Annual Disclosure Report

For the Twelve Months Ended June 30, 2018

(Unaudited)

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Annual Disclosure Report for June 30, 2018

BAYLOR SCOTT & WHITE HEALTH

NOTICE
relating to:

BAYLOR HEALTH CARE SYSTEM
TAXABLE NOTES
SERIES 2000

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
HOSPITAL REVENUE BONDS
(BAYLOR HEALTH CARE SYSTEM PROJECT)
SERIES 2011A

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
HOSPITAL REVENUE BONDS
(BAYLOR HEALTH CARE SYSTEM PROJECT)
SERIES 2011B
7 MONTH WINDOW VRDB

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
HOSPITAL REVENUE BONDS
(BAYLOR HEALTH CARE SYSTEM PROJECT)
SERIES 2011C

TARRANT COUNTY CULTURAL EDUCATION
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(BAYLOR HEALTH CARE SYSTEM PROJECT)
SERIES 2013A

TARRANT COUNTY CULTURAL EDUCATION
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TARRANT COUNTY CULTURAL EDUCATION
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(BAYLOR HEALTH CARE SYSTEM PROJECT)
SERIES 2013C

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
HOSPITAL REVENUE BONDS
(SCOTT & WHITE HEALTHCARE PROJECT)
SERIES 2013A

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
HOSPITAL REVENUE BONDS
(SCOTT & WHITE HEALTHCARE PROJECT)
SERIES 2013C

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2015

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2016

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
HOSPITAL REVENUE BONDS
(BAYLOR SCOTT & WHITE HEALTHCARE PROJECT)
SERIES 2016A

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE COMMERCIAL PAPER NOTES
SERIES A

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CUSIP No.'s:

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ATTENTION

This document is marked with a dated date of June 30, 2018 and reflects information only as of that dated date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. We expressly disclaim any duty to provide an update of any information contained in this document.

The information contained in this document may include “forward looking statements” by using forward-looking words such as “may,” “will,” “should,” “expects,” “believes,” “anticipates,” “estimates,” or others. You are cautioned that forward-looking statements are subject to a variety of uncertainties that could cause actual results to differ from the projected results. Those risks and uncertainties include general economic and business conditions, receipt of funding grants, and various other factors which are beyond our control.

Because we cannot predict all factors that may affect future decisions, actions, events, or financial circumstances, what actually happens may be different from what we include in forward-looking statements.

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ORGANIZATION

Baylor Scott & White Health System

Baylor Scott & White Holdings (BSW Holdings), a Texas nonprofit corporation, and its controlled affiliates (collectively, the "System" or "BSWH") were created from the combination of two Texas health care systems, Baylor Health Care System (BHCS) and its controlled affiliates and Scott & White Healthcare (S&W) and its controlled affiliates. BSW Holdings and Baylor Scott & White Health (BSW Health), a Texas nonprofit corporation, were created by BHCS and S&W in connection with their combination. BSW Holdings is the sole member of BHCS, S&W, and BSW Health and has control and substantial reserved powers over all BHCS and S&W controlled affiliates.

The System includes two flagship hospitals, Baylor University Medical Center (BUMC) and Scott & White Memorial Hospital, now doing business as Baylor Scott & White Medical Center - Temple (SWMH) along with twenty-two other hospitals (see "BSWH Adult and Pediatric Licensed Beds" table) located in north and central Texas, excluding joint venture hospitals noted below.

The System includes five foundations and one research institute which are the Baylor Health Care System Foundation, Scott & White Healthcare Foundation, Irving Healthcare Foundation, All Saints Health Foundation, Scott & White Healthcare Foundation Brenham, and Baylor Scott & White Health Research Institute.

The System also includes Baylor Scott & White Quality Alliance (BSWQA). BSWQA is an accountable care organization functioning as a clinically integrated health network of employed physicians, independent physicians, hospitals, and other providers of care who are committed to delivering high quality, cost-effective, value-based care.

The System also includes Scott & White Clinic (the "Clinic"), HealthTexas Provider Network (HTPN), Hillcrest Family Health Center, and Hillcrest Physician Services. The Clinic, a Texas nonprofit corporation, operates clinics located throughout the central Texas area, in addition to the main campus in Temple, Texas. HTPN is a Texas nonprofit corporation that owns and operates primary care and specialty practices in the Dallas-Fort Worth metroplex and north Texas. Hillcrest Family Health Center and Hillcrest Physician Services operate clinics in the greater Waco area.

The System operates Scott and White Health Plan and its subsidiary, Insurance Company of Scott and White (collectively referred to as the "Health Plan"), which provides health insurance benefits to approximately 232,000 members through a variety of commercial, Medicaid, Medicare, Part D, Pharmacy Benefits Management, and Administrative Services Only products and services.

The System's combined financial statements also include partnerships through Texas Health Ventures Group, LLC (THVG JV) with ten short-stay surgery hospitals and twenty-eight ambulatory surgery centers, BIR JV, LLP (BIR JV) with four rehabilitation hospitals and sixty-seven clinics, EBD JV, LLP (EBD JV) with eight emergency medical centers, ESWCT, LLC that operates one emergency medical center, BTDI JV, LLP (BTDI JV) with thirty-four imaging centers, and THVG Bariatric, LLC (THVGB), which has provided bariatric services.

The System is committed to medical education in support of its mission of exemplary care, education, and research. The Texas A&M College of Medicine and the System have established Clinical Training Programs, for which medical students complete clinical rotations at BUMC and SWMH. Central Texas Veterans Health Care System is a major clinical partner in Temple and helps to train the System's residents and medical students. Because of this affiliation, the System's trainees are able to better identify the needs of veterans and their families. Nursing education is conducted through programs and affiliations with numerous schools of nursing including Baylor University School of Nursing, Dallas County Community College District, Texas A&M University-Corpus Christi, Texas Woman's University, University of Mary Hardin-Baylor, and the University of Texas at Arlington. A number of these students remain with the System as employees following their training and education.

<u>Obligated Group</u>

BSW Holdings and certain of its affiliates issue and secure debt ("Master Debt") under a Master Indenture of Trust and Security Agreement, dated as of February 1, 2014, as supplemented and amended (the "Master Indenture"), among BSW Holdings, the affiliates from time to time obligated thereunder (the "Obligated Affiliates"), and The Bank of New York Mellon Trust Company, National Association, as trustee. The following entities are currently Obligated Affiliates:

- BSW Holdings
- BSW Health
- BHCS, a Texas nonprofit corporation
- S&W, a Texas nonprofit corporation
- BUMC, a Texas nonprofit corporation
- Baylor All Saints Medical Center, a Texas nonprofit corporation, doing business as Baylor Scott & White All Saints Medical Center – Fort Worth
- Baylor Regional Medical Center at Grapevine, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Grapevine
- Baylor Medical Center at Waxahachie, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Waxahachie
- Baylor Regional Medical Center at Plano, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Plano
- SWMH, a Texas nonprofit corporation, also doing business as Baylor Scott & White McLane Children's Medical Center

- Scott & White Clinic, a Texas nonprofit corporation
- Scott & White Hospital – Round Rock, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Round Rock and Baylor Scott & White Medical Center – Lakeway
- Scott & White Continuing Care Hospital, a Texas nonprofit corporation, doing business as Baylor Scott & White Continuing Care Hospital
- Hillcrest Baptist Medical Center, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Hillcrest
- Baylor Medical Centers at Garland and McKinney, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – McKinney
- Scott & White Hospital – College Station, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – College Station

BSW Holdings is currently the Combined Group Representative under the Master Indenture. There are currently no Designated Affiliates under the Master Indenture.

The combined System's credit ratings are Aa3 (Stable Outlook) by Moody's Investors Service and AA- (Stable Outlook) by S&P Global Ratings.

