

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements
March 31, 2020 and 2019

(Unaudited)

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets (Unaudited)

March 31, 2020 and 2019

(\$000's Omitted)

Assets	3/31/2020	3/31/2019
Current Assets:		
Cash and cash equivalents	\$ 181,374	459,011
Patient accounts receivable, net	438,200	453,245
Estimated third-party payor settlements, net	48,949	52,192
Other receivables	47,495	46,115
Inventories of drugs and supplies	110,759	98,933
Short-term investments	394,869	244,104
Assets limited as to use	17,334	19,505
Other assets	36,736	41,509
	1,275,716	1,414,614
Total current assets		
Assets limited as to use	80,522	93,200
Investments	3,116,908	3,170,740
Property and equipment, net	1,944,193	1,700,955
Right-of-use operating lease assets	323,098	-
Other noncurrent assets	51,077	54,685
	6,791,514	6,434,194
Total assets	\$ 6,791,514	6,434,194
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 198,162	172,318
Accrued salaries, wages and vacation payable	196,108	190,797
Current portion of postretirement and postemployment benefit obligations	7,676	7,540
Current portion of indebtedness	24,925	23,760
Current portion of finance lease liabilities	8,180	1,900
Current portion of operating lease liabilities	24,935	-
Current portion of estimated professional liability costs	17,334	16,611
Other current liabilities	71,445	81,372
	548,765	494,298
Total current liabilities		
Postretirement and postemployment benefit obligations, net of current portion	530,659	331,352
Indebtedness, net of current portion	1,582,944	1,600,498
Finance lease liabilities, net of current portion	160,185	126,932
Operating lease liabilities, net of current portion	305,423	-
Estimated professional liability costs, net of current portion	28,400	38,909
Derivative instruments	102,219	63,508
Other noncurrent liabilities	51,505	40,149
	3,310,100	2,695,646
Total liabilities		
Net Assets:		
Without donor restrictions	3,423,730	3,678,297
With donor restrictions	57,684	60,251
	3,481,414	3,738,548
Total net assets		
Total liabilities and net assets	\$ 6,791,514	6,434,194

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations (Unaudited)
For the Nine Months Ended March 31, 2020 and 2019
(\$000's Omitted)

	<u>3/31/2020</u>	<u>3/31/2019</u>
Revenues, gains and other support without donor restrictions:		
Net patient service revenue	\$ 2,855,730	2,679,407
Other revenue	153,222	153,237
Total revenues, gains and other support	<u>3,008,952</u>	<u>2,832,644</u>
Expenses:		
Salaries, wages and benefits	1,395,615	1,270,023
Medical supplies	769,663	689,637
Interest	31,934	42,116
Depreciation	125,170	121,633
Other operating expenses	564,337	515,287
Total expenses	<u>2,886,719</u>	<u>2,638,696</u>
Operating income	<u>122,233</u>	<u>193,948</u>
Non-operating (loss) income:		
Investment (loss) gain	(298,507)	24,689
Non-operating components of net periodic benefit cost	12,622	16,339
Loss on extinguishment of debt	(10,179)	-
Other	2,124	2,011
Total non-operating (loss) income	<u>(293,940)</u>	<u>43,039</u>
(Deficit) excess of revenue (under) over expenses	(171,707)	236,987
Change in funded status of defined benefit plans	(40,401)	(47,379)
Net assets released from restrictions for purchase of property and equipment	716	516
Transfers to the University, net	<u>(84,451)</u>	<u>(72,928)</u>
(Decrease) increase in net assets without donor restrictions	<u>\$ (295,843)</u>	<u>117,196</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Changes in Net Assets (Unaudited)
For the Nine Months Ended March 31, 2020 and 2019
(\$000's Omitted)

	3/31/2020	3/31/2019
Net assets without donor restrictions		
(Deficit) excess of revenue (under) over expenses	\$ (171,707)	236,987
Change in funded status of defined benefit plans	(40,401)	(47,379)
Net assets released from restrictions for purchase of property and equipment	716	516
Transfers to the University, net	(84,451)	(72,928)
(Decrease) increase in net assets without donor restrictions	(295,843)	117,196
Net assets with donor restrictions:		
Contributions for restricted purposes	2,818	3,801
Transfers from the University, net	32	122
Net assets released from restrictions used for operations	(3,303)	(2,443)
Net assets released from restrictions for purchase of property and equipment	(716)	(516)
Net realized and unrealized gains (losses)	(1,796)	660
(Decrease) increase in net assets with donor restrictions	(2,965)	1,624
(Decrease) increase in net assets	(298,808)	118,820
Net assets, beginning of year	3,780,222	3,619,728
Net assets, end of period	\$ 3,481,414	3,738,548

