u>	<u>6,619,243</u>

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:

<u>Lease type:</u>	<u>Classification in Statement of Operations</u>	<u>2025</u>	<u>2024</u>
Finance lease expense:			
Amortization of right-of-use assets	Depreciation and amortization	\$ 14,089	17,548
Interest on lease liabilities	Interest	7,264	7,329
Operating lease expense	Other operating expenses	62,879	60,680
Short-term lease expense	Other operating expenses	22,457	22,868
Total lease expense		<u>\$ 106,689</u>	<u>108,425</u>

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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:

	<u>2025</u>	<u>2024</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for finance leases	\$ 6,992	6,232
Operating cash flows for operating leases	60,974	58,934
Increase in right-of-use assets obtained in exchange for lease liabilities ¹ :		
Finance leases	\$ 5,205	1,853
Operating leases	20,749	17,213
Weighted-average remaining lease term:		
Finance leases	36.1	33.6 years
Operating leases	11.3	12.3 years
Weighted-average discount rate:		
Finance leases	5.28	5.23 %
Operating leases	3.46	3.37 %

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

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(Dollars in thousands)

The aggregate future lease payments under finance and operating leases as of June 30, 2025 are as follows:

	<u>Finance leases</u>	<u>Operating leases</u>
Year ending June 30:		
2026	\$ 15,860	55,898
2027	12,482	58,539
2028	10,408	55,499
2029	8,630	52,027
2030	8,599	48,764
Thereafter	<u>265,544</u>	<u>327,767</u>
Total minimum lease payments	321,523	598,494
Less amount of lease payments representing interest	<u>(176,827)</u>	<u>(100,972)</u>
Present value of future minimum lease payments	144,696	497,522
Less current portion	<u>(8,744)</u>	<u>(39,960)</u>
Lease liabilities, net of current portion	<u>\$ 135,952</u>	<u>457,562</u>

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 91% and 85% of the total finance lease liability as of June 30, 2025 and 2024, respectively. The Health System made principal and interest payments for this lease of \$8,381 and \$8,099 in fiscal years 2025 and 2024, respectively.

(16) Commitments and Contingencies

(a) Construction and Purchase Commitments

At June 30, 2025, open contracts for the construction of physical properties and other capital expenditures amounted to approximately \$194,700.

(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 and Regulatory 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

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(Dollars in thousands)

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.

(d) Cybersecurity

The Health System recognizes the increasing importance of cybersecurity in today's digital landscape. As a result, the Health System has implemented various measures to mitigate the risk of cyber threats and protect our systems and data as well as monitor the risks that our vendors have. However, we understand that no system is completely immune to cyberattacks, and there is a possibility that an unauthorized access, data breach, or other cybersecurity incident may occur at either one of our systems or at one of vendors' systems. In the event of a significant cyber incident, there could be a significant impact to the Health System's future operating results, financial condition, or liquidity. While we believe our cybersecurity measures and our vendors' measures are robust, there can be no assurance that they will prevent all cyber threats or that there will not be a cyber incident in the future that may have a significant adverse effect on our financial condition, liquidity, or results of operations.

(17) Subsequent Events

(a) H.R.1 – 2025 Trump Tax Extension and Reconciliation Bill

On July 4, 2025, the U.S. government enacted the H.R.1-2025 Trump Tax Extension and Reconciliation Bill (HR1), introducing amendments to federal healthcare programs. These include adjustments to Medicaid funding, revisions to the Affordable Care Act, limitations on provider taxes, reductions in state-directed payments, implementation of work requirements, and restrictions on retroactive coverage. The Health System is currently assessing the timing and potential effects of these changes on its future financial position.

(b) Letter from U.S. Governmental Agencies

On July 28, 2025, Duke University received a letter from the Secretaries of the U.S. Department of Health and Human Services and the Department of Education in regard to certain allegations of unlawful use of racial preferences at Duke Health as defined therein. Duke University is responding to the inquiry, and the Health System continues to evaluate the potential impact, if any, on its financial position.

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(Dollars in thousands)

(c) Commercial Paper Issuance

On September 9, 2025, 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 September 30, 2025, the date on which the consolidated financial statements were issued and determined that there are no other items to disclose.