Awards and Distinctions

The System is recognized as one of the leading health care delivery systems across the United States, having received the following recognitions, among others:

- *U.S. News & World Report* – According to U.S. News & World Report's "Best Hospitals" and "Best Hospitals for Common Care" 2017-2018 ratings, 13 Baylor Scott & White Health hospitals received recognition. This includes four nationally ranked hospitals and two hospitals in the Texas Top Ten, the most of any health system in Texas.

- *Becker's Hospital Review* – Listed among the 150 Top Places to Work in Healthcare.

- *Fortune and Great Place to Work* – Listed among the Best Work Places in Health Care by Fortune and the Great Place to Work Institute for the second year in a row.

- Eighty-four HTPN practices and fifty-two S&W clinics have received the National Committee for Quality Assurance (*"NCQA")* Patient-Centered Medical Home Recognition for using evidence-based, patient-centered processes that focus on highly coordinated care and long-term, participative relationships.

- *Press Ganey* – 11 hospitals earned the Press Ganey Guardian of Excellence Award, which recognizes top-performing health care facilities that have consistently rated in the 95th percentile or above for patient experience based on one year of data. Additionally, 3 hospitals earned the Pinnacle of Excellence Award.

BUMC

- *U.S. News & World Report* – BUMC is ranked as the No. 2 hospital in the Dallas metro area, as well as No. 3 in Texas, and was nationally recognized for the 25th consecutive year.

- *U.S. News & World Report* – Named as one of the top 50 hospitals nationally in two medical specialties: Ear, Nose & Throat and Gastroenterology & GI Surgery, and high performing in Cancer, Diabetes & Endocrinology, Geriatrics, Neurology and Neurosurgery, Nephrology, Orthopedics, and Pulmonology.

- *The Joint Commission* – Reaccredited with a Gold Seal of Approval™ for the Ventricular Assist Device Program, the nation's first such accredited program.

- *National Research Corporation* – For the 22nd consecutive year, awarded the Consumer Choice Award for Best Overall Quality, Best Doctors, Best Nurses, and Best Image/Reputation among hospitals in North Texas.

- *Extracorporeal Life Support Organization (ESLO)* - Gold Level Award for Excellence in Life Support – BUMC is the first and only adult extracorporeal membrane oxygenation (ECMO) center in north Texas to earn this award.

SWMH

- *U.S. News & World Report* – Ranked among top 10 hospitals in Texas; nationally ranked in Ear, Nose and Throat care; high performing in two specialties – Gastroenterology & GI Surgery, and Pulmonology; high performing in four common procedures or conditions – heart failure, colon cancer surgery, COPD (chronic obstructive pulmonary disease), and knee replacement.

- *Becker's Hospital Review* – 100 Hospitals and Health Systems with Great Oncology Programs in U.S. for Glenda Tanner Vasicek Cancer Center.

- *American Heart Association/American Stroke Association* – Get with the Guidelines®– Stroke GOLD PLUS Target; Stroke Elite Plus Quality Achievement Award.

- *American Heart Association* – Mission: Lifeline® STEMI Receiving Center – GOLD Plus Achievement Award Hospital.

- *American Heart Association* – Mission: Lifeline® NSTEMI – Bronze Achievement Award.

- *The Joint Commission* – The Gold Seal of Approval; Accredited Programs in Hospital, Nursing Care Center, Home Care; Advanced Certification in Stroke (Primary Stroke Center) and Ventricular Assist Device.

BSWQA

- *NCQA ACO Accredition: Level 2* – Verifies BSWQA has the infrastructure to support value-based delivery and the accountability.

- *NCQA Patient-Centered Medical Home Recognition* – 146 practices representing 655 providers.

- *Becker's Hospital Review* – Named to Becker's Top 110 ACOs to Know in 2018.

- *NCQA Case Management Accreditation* – The National Committee for Quality Assurance (NCQA) awarded BSWQA 3-year Accreditation for its Case Management program, effective December 19, 2017 – December 19, 2018. This Accreditation focuses on ensuring health care organizations have a process in place to ensure safe transitions.

- *NAACOS "Innovation" Award* – This award focuses on BSWQA's improvements in the percentage of providers meeting or exceeding focus measures.

Health Plan

- The Health Plan is consistently rated one of the top health plans in the state of Texas by NCQA. Based on the 2017-2018 NCQA review, the Health Plan was rated number 1 in Texas for its commercial HMO and number 2 overall for Medicare products. (Note: The Health Plan is the number 1 *accredited* Medicare health plan in Texas; including all health plans, *accredited* and *non-accredited*, the Health Plan is number 2). The commercial HMO received a rating of 4 out of 5 in NCQA's Private Health Insurance Plan ratings, while the Medicare plan was rated 4.5 out of 5 in NCQA's Medicare Health Insurance Plan Ratings.

- The Health Plan's SeniorCare (Cost) HMO received an overall 4.5 out of 5 stars from the Centers for Medicare & Medicaid Services for 2018. The Vital Traditions Medicare Advantage HMO received an overall 3.5 out of 5 stars. Medicare evaluates plans based on a 5-star rating system. Star ratings are calculated each year and may change from one year to the next.

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KEY OPERATING AND FINANCIAL INDICATORS

The information contained in this document represents the financial condition and results of operations of BSWH for fiscal years ending June 30, 2018, 2017, and 2016.

BSWH Key Operating and Financial Indicators
($ Thousands)

	Year Ended June 30,		
	2016	**2017**	**2018**
Total Operating Revenue	$ 8,366,215	$ 9,084,476	$ 9,476,624
Operating Margin	5.9%	3.2%	6.1%
Adjusted EBITDA (1)	$ 978,920	$ 888,767	$ 1,244,121
Cash and Investments	$ 5,074,653	$ 5,268,661	$ 5,770,844
Days in Patient Accounts Receivable (2)	40.7	38.5	36.0

(1) Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is defined as revenue in excess of expenses plus depreciation, amortization, taxes, interest, excluding unrealized gains/losses on investments, unrealized gains/losses on interest rate swaps, and loss on extinguishment of debt.

(2) Days in Patient Accounts Receivable is defined as net patient receivables divided by average daily net patient care revenue. Average daily net patient revenue is defined as net patient care revenue (less patient related bad debt) divided by the number of days in in the period.

FINANCIAL OPERATIONS SUMMARY

BSWH Summary Combined Balance Sheets
($ Thousands)

	June 30,		
	2016	**2017**	**2018**
ASSETS			
Current assets	$ 2,968,997	$ 2,840,871	$ 2,992,900
Long-term investments	3,169,764	3,562,260	4,024,716
Assets whose use is limited	275,970	324,526	302,997
Property and equipement, net	3,555,627	3,525,384	3,683,590
Other assets	818,528	893,565	1,133,858
Total assets	$ 10,788,886	$ 11,146,606	$ 12,138,061
LIABILITIES AND NET ASSETS			
Current liabilities	$ 1,346,930	$ 1,422,380	$ 1,797,414
Long-term debt and capital lease obligations, less current maturities	3,219,130	3,171,837	3,087,064
Other long-term liabilities	721,229	670,301	635,141
Total liabilities	5,287,289	5,264,518	5,519,619
Noncontrolling interests - redeemable	471,566	443,128	424,704
Net assets	5,030,031	5,438,960	6,193,738
Total liabilities and net assets	$ 10,788,886	$ 11,146,606	$ 12,138,061

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BSWH Summary Combined Statements of Operations
($ Thousands)

	Year Ended June 30,		
	2016	**2017**	**2018**
Total operating revenue	$ 8,366,215	$ 9,084,476	$ 9,476,624
Total operating expenses	7,872,067	8,792,603	8,894,336
Income from operations	**494,148**	**291,873**	**582,288**
Nonoperating (losses) gains and income tax expense	(241,066)	338,582	258,771
Excess of revenues over expenses	**$ 253,082**	**$ 630,455**	**$ 841,059**