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended March 31, 2020 and 2019
(\$000's Omitted)

	<u>3/31/2020</u>	<u>3/31/2019</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (298,808)	118,820
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	125,170	121,633
Investment loss (income)	301,155	(24,537)
Loss on the extinguishment of debt	10,179	-
Net gain on other investments and disposals of property and equipment	(2,042)	(1,243)
Transfers to the University, net	84,419	72,806
Donor-restricted contributions for long-term investment and capital projects and associated investment income	(1,472)	(1,317)
(Increase) decrease in:		
Patient accounts receivable	22,343	(32,264)
Estimated third-party payor settlements receivable	(53,973)	(54,038)
Other receivables	(10,020)	(11,153)
Inventories of drugs and supplies	(8,820)	(5,639)
Right-of-use operating lease assets	(323,098)	-
Other assets	(909)	(5,115)
Increase (decrease) in:		
Accounts payable	(12,935)	(5,477)
Accrued salaries, wages and vacation payable	(7,771)	1,595
Other current liabilities	36,992	38,558
Postretirement and postemployment benefit obligation	60,767	56,724
Estimated professional liability costs	(2,780)	10,112
Operating lease liabilities	330,358	-
Other noncurrent liabilities	1,687	219
Net cash provided by operating activities	<u>250,442</u>	<u>279,684</u>
Cash flows from investing activities:		
Capital expenditures	(275,808)	(247,811)
Decrease (increase) in assets limited as to use	1,612	(1,737)
Sales of investments	1,120,058	1,551,810
Purchases of investments	(1,096,408)	(1,326,581)
Decrease (increase) in other assets	819	(2,872)
Net cash used in investing activities	<u>(249,727)</u>	<u>(27,191)</u>

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES
Consolidated Statements of Cash Flows, Continued (Unaudited)
For the Nine Months Ended March 31, 2020 and 2019
(\$000's Omitted)

	<u>3/31/2020</u>	<u>3/31/2019</u>
Cash flows from financing activities:		
Payments on indebtedness and bank borrowings	\$ (296,936)	-
Proceeds from finance leasing program	13,578	-
Proceeds from issuance of indebtedness	299,432	-
Bond issuance costs	(2,496)	-
Proceeds from restricted contributions and associated investment income	1,472	1,317
Payments on finance lease liabilities	(3,504)	(2,538)
Transfers to the University, net	(81,834)	(70,218)
Net cash used in financing activities	<u>(70,288)</u>	<u>(71,439)</u>
Net (decrease) increase in cash and cash equivalents	(69,573)	181,054
Cash and cash equivalents, beginning of year	<u>250,947</u>	<u>277,957</u>
Cash and cash equivalents, end of period	<u>\$ 181,374</u>	<u>459,011</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amount capitalized	\$ 32,216	37,537
Supplemental disclosures of noncash investing/financing activities:		
Change in fixed asset payables as of March 31	\$ 20,563	5,809
Net transfers to the University of property and equipment	2,812	2,488
Net transfers payable between the Health System and the University	1,719	1,031
Supplemental cash flow information and noncash activity related to leases:		
Cash paid for operating lease liabilities	\$ 27,682	
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	56,526	
Finance leases	16,017	

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Hospital Utilization Statistics (Unaudited)