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Combined Group under April 13, 1999 Master Trust Indenture (MTI) and Consolidated

Combining and Consolidating Balance Sheet Information

June 30, 2025

(Dollars in thousands)

Assets	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Other MTI	MTI Combined Group	Duke Health Lake Norman	Duke Health Integrated Practice	Duke Univ. Affiliated Physicians	Durham Casualty Company	Other Non-MTI	DUHS consolidated
Current assets:											
Cash and cash equivalents	\$ (12)	—	—	7,209	7,197	—	(3)	—	15,181	2,602	24,977
Patient accounts receivable	569,074	70,690	104,945	16,223	760,932	26,979	122,539	15,750	—	8,295	934,495
Estimated third-party payor settlements, net	88,797	11,856	47,547	—	148,200	1,358	5,596	789	—	—	155,943
Other receivables	38,967	1,952	2,505	18,679	62,103	(70)	9,307	320	—	1,431	73,091
Inventories of drugs and supplies	97,379	10,558	19,894	9,252	137,083	5,013	8,583	2,622	—	3,750	157,051
Short-term investments	—	—	—	394,138	394,138	—	—	—	—	—	394,138
Assets limited as to use	—	—	—	—	—	—	—	—	15,790	—	15,790
Other current assets	4,412	(2,318)	(6,849)	38,278	33,523	(1,427)	(17,236)	14,564	(4,424)	22,750	47,750
Total current assets	798,617	92,738	168,042	483,779	1,543,176	31,853	128,786	34,045	26,547	38,828	1,803,235
Assets limited as to use	—	—	—	346,885	346,885	—	—	—	25,459	—	372,344
Investments	—	—	—	4,308,299	4,308,299	—	—	—	334,815	—	4,643,114
Property and equipment, net	1,166,793	223,113	296,270	314,156	2,000,332	93,710	65,716	54,070	—	34,184	2,248,012
Prepaid pension asset	—	—	—	189,583	189,583	—	—	—	—	—	189,583
Right-of-use operating lease assets	8,013	1,509	6,320	448,409	464,251	340	975	—	—	1,264	466,830
Other noncurrent assets	—	—	21,966	68,330	90,296	185,011	37,089	—	—	5,977	318,373
Total assets	\$ 1,973,423	317,360	492,598	6,159,441	8,942,822	310,914	232,566	88,115	386,821	80,253	10,041,491
Liabilities and Net Assets											
Current liabilities:											
Accounts payable	\$ 130,075	11,176	23,275	41,027	205,553	6,492	16,316	2,241	123	30,251	260,976
Accrued salaries, wages, and vacation payable	105,669	25,166	23,197	84,774	238,806	2,620	121,356	35,271	—	18,458	416,511
Current portion of postretirement and postemployment benefit obligations	—	—	—	8,199	8,199	—	—	—	—	—	8,199
Commercial paper	—	—	—	248,970	248,970	—	—	—	—	—	248,970
Short-term borrowings	—	—	—	150,000	150,000	—	—	—	—	—	150,000
Current portion of long-term debt	—	—	—	35,089	35,089	—	—	—	—	—	35,089
Current portion of finance lease liabilities	567	1,768	29	1,052	3,416	—	5,328	—	—	—	8,744
Current portion of operating lease liabilities	3,890	563	2,381	32,313	39,147	203	399	—	—	211	39,960
Other current liabilities	8,180	1,848	1,699	19,614	31,341	99	457	2,783	15,790	1,777	52,247
Total current liabilities	248,381	40,521	50,581	621,038	960,521	9,414	143,856	40,295	15,913	50,697	1,220,696
Postretirement and postemployment benefit obligations, net of current portion	—	—	—	42,324	42,324	—	—	—	—	—	42,324
Long-term debt, net of current portion	—	—	—	1,555,481	1,555,481	—	—	—	—	—	1,555,481
Finance lease liabilities, net of current portion	271	130,340	—	595	131,206	—	4,746	—	—	—	135,952
Operating lease liabilities, net of current portion	4,124	946	3,939	446,782	455,791	136	576	—	—	1,059	457,562
Other noncurrent liabilities	24,527	9,234	11,790	57,799	103,350	6	4,764	9,749	25,459	2,801	146,129
Total liabilities	277,303	181,041	66,310	2,724,019	3,248,673	9,556	153,942	50,044	41,372	54,557	3,558,144
Net assets:											
Without donor restrictions	1,696,120	136,319	426,288	3,349,974	5,608,701	301,358	78,624	38,071	345,449	25,696	6,397,899
With donor restrictions	—	—	—	85,448	85,448	—	—	—	—	—	85,448
Total net assets	1,696,120	136,319	426,288	3,435,422	5,694,149	301,358	78,624	38,071	345,449	25,696	6,483,347
Total liabilities and net assets	\$ 1,973,423	317,360	492,598	6,159,441	8,942,822	310,914	232,566	88,115	386,821	80,253	10,041,491

See accompanying independent auditors' report.