BSWH Summary Financial Information
($ Thousands)

	Year Ended June 30,		
	2016	**2017**	**2018**
CASH FLOW			
Cash flow from operating activities	$ 987,167	$ 750,189	$ 1,204,704
Adjusted operating cash flow (1)	$ 958,074	$ 793,144	$ 1,083,089
Adjusted EBITDA (2)	$ 978,920	$ 888,767	$ 1,244,121
Capital expenditures for property and equipment	$ 354,855	$ 406,207	$ 485,271
Total capitalization (3)	$ 7,820,986	$ 8,164,839	$ 8,863,978
FINANCIAL RATIOS			
Operating margin	5.9%	3.2%	6.1%
Adjusted operating cash flow as a percentage of total revenue (1)	11.5%	8.7%	11.4%
Adjusted EBITDA margin (4)	11.7%	9.8%	13.1%
Debt to capitalization (5)	42.4%	40.0%	38.0%
Debt to cash flow (6)	4.1x	4.4x	3.2x

(1) Adjusted operating cash flow is defined as income from operations plus depreciation and amortization plus interest expense. Adjusted operating cash flow as a percentage of total revenue is calculated by dividing the adjusted operating cash flow by total operating revenue.
(2) Adjusted EBITDA is defined as revenue in excess of expenses plus depreciation, amortization, taxes, interest, excluding unrealized gains/losses on investments, unrealized gains/losses on interest rate swaps and loss on extinguishment of debt.
(3) Total capitalization is defined as long-term debt (including long-term debt subject to remarketing arrangements and commercial paper) net of current maturities plus unrestricted net assets.
(4) Adjusted EBITDA margin is defined as Adjusted EBITDA divided by total operating revenue.
(5) Debt to capitalization is defined as long-term debt (including long-term debt subject to remarketing arrangements and commercial paper net of current maturities) divided by total capitalization.
(6) Debt to cash flow is defined as long-term debt (including long-term debt subject to remarketing arrangements amd commercial paper plus current maturities) divided by (excess of revenues over expenses, plus depreciation and amortization, excluding unrealized gains/losses on investments, and unrealized gains/losses on interest rate swaps divided by number of days in the period times 365).

MANAGEMENT DISCUSSION AND ANALYSIS

Net Operating Income

The System's operating margin for fiscal year 2018 was $582.3 million or 6.1% of total operating revenue, compared to $291.9 million or 3.2% for the fiscal year 2017. Adjusted EBITDA was $1,244.1 million or 13.1% of total operating revenue for fiscal year 2018 compared to $888.8 million or 9.8% for fiscal year 2017.

Total Operating Revenue

The combined total operating revenue increased $392.1 million or 4.3% to $9,476.6 million for fiscal year 2018 compared to $9,084.5 million for fiscal year 2017.

Net patient care revenue, net of patient related bad debt expense, increased $420.5 million or 5.4% to $8,158.1 million for fiscal year 2018 compared to $7,737.6 million for fiscal year 2017. The increase in net patient care revenue reflects higher volumes for fiscal year 2018.

Premium revenue decreased $76.1 million or -8.4% to $827.2 million for fiscal year 2018 compared to $903.3 million for fiscal year 2017. Premium revenue decreased for fiscal year 2018 due to the decision to exit the Individual ACA public exchange market and losing approximately 42,500 members related to this product on January 1, 2017. Premium revenue has also decreased due to fully-insured membership decreasing an additional 12,800 members year over year.

Net assets released from restrictions for operations increased $2.0 million or 3.0% to $67.2 million for fiscal year 2018 compared to $65.2 million for fiscal year 2017.

Total Operating Expenses

Combined total operating expenses for fiscal year 2018 were $8,894.3 million, an increase of $101.7 million or 1.2% compared to $8,792.6 million for fiscal year 2017.

Salaries, wages, and employee benefits expense increased $77.3 million or 1.8% to $4,444.5 million for fiscal year 2018 compared to $4,367.2 million for fiscal year 2017, representing approximately 46.9% and 48.1% of total operating revenue for fiscal years 2018 and 2017, respectively. Salaries, wages, and employee benefits expense represented approximately 50.0% and 49.7% of total operating expenses for fiscal years 2018 and 2017, respectively.

Supplies and other operating expenses increased $134.9 million or 3.9% for fiscal year 2018 to $3,610.6 million compared to $3,475.7 million for fiscal year 2017, and represented approximately 38.1% and 38.3% of total operating revenue for fiscal years 2018 and 2017, respectively. Supplies and other operating expenses represented approximately 40.6% and 39.5% of total operating expenses for fiscal years 2018 and 2017, respectively.

Medical claims decreased $66.8 million or -18.7% for fiscal year 2018 to $291.1 million compared to $357.9 million for fiscal year 2017. Medical claims decreased when compared to fiscal year 2017 primarily as a result of exiting the Individual ACA public exchange market and losing approximately 42,500 members related to this product on January 1, 2017. In addition, fully-insured membership losses have decreased medical cost spending to non-affiliated providers year over year.

Depreciation and amortization decreased $6.3 million or -1.6% to $379.2 for year fiscal 2018 compared to $385.5 million for fiscal year 2017.

Interest expense increased $5.9 million or 5.1% to $121.6 million for fiscal year 2018 compared to $115.7 million for fiscal year 2017.

BSWH Operating Expenses
($ Thousands)

	Year Ended June 30,		
	2016	**2017**	**2018**
Salaries, wages, and employee benefits	$ 4,028,300	$ 4,367,194	$ 4,444,457
Supplies	1,442,096	1,582,408	1,595,620
Other operating expenses	1,636,765	1,893,278	2,014,958
Medical claims	303,670	357,860	291,107
(Gains) losses on fixed asset sales and disposals, net	(2,690)	2,649	(5,073)
Impairment losses	-	87,943	52,466
Depreciation and amortization	365,738	385,528	379,168
Interest expense	98,188	115,743	121,633
Total operating expenses	$ 7,872,067	$ 8,792,603	$ 8,894,336

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Full-Time Equivalents

Full-time equivalents (FTEs) are the number of total hours worked in a given period divided by the maximum number of compensable hours in a period as defined by law. The following table displays FTEs for employees of BSWH, which include physicians, advanced practice providers, and other employees.

BSWH Employees	**Obligated Affiliates**	**SWHP**	**Other Entities**	**June 30, 2018 Total**
Physician FTEs	1,054	-	918	1,972
Advanced practice provider FTEs	491	-	319	810
Joint venture FTEs[1]	-	-	5,238	5,238
Other employee FTEs	26,189	473	10,224	36,886
Total FTEs	**27,734**	**473**	**16,699**	**44,906**

[1] Joint venture FTEs above include THVG JV, BIR JV, BTDI JV, and EBD JV. ESWCT, LLC FTEs are not included in the table.

BSWH Employeed Physicians June 30, 2018	**Number of Physicians**	**Board Certification**	**Average Age**
Obligated Affiliates	1,675	1,411	50
Other Entities	1,102	985	50
Total	**2,777**	**2,396**	

Nonoperating Gains (Losses)

The System recorded unrestricted unrealized gains on investments of $67.6 million for fiscal year 2018 compared to unrestricted unrealized gains on investments of $136.9 million for fiscal year 2017. Unrestricted investment income and realized gains on investments were $146.2 million for fiscal year 2018 compared to unrestricted investment income and realized gains on investments of $132.7 million for fiscal year 2017, representing an increase of $13.5 million or 10.2%. The System recorded unrealized gains in its interest rate swap portfolio of $53.5 million for fiscal year 2018 compared to unrealized gains of $111.3 million for fiscal year 2017 due to increase in interest rates.