For the Nine Months Ended March 31, 2020 and 2019

	Duke University Hospital		Duke Regional Hospital		Duke Raleigh Hospital		Combined	
	9 months	9 months	9 months	9 months	9 months	9 months	9 months	9 months
	<u>3/31/2020</u>	<u>3/31/2019</u>	<u>3/31/2020</u>	<u>3/31/2019</u>	<u>3/31/2020</u>	<u>3/31/2019</u>	<u>3/31/2020</u>	<u>3/31/2019</u>
Adult Patient Days	233,731	231,572	62,760	62,135	38,524	36,285	335,015	329,992
Average Adult Daily Census	850	845	228	227	140	132	1,218	1,204
Licensed Beds	979	979	369	369	186	186	1,534	1,534
Average Number of Available Beds	974	972	343	348	186	186	1,503	1,506
Full Time Equivalents	9,177	8,805	1,992	1,861	1,738	1,551	12,907	12,217
Average Adult Occupancy	87%	87%	67%	65%	75%	71%	81%	80%
Adult Discharges	32,403	32,487	12,196	12,713	7,941	7,182	52,540	52,382
Average Adult Length of Stay	7.2	7.1	5.1	4.9	4.9	5.1	6.4	6.3
Medicare Case Mix Index	2.4769	2.3779	1.7152	1.6774	1.9912	2.0186	-	-
Number of Deliveries	2,539	2,652	1,829	1,716	-	-	4,368	4,368
Surgical Procedures	31,329	30,721	12,991	11,997	12,751	12,811	57,071	55,529
Endoscopy Procedures	10,995	10,485	3,907	4,316	2,509	2,564	17,411	17,365
Emergency Department Visits	57,621	57,872	43,833	46,661	33,203	35,491	134,657	140,024
Outpatient Visits								
ED Outpatient & CEU	47,923	47,317	37,320	39,947	28,445	30,893	113,688	118,157
Observation Visits	8,505	8,539	6,857	6,122	6,924	7,174	22,286	21,835
Hospital Clinics	751,568	834,740	90,969	85,864	175,915	152,217	1,018,452	1,072,821
Outpatient Surgeries and Endoscopies	26,798	25,877	13,048	12,443	11,552	11,749	51,398	50,069
DPC Visits	603,117	574,770	-	-	-	-	603,117	574,770
Total Outpatient Visits	<u>1,437,911</u>	<u>1,491,243</u>	<u>148,194</u>	<u>144,376</u>	<u>222,836</u>	<u>202,033</u>	<u>1,808,941</u>	<u>1,837,652</u>
Gross Revenues by Payor								
Medicare	43.3%	43.0%	48.7%	46.9%	52.8%	51.2%	45.6%	44.9%
Medicaid	12.6%	11.8%	10.2%	9.6%	6.3%	5.6%	11.2%	10.5%
Managed Care	35.0%	35.4%	29.6%	31.2%	32.5%	34.6%	34.0%	34.8%
Indemnity	1.3%	1.2%	1.3%	1.0%	1.3%	1.2%	1.3%	1.2%
Self-pay	2.8%	3.6%	7.1%	8.0%	4.0%	4.7%	3.5%	4.3%
Other	4.9%	5.0%	3.1%	3.2%	3.1%	2.7%	4.4%	4.4%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100%</u>	<u>100%</u>

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

DUKE UNIVERSITY HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Statements of Operations (Unaudited)

For the Nine Months Ended March 31, 2020 and 2019

(\$000's Omitted)

	Duke University Hospital	Duke Regional Hospital	Duke Raleigh Hospital	All Other Affiliates	Consolidated
Revenues, gains and other support without donor restrictions:					
Net patient service revenue	\$ 1,995,847	300,087	401,047	158,749	2,855,730
Other revenue	49,345	6,678	11,255	85,944	153,222
Total revenues, gains and other support	<u>2,045,192</u>	<u>306,765</u>	<u>412,302</u>	<u>244,693</u>	<u>3,008,952</u>
Expenses:					
Salaries, wages and benefits	687,380	150,316	130,352	427,567	1,395,615
Medical supplies	510,549	59,465	129,357	70,292	769,663
Interest	23,655	3,846	4,324	109	31,934
Depreciation	59,135	12,747	15,086	38,202	125,170
Other operating expenses	638,294	84,517	108,625	(267,099)	564,337
Total expenses	<u>1,919,013</u>	<u>310,891</u>	<u>387,744</u>	<u>269,071</u>	<u>2,886,719</u>
Operating income (loss)	<u>\$ 126,179</u>	<u>(4,126)</u>	<u>24,558</u>	<u>(24,378)</u>	<u>122,233</u>

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

Supplemental Note to Consolidated Financial Statements (Unaudited)

March 31, 2020 and 2019

(000's Omitted)

Recently Adopted Accounting Standards

On July 1, 2019, the Health System adopted ASU 2016-01, *Leases (Topic 842)* using a modified retrospective approach. The Health System elected the “package of practical expedients” upon adoption that allows entities to not reassess previous conclusions on (1) classification of existing leases, (2) whether expired or existing contracts contain leases, and (3) initial direct costs. The impact of adoption on the consolidated financial statements resulted in an increase in noncurrent assets to record right-of-use assets of \$298,599 and current and noncurrent liabilities to record lease liabilities for operating leases of the same amount, which represented the present value of remaining lease payments for operating leases. The unaudited financial statements as of and for the nine months ended March 31, 2019 were not modified for application of the new lease standard.

On July 1, 2019, the Health System adopted ASU 2017-02, *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Upon adoption, the Health System reclassified the non-service cost components of net periodic cost from salaries, wages, and benefits expense to non-operating income. The prior fiscal year 2019 financial statements were restated for comparative purposes which resulted in a \$16,339 increase in salaries, wages and benefits expense for the nine months ended March 31, 2019.