**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, 2025
(Dollars in thousands)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	Other MTI	MTI Combined Group	Duke Health Lake Norman	Duke Health Integrated Practice	Duke Univ. Affiliated Physicians	Durham Casualty Company	Other Non-MTI	Eliminations	DUHS consolidated
Revenues, gains, and other support without donor restrictions:												
Patient service revenue	\$ 4,177,169	544,851	792,713	69,522	5,584,255	34,527	1,139,739	246,235	—	81,473	—	7,086,229
Other revenue	64,393	4,527	5,013	30,470	104,403	43	191,846	1,917	36,579	27,756	(164,084)	198,460
Total revenues, gains, and other support	<u>4,241,562</u>	<u>549,378</u>	<u>797,726</u>	<u>99,992</u>	<u>5,688,658</u>	<u>34,570</u>	<u>1,331,585</u>	<u>248,152</u>	<u>36,579</u>	<u>109,229</u>	<u>(164,084)</u>	<u>7,284,689</u>
Expenses:												
Employee compensation and temporary labor	1,259,890	272,020	254,855	475,514	2,262,279	14,363	1,088,039	214,114	—	188,472	—	3,767,267
Medical supplies	1,260,854	85,260	197,629	108,411	1,652,154	6,171	108,739	27,405	—	29,540	—	1,824,009
Interest	48,773	9,969	12,073	25	70,840	3,375	488	—	—	—	—	74,703
Depreciation and amortization	94,550	21,670	32,419	21,052	169,691	1,390	18,989	7,461	—	5,871	—	203,402
State provider assessments	257,505	35,188	39,016	—	331,709	2,283	—	—	—	—	—	333,992
Other operating expenses	999,517	134,588	166,447	(467,837)	832,715	8,440	267,656	44,388	29,550	(116,318)	(164,084)	902,347
Total expenses	<u>3,921,089</u>	<u>558,695</u>	<u>702,439</u>	<u>137,165</u>	<u>5,319,388</u>	<u>36,022</u>	<u>1,483,911</u>	<u>293,368</u>	<u>29,550</u>	<u>107,565</u>	<u>(164,084)</u>	<u>7,105,720</u>
Operating income (loss)	<u>320,473</u>	<u>(9,317)</u>	<u>95,287</u>	<u>(37,173)</u>	<u>369,270</u>	<u>(1,452)</u>	<u>(152,326)</u>	<u>(45,216)</u>	<u>7,029</u>	<u>1,664</u>	<u>—</u>	<u>178,969</u>
Nonoperating income (loss):												
Net investment income	7	—	—	368,397	368,404	—	—	—	32,054	—	—	400,458
Nonoperating components of net periodic benefit cost	—	—	—	67,254	67,254	—	—	—	—	—	—	67,254
Other	113	46	1	18	178	—	146	—	—	8	—	332
Total nonoperating income (loss)	<u>120</u>	<u>46</u>	<u>1</u>	<u>435,669</u>	<u>435,836</u>	<u>—</u>	<u>146</u>	<u>—</u>	<u>32,054</u>	<u>8</u>	<u>—</u>	<u>468,044</u>
Excess (deficit) of revenues over expenses	320,593	(9,271)	95,288	398,496	805,106	(1,452)	(152,180)	(45,216)	39,083	1,672	—	647,013
Change in funded status of defined benefit plans	—	—	—	49,915	49,915	—	—	—	—	—	—	49,915
Net assets released from restrictions for purchase of property and equipment	74	148	—	—	222	—	—	—	—	—	—	222
Intracompany transfers, net	(39,262)	26,351	(35,211)	(570,730)	(618,852)	302,810	273,709	47,837	—	(5,504)	—	—
Transfers (to) from the University, net	(122,184)	(14)	394	(17,084)	(138,888)	—	(139,715)	1,388	—	1,489	—	(275,726)
Increase (decrease) in net assets without donor restrictions	<u>\$ 159,221</u>	<u>17,214</u>	<u>60,471</u>	<u>(139,403)</u>	<u>97,503</u>	<u>301,358</u>	<u>(18,186)</u>	<u>4,009</u>	<u>39,083</u>	<u>(2,343)</u>	<u>—</u>	<u>421,424</u>

See accompanying independent auditors' report.