The table below summarizes the System's interest rate swap portfolio agreements as of June 30, 2018:

SUMMARY OF INTEREST RATE SWAP TRANSACTIONS

Counterparty [1]	Description	Effective Date	Termination Date	Notional Amount ($ in 000's)	Interest Rates Payable	Interest Rates Receivable
Bank of America, N.A.	Fixed Payer	1/15/2016	11/15/2050	$ 70,215	3.975%	Variable
Citibank N.A.	Fixed Payer	1/15/2016	11/15/2050	$ 18,485	4.096%	Variable
Citibank N.A.	Fixed Payer	1/15/2016	11/15/2050	$ 79,330	4.109%	Variable
Citibank N.A.	Fixed Payer	1/18/2011	8/15/2041	$ 85,775	3.518%	Variable
Goldman Sachs Bank U.S.A.	Fixed Payer	1/15/2016	11/15/2050	$ 148,305	3.991%	Variable
Goldman Sachs Bank U.S.A.	Fixed Payer	6/11/2008	8/15/1941	$ 57,220	3.646%	Variable
Goldman Sachs Bank U.S.A.	Fixed Payer	6/11/2008	8/15/1946	$ 37,175	3.641%	Variable
JP Morgan Chase Bank, N.A.	Fixed Payer	8/15/2022	8/15/2045	$ 69,715	4.140%	Variable
JP Morgan Chase Bank, N.A.	Fixed Payer	8/15/2022	8/15/2045	$ 69,340	4.723%	Variable
Wells Fargo Bank, N.A.	Fixed Payer	1/15/2016	11/15/2050	$ 79,330	3.987%	Variable
Wells Fargo Bank, N.A.	Fixed Payer	1/18/2011	8/15/2046	$ 56,225	3.518%	Variable
Wells Fargo Bank, N.A.	Fixed Payer	8/15/2014	8/15/2022	$ 76,760	4.215%	Variable
Wells Fargo Bank, N.A.	Fixed Payer	8/15/2014	8/15/2022	$ 76,325	4.798%	Variable

[1] Counterparty line items in the table may include multiple swap confirmations.

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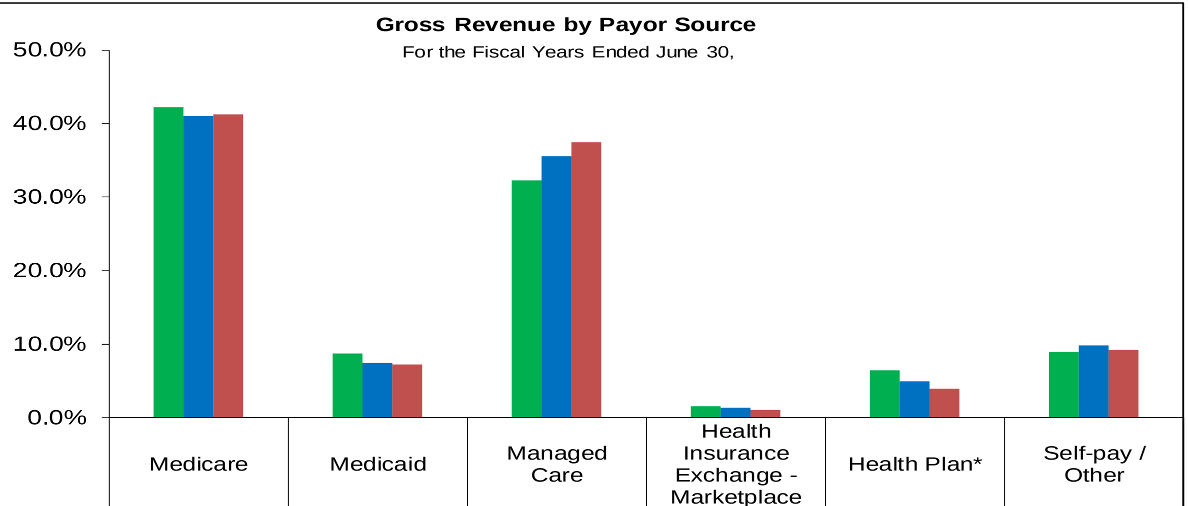
Utilization Statistics

BSWH derives its patient revenue from managed care companies, Medicare, Medicaid, commercial insurers, self paying patients, and other sources.

The following graph approximates the percentages of gross patient revenue by payor, which includes intercompany activity related to the insured patients of the Health Plan.



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Health Plan*	Self-pay / Other
FY16	42.2%	8.7%	32.3%	1.5%	6.4%	8.9%
FY17	41.0%	7.4%	35.6%	1.3%	4.9%	9.8%
FY18	41.2%	7.2%	37.5%	1.0%	3.9%	9.2%

**Health Plan excludes SeniorCare, RightCare, and HIE products offered by SWHP which are in their natural classification.*
For FY16 payor mix is for combined hospitals and clinic operations only, excluding HealthTexas and joint ventures.
FY17 and FY18 payor mix is for BSWH excluding THVGB, EBD JV, and ESWCT, LLC.

BSWH Market Share & Population Served

Geographic Area	Hospital Market Share[1]	Physician Office & Clinic % Population Served[2]
Central TX	21.5%	21.1%
North TX	21.9%	20.9%

[1]Percentage of total discharges in each geographic area are derived from Texas Department of State Health Services Texas Health Care Information Collection Public Use Data File for calendar year ending 2016. The Central TX market is based off a 32 county area and the North TX market is based off a 13 county area.

[2] Unique patients treated at BSWH physician offices and clinics in the service area of each geographic area for the twelve months ending June 30, 2018, divided by the total population in each geographic area as of January 1, 2018. Population estimates provided by Truven-IBM Market Expert/Claritas.

Operating Data - BSWH Total

	Year Ended June 30,		
	2016	2017	2018
Licensed Beds	5,676	5,371	5,125
Inpatient Admissions (1)	208,789	235,112	233,237
Patient Days	1,041,162	1,127,959	1,111,454
Occupancy	69.3%	74.1%	67.8%
Average Length of Stay (Days)	5.0	4.8	4.8
Average Daily Census	2,845	3,090	3,045
Discharges	208,624	235,103	233,737
Emergency Room Visits	805,270	857,198	863,024
Inpatient Surgical Cases	58,513	65,310	64,895
Outpatient Surgical Cases	197,003	191,865	200,561
Outpatient Registrations	3,596,884	3,851,015	3,980,821
Clinic Visits (IP & OP)	2,953,076	3,072,119	3,255,645
Patient Encounters	2,912,997	3,603,664	3,761,762
Relative Value Units (2)	13,280,343	15,563,238	16,391,475
Deliveries	31,368	31,781	31,253
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	60.1%	59.4%	61.6%

(1) Admissions include adult, pediatric, and special care nursery.

(2) Relative value units represent amounts for BSWH.

As statistical definitions are redefined and aligned related to the merger, prior year statistics may be updated accordingly for comparative purposes.

Operating Data - Obligated Affiliates Subtotal

	Year Ended June 30,		
	2016	2017	2018
Licensed Beds	3,707	3,413	3,436
Inpatient Admissions (1)	150,002	156,579	160,158
Patient Days	767,866	786,564	776,928
Occupancy	73.0%	73.1%	70.1%
Average Length of Stay (Days)	5.1	5.0	4.9
Average Daily Census	2,098	2,155	2,129
Discharges	149,886	156,669	160,125
Emergency Room Visits	477,537	452,124	471,193
Inpatient Surgical Cases	37,797	39,732	39,381
Outpatient Surgical Cases	62,875	63,913	66,197
Outpatient Registrations	2,747,436	2,837,938	2,935,096
Clinic Visits (IP & OP)	2,650,531	2,755,984	2,938,292
Relative Value Units (2)	6,429,132	6,857,230	7,327,645
Deliveries	22,865	22,419	22,553
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	53.7%	53.8%	55.3%

(1) Admissions include adult, pediatric, and special care nursery.

(2) Relative value units represent amounts for BSWH.

As statistical definitions are redefined and aligned related to the merger, prior year statistics may be updated accordingly for comparative purposes.

Operating Data - Non-Obligated Affiliates Subtotal

	Year Ended June 30,		
	2016	2017	2018
Licensed Beds	1,969	1,958	1,689
Inpatient Admissions (1)	58,787	78,533	73,079
Patient Days	273,296	341,395	334,526
Occupancy	60.8%	76.5%	63.0%
Average Length of Stay (Days)	4.7	4.4	4.5
Average Daily Census	747	935	916
Discharges	58,738	78,434	73,612
Emergency Room Visits	327,733	405,074	391,831
Inpatient Surgical Cases	20,716	25,578	25,514
Outpatient Surgical Cases	134,128	127,952	134,364
Outpatient Registrations	849,448	1,013,077	1,045,725
Clinic Visits (IP & OP)	302,545	316,135	317,353
Patient Encounters	2,912,997	3,603,664	3,761,762
Relative Value Units (2)	6,851,211	8,706,008	9,063,830
Deliveries	8,503	9,362	8,700
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	70.0%	66.7%	70.1%

(1) Admissions include adult, pediatric, and special care nursery.

(2) Relative value units represent amounts for BSWH.

As statistical definitions are redefined and aligned related to the merger, prior year statistics may be updated accordingly for comparative purposes.

Clinic Visits[1]

	Year Ended June 30,		
	2016	2017	2018
Temple Region	$ 1,716,445	$ 1,742,295	$ 1,812,232
Austin/Round Rock Region	490,946	538,667	626,248
College Station Region	396,394	413,882	432,866
Waco Region	219,943	234,628	239,177
Hill Country Region	129,348	142,647	145,122
Total	$ 2,953,076	$ 3,072,119	$ 3,255,645

(1) Excludes emergency room visits.

System Inpatient Admissions by Facility

	Year Ended June 30, 2018
Baylor University Medical Center	37,895
Baylor Scott & White Medical Center - Temple	32,361
Baylor Scott & White All Saints Medical Center - Fort Worth	17,913
Baylor Scott & White Medical Center - Hillcrest	14,220
Baylor Scott & White Medical Center - Grapevine	13,730
Baylor Scott & White Medical Center - McKinney	8,396
Baylor Scott & White Medical Center - Waxahachie	7,551
Baylor Scott & White Medical Center - Plano	7,227
Baylor Scott & White Medical Center - Round Rock	6,606
Baylor Scott & White Medical Center - College Station	6,564
Baylor Scott & White McLane Children's Medical Center [(1)]	4,176
Baylor Scott & White Medical Center - Lakeway [(2)]	3,068
Baylor Scott & White Continuing Care Hospital	451
Obligated Affiliates Subtotal	**160,158**
Texas Health Ventures Group	16,245
BT East Dallas JV, LLP	15,870
Baylor Scott & White Medical Center - Irving	11,351
Baylor Scott & White Medical Center - Carrollton	5,344
The Heart Hospital Baylor Plano	5,117
BT Garland JV, LLP	4,054
BIR JV, LLP	2,849
Baylor Jack and Jane Hamilton Heart & Vascular Hospital	2,539
Baylor Scott & White Medical Center - Marble Falls	2,391
Baylor Scott & White Medical Center - Lake Pointe	2,367
Baylor Scott & White Medical Center - Brenham	1,471
Baylor Scott & White Medical Center - Centennial	1,390
EBD JV, LLP	911
The Heart Hospital Baylor Denton	666
Baylor Scott & White Medical Center - Taylor	311
Baylor Scott & White Medical Center - Llano	185
ESWCT, LLC	18
Non-Obligated Affiliates Subtotal	**73,079**
Total	**233,237**

(1) Baylor Scott & White McLane Children's Medical Center is operated as a part of Baylor Scott & White Medical Center - Temple.

(2) Baylor Scott & White Medical Center - Lakeway is operated as part of Baylor Scott & White Medical Center - Round Rock.

BSWH Adult and Pediatric Licensed Beds - June 30, 2018

	Licensed Beds
Baylor University Medical Center	914
Baylor Scott & White Medical Center - Temple	576
Baylor Scott & White All Saints Medical Center - Fort Worth	538
Baylor Scott & White Medical Center - Grapevine	302
Baylor Scott & White Medical Center - Hillcrest	236
Baylor Scott & White Medical Center - Plano	160
Baylor Scott & White Medical Center - McKinney	143
Baylor Scott & White Medical Center - College Station	119
Baylor Scott & White Medical Center - Lakeway [(2)]	106
Baylor Scott & White Medical Center - Waxahachie	129
Baylor Scott & White Medical Center - Round Rock	101
Baylor Scott & White McLane Children's Medical Center [(1)]	64
Baylor Scott & White Continuing Care Hospital	48
Obligated Affiliates Subtotal	**3,436**
Texas Health Ventures Group (10 hospitals)	310
Baylor Scott & White Medical Center - Irving	293
Baylor Scott & White Medical Center - Carrollton	216
BIR JV, LLP (4 hospitals)	214
Baylor Scott & White Medical Center - Centennial	118
The Heart Hospital Baylor Plano	114
Baylor Scott & White Medical Center - Lake Pointe	112
EBD JV, LLP (8 emergency medical centers)	64
Baylor Jack and Jane Hamilton Heart and Vascular Hospital	60
Baylor Scott & White Medical Center - Brenham	60
Baylor Scott & White Medical Center - Marble Falls	46
Baylor Scott & White Medical Center - Llano	27
Baylor Scott & White Medical Center - Taylor	25
The Heart Hospital Baylor Denton	22
ESWCT, LLC (1 emergency medical center)	8
Non-Obligated Alliliates Subtotal	**1,689**
Total	**5,125**

[(1)] Baylor Scott & White McLane Children's Medical Center is operated as part of Baylor Scott & White Medical Center - Temple.

[(2)] Baylor Scott & White Medical Center - Lakeway is operated as part of Baylor Scott & White Medical Center - Round Rock.

Source: Texas Department of Health, June 2, 2018

Liquidity

Unrestricted cash and investments of $5.0 billion at June 30, 2018 increased $489.2 million as compared to unrestricted cash and investments of $4.5 billion at June 30, 2017 after capital expenditures of $485.3 million and net gains on trading investments of $216.5 million. Unrestricted days cash on hand increased to 212.7 days at June 30, 2018 from 194.2 days at June 30, 2017. Including restricted funds, days cash on hand totaled 247.4 days at June 30, 2018 compared to 228.7 days at June 30, 2017. The debt to capitalization ratio decreased to 38.0% at June 30, 2018 from 40.0% at June 30, 2017 and total assets increased 8.9% to $12.1 billion at June 30, 2018 from $11.1 billion at June 30, 2017.

BSWH Cash and Investments
($ Thousands)

	June 30,		
	2016	**2017**	**2018**
Cash and cash equivalents (1)	$ 1,527,749	$ 1,189,606	$ 1,263,591
Short-term investments (2)	101,170	192,269	179,540
Long-term investments (3)	3,445,734	3,886,786	4,327,713
Total cash and investments	5,074,653	5,268,661	5,770,844
Less: restricted cash and investments (4)	731,111	795,601	808,631
Total unrestricted cash and investments	$ 4,343,542	$ 4,473,060	$ 4,962,213
Average daily operating expenses (less depreciation)	$ 20,509	$ 23,033	$ 23,329
Unrestricted days cash on hand (5)	211.8	194.2	212.7
Days cash on hand (6)	247.4	228.7	247.4

(1) Cash and cash equivalents are composed of assets that may be immediately converted to cash.
(2) Short-term investments are assets that are convertible to cash in one year or less.
(3) Long-term investments are comprised of U.S. small, mid and large capitalization stocks, international stocks, intermediate term fixed income securities, hedge funds, real estate, and private equity.
(4) Restricted cash and investments is the sum of the restricted long-term investments, assets restricted by donors, assets held by bond trustees, and assets required to meet self-insurance obligations.
(5) Unresticted days cash on hand is calculated as unrestricted cash and investments divided by average daily operating expenses (less depreciation).
(6) Days cash on hand includes restricted funds.

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Baylor Scott & White Health
Self Liquidity Report
($ Thousands)

		June 30, 2018
Daily Liquidity		
Money Market Funds - Aaa-rated	$	25,921
Checking and deposit accounts at P-1 rated bank		692,804
Short-term investment funds at P-1 rated bank		17,755
Subtotal Daily Liquidity (Cash & Securities)		736,480
$400 Million General Purpose LOC (undrawn amount) [1]		320,600
Subtotal Daily Liquidity	**$**	**1,057,080**
Weekly Liquidity		
Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3		337,114
Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3		670,481
Equities: Exchange Traded Equity (ownership of shares of stock)		183,370
Equities: Equity Funds		625,381
Subtotal Weekly Liquidity		1,816,346
Total Daily and Weekly Liquidity	**$**	**2,873,426**
Longer Term Liquidity		
Funds, vehicles, investments that allow withdrawals with one month notice or longer	$	1,306,373

[1] Baylor Scott & White Holdings $400MM line of credit expires January 14, 2019.

The table above sets forth those assets that would reasonably be available to BSWH to satisfy a liquidity event. The table does not include assets held by affiliates of BSWH that would not be reasonably available to BSWH to satisfy a liquidity event, including assets held by the five foundations as described further in this report, THVG JV, Texas Heart Hospital of the Southwest, LLP and Baylor Heart and Vascular Center, LLP, among others.

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NET ASSETS OF THE FOUNDATIONS

The System operates five philanthropic foundations which include Baylor Health Care System Foundation, Scott & White Healthcare Foundation, All Saints Health Foundation, Irving Healthcare Foundation, and Scott & White Healthcare Foundation Brenham. The cumulative net assets of these five entities are as follows:

Net Assets of the Foundations
($ Thousands)

	June 30,		
	2016	**2017**	**2018**
Unrestricted	$ 128,727	$ 147,835	$ 158,745
Temporarily restricted	254,828	269,586	291,725
Permanently restricted	258,366	260,812	273,983
Total	**$ 641,921**	**$ 678,233**	**$ 724,453**

DEBT SERVICE COVERAGE

System Debt Service Coverage
($ Thousands)

	Year Ended June 30, 2018
Excess of revenues over expenses	$ 841,059
Depreciation and amortization	379,168
Impairment losses	52,466
Interest expense	121,633
Loss from extinguishment of debt	721
Unrealized gains on investments	(70,305)
Unrealized gains on interest rate swap	(53,466)
Consolidated net revenues available for debt service	$ 1,271,276
Interest expense	$ 121,633
Principal payments on long-term debt	515,732
Unscheduled and early debt payments	(438,980)
Actual annual debt service	$ 198,385
Historical coverage of the actual annual debt service	**6.41 x**
The maximum annual debt service of the System	$ 190,006
Historical coverage of the maximum annual debt service [1]	**6.69 x**

[1] Maximum annual debt service is defined as the largest total annual debt service requirements for the current fiscal year or any succeeding fiscal year.

Obligated Affiliates Debt Service Coverage
($ Thousands)

		Year Ended June 30, 2018
Excess of revenues over expenses	$	627,278
Depreciation and amortization		255,523
Impairment losses		-
Interest expense		93,693
Loss from extinguishment of debt		721
Unrealized gains on investments		(52,794)
Unrealized gains on interest rate swap		(53,466)
Consolidated net revenues available for debt service	$	870,955
Interest expense	$	93,693
Principal payments on long-term debt		447,949
Unscheduled and early debt payments		(438,980)
Actual annual debt service	$	102,662
Historical coverage of the actual annual debt service		**8.48 x**
The maximum annual debt service of the Obligated Affiliates	$	190,006
Historical coverage of the maximum annual debt service [1]		**4.58 x**

[1] Maximum annual debt service is defined as the largest total annual debt service requirements for the current fiscal year or any succeeding fiscal year.

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Baylor Scott & White Health
Combined Balance Sheets
($ Thousands)

	June 30,		
ASSETS	**2016**	**2017**	**2018**
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,527,749	$ 1,189,606	$ 1,263,591
Short-term investments	101,170	192,269	179,540
THVG funds due from United Surgical Partners, Inc.	70,264	85,888	117,752
Accounts receivables:			
Patient, net	793,910	816,598	804,751
Premium	59,871	116,182	92,556
Other	190,389	185,862	187,159
Other current assets	225,644	254,466	347,551
Total current assets	2,968,997	2,840,871	2,992,900
LONG-TERM INVESTMENTS:			
Unrestricted	2,714,623	3,091,185	3,519,082
Restricted	455,141	471,075	505,634
Total long-term investments	3,169,764	3,562,260	4,024,716
ASSETS WHOSE USE IS LIMITED:			
Other designated assets	83,396	165,128	162,361
Self insurance reserves	94,125	98,272	110,783
Funds held by bond trustee	98,449	61,126	29,853
Total assets whose use is limited	275,970	324,526	302,997
ASSETS HELD FOR SALE	-	16,354	-
PROPERTY AND EQUIPMENT, net	3,555,627	3,525,384	3,683,590
CONTRIBUTIONS RECEIVABLE, net	60,211	61,014	185,946
INTEREST IN NET ASSETS OF RELATED FOUNDATION	3,740	4,048	4,217
OTHER LONG-TERM ASSETS:			
Equity investment in unconsolidated entities	65,582	57,548	61,748
Goodwill and intangible assets, net	673,525	734,291	864,239
Other	15,470	20,310	17,708
Total other long-term assets	754,577	812,149	943,695
Total assets	$ 10,788,886	$ 11,146,606	$ 12,138,061

Baylor Scott & White Health
Combined Balance Sheets - continued
($ Thousands)

LIABILITIES AND NET ASSETS	**June 30, 2016**	**2017**	**2018**
CURRENT LIABILITIES:			
Current maturities of long-term debt and capital lease obligations	$ 63,416	$ 126,644	$ 131,040
Long-term debt subject to short-term remarketing arrangements	95,000	95,000	95,000
Commercial paper	-	-	187,868
Trade accounts payable	266,636	303,893	338,506
Accrued liabilities:			
Payroll related	466,195	373,398	410,212
Third-party programs	87,865	87,195	113,845
Medical claims payable	34,950	37,354	28,878
Other	332,868	398,896	492,065
Total current liabilities	1,346,930	1,422,380	1,797,414
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	3,219,130	3,171,837	3,087,064
OTHER LONG-TERM LIABILITIES:			
Self insurance and other insurance liabilities	96,549	99,208	107,627
Interest rate swap liabilities, net	357,006	265,129	220,123
Other	267,674	305,964	307,391
Total other long-term liabilities	721,229	670,301	635,141
Total liabilities	5,287,289	5,264,518	5,519,619
COMMITMENTS AND CONTINGENCIES			
NONCONTROLLING INTERESTS - REDEEMABLE	471,566	443,128	424,704
NET ASSETS:			
Unrestricted - attributable to BSWH	4,311,163	4,695,399	5,212,273
Unrestricted - noncontrolling interests - nonredeemable	195,693	202,603	281,773
Total unrestricted net assets	4,506,856	4,898,002	5,494,046
Temporarily restricted	261,321	276,585	422,107
Permanently restricted	261,854	264,373	277,585
Total net assets	5,030,031	5,438,960	6,193,738
Total liabilities and net assets	$ 10,788,886	$ 11,146,606	$ 12,138,061

Baylor Scott & White Health
Combined Statements of Operations and Change in Net Assets
($ Thousands)

	Year Ended June 30,		
	2016	**2017**	**2018**
OPERATING REVENUE:			
Net patient care revenue	$ 7,907,699	$ 8,664,811	$ 8,902,330
Less patient related bad debt expense	773,501	927,168	744,220
Net patient care revenue, net of patient related bad debt expense	7,134,198	7,737,643	8,158,110
Premium revenue	867,510	903,261	827,199
Other operating revenue	303,167	378,332	424,107
Net assets released from restrictions for operations	61,340	65,240	67,208
Total operating revenue	8,366,215	9,084,476	9,476,624
OPERATING EXPENSES:			
Salaries, wages, and employee benefits	4,028,300	4,367,194	4,444,457
Supplies	1,442,096	1,582,408	1,595,620
Other operating expenses	1,636,765	1,893,278	2,014,958
Medical claims	303,670	357,860	291,107
(Gains) losses on fixed asset sales and disposals, net	(2,690)	2,649	(5,073)
Impairment losses	-	87,943	52,466
Depreciation and amortization	365,738	385,528	379,168
Interest	98,188	115,743	121,633
Total operating expenses	7,872,067	8,792,603	8,894,336
Income from operations	494,148	291,873	582,288
NONOPERATING GAINS (LOSSES):			
(Losses) gains on investments, net	(7,106)	271,331	216,490
Interest rate swap activity	(167,386)	82,624	31,033
Contributions	1,012	779	30
Equity in (losses) gains of unconsolidated entities	(2,365)	(9,515)	36,919
Loss from extinguishment of debt	(53,253)	-	(721)
Other	(348)	378	331
Total nonoperating (losses) gains	(229,446)	345,597	284,082
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	264,702	637,470	866,370
LESS INCOME TAX EXPENSE	11,620	7,015	25,311
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	253,082	630,455	841,059

Baylor Scott & White Health
Combined Statements of Operations and Changes in Net Assets - continued
($ Thousands)

	Year Ended June 30,		
	2016	**2017**	**2018**
OTHER CHANGES IN UNRESTRICTED NET ASSETS:			
Unrealized losses on investments, net	$ (1,390)	$ (1,786)	$ (2,688)
Net assets released from restrictions for capital expenditures	24,053	25,584	12,471
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(9,759)	(65,871)	(6,781)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests- redeemable	(222,826)	(206,727)	(255,035)
Net assets acquired	13,001	185	-
Other	(16,999)	9,306	7,018
INCREASE IN UNRESTRICTED NET ASSETS	39,162	391,146	596,044
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:			
Contributions	64,245	69,369	193,302
Realized gains and investment income, net	8,150	17,369	23,555
Unrealized (losses) gains on investments, net	(13,303)	18,562	10,042
Changes in value of split-interest agreements	(1,162)	386	(546)
Net assets released from restrictions for operations	(61,340)	(65,240)	(67,208)
Net assets released from restrictions for capital expenditures	(24,053)	(25,584)	(12,471)
Changes in net assets of related foundation	(297)	281	138
Other	(3,563)	121	(1,290)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(31,323)	15,264	145,522
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:			
Contributions	22,070	918	12,134
Realized gains and investment income, net	409	175	2,333
Unrealized (losses) gains on investments, net	(313)	370	(122)
Changes in value of split-interest agreements	(1,557)	918	(1,763)
Changes in net assets of related foundation	2	27	31
Other	1,944	111	599
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	22,555	2,519	13,212
INCREASE IN NET ASSETS	30,394	408,929	754,778
NET ASSETS, beginning of year	4,999,637	5,030,031	5,438,960
NET ASSETS, end of year	$ 5,030,031	$ 5,438,960	$ 6,193,738

Baylor Scott & White Health
Combined Statements of Cash Flows
($ Thousands)

	Year Ended June 30,		
	2016	**2017**	**2018**
Cash Flows From Operating Activities:			
Increase in net assets	$ 30,394	$ 408,929	$ 754,778
Adjustments to reconcile increase in net assets			
to net cash provided by operating activities:			
Loss from extinguishment of debt	3,462	-	721
Unrealized losses (gains) on investments, net	75,109	(155,813)	(77,537)
Realized gains on investments, net	(19,634)	(105,222)	(107,034)
Unrealized losses (gains) on interest rate swap, net	136,936	(111,307)	(53,466)
Contributions restricted for long-term purposes	(22,070)	(918)	(12,134)
Patient related bad debt expense	773,501	927,168	744,220
Depreciation and amortization	365,738	385,528	379,168
Impairment losses	-	87,943	52,466
(Gains) losses on fixed asset sales and disposal, net	(2,690)	2,649	(5,073)
Equity in losses (earnings) of unconsolidated entities	2,365	9,515	(36,919)
Change in value of split-interest agreements	2,719	(1,304)	2,309
Deferred rent	(3,698)	3,444	(3,528)
Other changes attributable to noncontrolling interests	232,585	272,598	271,358
Net assets acquired	(13,001)	(185)	-
Changes in operating assets and liabilities (net of acquisitions):			
Increase in net patient accounts receivable	(862,121)	(956,746)	(735,554)
Decrease (increase) in other accounts receivable	32,695	(43,212)	26,176
Decrease (increase) in other assets	15,608	(35,497)	(185,372)
Increase in trade accounts payable and accrued liabilities	142,075	8,786	154,349
Increase in other long-term liabilities	97,194	53,833	35,776
Net cash provided by operating activities	987,167	750,189	1,204,704
Cash Flows From Investing Activities:			
Purchases of property and equipment	(354,855)	(406,207)	(485,271)
Cash proceeds from sales of assets	18,397	3,088	34,332
Cash paid for acquisitions, net of cash received	(300,472)	(83,875)	(48,949)
Increase in THVG funds due from United Surgical Partners, Inc.	(11,388)	(15,624)	(31,864)
Increase in trading investments	(155,205)	(226,306)	(272,696)
Net payments on interest rate swaps	(68,911)	(6,352)	(13,869)
(Increase) decrease in other than trading investments	(2,457)	7,279	(1,528)
(Increase) decrease in assets whose use is limited	(67,245)	(48,556)	21,529
Net cash used in investing activities	(942,136)	(776,553)	(798,316)
Cash Flows From Financing Activities:			
Principal payments on long-term debt	(1,045,817)	(75,424)	(515,732)
Proceeds from issuance of long-term debt	1,599,512	75,443	553,178
Distributions to noncontrolling interest owners	(287,041)	(320,346)	(442,558)
Purchases of noncontrolling interests	(20,323)	(18,565)	(34,727)
Sales of noncontrolling interests	38,436	25,956	96,165
Cash receipts for long-term purposes	13,616	2,045	12,110
Annuity payments to beneficiaries	(950)	(888)	(839)
Net cash provided by (used in) financing activities	297,433	(311,779)	(332,403)
Net Increase (Decrease) in Cash and Cash Equivalents	342,464	(338,143)	73,985
Cash and Cash Equivalents, beginning of period	1,185,285	1,527,749	1,189,606
Cash and Cash Equivalents, end of period	$ 1,527,749	$ 1,189,606	$ 1,263,591

Notes to Combined Financial Statements

1. ORGANIZATION

Baylor Scott & White Holdings (BSW Holdings), a Texas nonprofit corporation exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, and its controlled affiliates (collectively, the "System") were created from the combination of two Texas healthcare systems, Baylor Health Care System (BHCS) and its affiliates, and Scott & White Healthcare (SWH) and its affiliates. BSW Holdings and Baylor Scott & White Health (BSW Health), a Texas nonprofit corporation, were created by BHCS and SWH in connection with their combination. BSW Holdings is the sole member of BHCS, SWH, and BSW Health and has control and substantial reserved powers over all BHCS and SWH material affiliates. BHCS and its material affiliates are collectively referred to as "Baylor". SWH and its material affiliates are collectively referred to as "Scott & White". BSW Holdings and its controlled affiliates are collectively referred to as the "System" or "BSWH".

The combined financial statements include the accounts of BSW Holdings, BSW Health, BHCS, SWH, Baylor University Medical Center (BUMC), Scott & White Memorial Hospital (SWMH), Scott & White Health Plan (the "Health Plan" or "SWHP"), five foundations, twenty-two community and specialty hospitals located throughout the Dallas and Fort Worth metroplex and the central Texas area, one wholly owned insurance subsidiary, Baylor Quality Health Care Alliance, LLC, an accountable care organization, four physician practice organizations (HealthTexas Provider Network, Scott & White Clinic, Hillcrest Family Health Center, and Hillcrest Physician Services), and other related entities. Investments in certain related entities with 50.0% or less ownership are accounted for using the equity method. The transactions and balances for investments in certain related entities with greater than 50.0% ownership, or where the System exercises board control, are included in the accompanying combined financial statements with related noncontrolling interests reported in the combined financial statements. These entities include five acute and specialty hospitals referenced above, along with partnerships in: Texas Health Ventures Group, LLC (THVG), providing short stay hospital and outpatient surgery services, BIR JV, LLP, providing rehabilitation services, BTDI JV, LLP, providing imaging services, EBD JV, LLP and ESWCT, LLC, providing emergency medical services, HTPN Gastroenterology Services, LLP, providing endoscopic services, and THVG Bariatric, LLC, which has provided bariatric services. All significant intercompany accounts and transactions among entities included in the combined financial statements have been eliminated.

The following summarizes significant changes in the System in 2016 - 2018:

THVG

BUMC has a majority ownership of 50.1% in THVG with USP North Texas, Inc. (USP), a Texas corporation and subsidiary of United Surgical Partners, Inc. (USPI) holding the remaining 49.9%. THVG had net patient care revenue included in the System's combined financial statements of approximately $1,123,592,000, $960,827,000, and $881,897,000 for the years ended June 30, 2018, 2017, and 2016, respectively.

THVG completed the acquisition of one outpatient center in fiscal year 2016. THVG recorded goodwill and intangible assets, net, of approximately $12,005,000, fixed assets of approximately $128,000, redeemable noncontrolling interests of approximately $3,862,000, and other net liabilities of approximately $8,271,000 in 2016.

THVG completed the acquisition of one outpatient center in fiscal year 2017. THVG recorded goodwill and intangible assets, net, of approximately, $19,852,000, fixed assets of approximately $517,000, noncontrolling interests of approximately $16,674,000, and other net liabilities of approximately $3,695,000 in 2017.

THVG completed the acquisition of one surgical hospital in fiscal year 2018. THVG recorded goodwill and intangible assets, net, of approximately $111,874,000, fixed assets of approximately $18,276,000, noncontrolling interests of approximately $91,338,000, and other net liabilities of approximately $38,812,000 in 2018.

Baylor Scott & White Medical Center – Marble Falls

In August 2015, the System opened Scott & White Hospital – Marble Falls doing business as Baylor Scott & White Medical Center – Marble Falls, a licensed 46 bed full service medical center and surrounding medical office campus dedicated to serving the residents of Marble Falls and surrounding communities.

BT East Dallas JV, LLP and BT Garland JV, LLP

Effective January 1, 2016, two Texas limited liability partnerships were formed between the System and Healthcare Network Texas, Inc., a Delaware corporation and subsidiary of Tenet Healthcare Corporation (Tenet). BUMC has a majority ownership of 75% of BT East Dallas JV, LLP, (BT East Dallas) with Tenet holding the remaining 25%. Baylor Medical Centers at Garland and McKinney (Garland), a Texas nonprofit corporation wholly owned by BHCS, has a majority ownership of 50.1% of BT Garland JV, LLP (Garland JV) with Tenet holding the remaining 49.9%. The purpose of these partnerships was to own, operate, and manage five community hospitals focused on delivering integrated, value-based care to communities in Rockwall, Collin, and Dallas counties.

Effective June 9, 2017, BSW Holdings approved the proposed divestiture of Baylor Scott & White Medical Center – Garland (BSWMC – Garland) and Baylor Scott & White Medical Center – White Rock (White Rock), a hospital operated by BT East Dallas JV, LLP, and classification as assets held for sale. Due to the proposed divestiture and their classification as held for sale, an impairment assessment was required for the long-lived assets of BSWMC – Garland and White Rock under the assets to be disposed of by sale model. The assessment resulted in an adjustment for impairment of approximately $70,624,000, recorded in the accompanying combined statements of operations for the year ended June 30, 2017. The remaining book value of BSWMC – Garland and White Rock is reported in assets held for sale in the accompanying combined balance sheets, as of June 30, 2017. After impairments, the remaining net book value of land, building and improvements, and major movable equipment and other was approximately $3,900,000, $5,427,000, and $7,027,000, respectively, as of June 30, 2017.

On December 14, 2017, BSWH announced that a decision was made to close BSWMC – Garland, a 113 bed hospital. The last day of operations was February 28, 2018. On December 22, 2017, BSWH and Tenet signed a definitive agreement for the sale of White Rock to Pipeline Health, a California-based hospital management company. The sale was completed on March 1, 2018.

On December 31, 2017, BSWH and Tenet signed a definitive agreement to restructure ownership of the three remaining hospitals: Baylor Scott & White Medical Center – Centennial, Baylor Scott & White Medical Center – Lake Pointe, and Baylor Scott & White Medical Center – Sunnyvale. BSWH and Tenet have owned the three hospitals through the BT East Dallas partnership since January 2016. Under the definitive agreement, BSWH acquired Tenet's interest in Baylor Scott & White Medical Center – Centennial and Baylor Scott & White Medical Center – Lake Pointe, and took over as manager and operator effective March 1, 2018. Baylor Scott & White Medical Center – Sunnyvale became part of the existing THVG joint venture between Tenet's subsidiary USPI and BSWH effective March 1, 2018. BSWH continues to be majority owner in the facility, while USPI took over its operation.

Baylor Scott & White Sports Therapy & Research at the Star Facility

In June 2016, BSWH executed lease agreements for space in the Baylor Scott & White Sports Therapy & Research at the Star facility to be constructed in Frisco, Texas. The initial construction project was completed in March 2018 and the lease obligation was recorded as a capital lease at that time.

Lakeway

In September 2016, the System purchased Lakeway Regional Medical Center, a 106 bed multispecialty hospital now called Baylor Scott & White Medical Center - Lakeway, operated as a part of Scott & White Hospital - Round Rock.

Sale of Equity Method Investment

In July 2017, BSWH sold its equity investment in Med Fusion and ClearPoint Diagnostic Labs to Quest Diagnostics. The gain on sale of approximately $37,322,000 is included in equity in earnings (losses) of unconsolidated entities in the accompanying combined statements of operations and changes in net assets.

Irving Hospital Authority Contribution to Irving

In August and November of 2017, Baylor Medical Center at Irving (Irving) executed lease amendments in which the Irving Hospital Authority (Authority) agreed to renovate, equip, and expand the properties leased from the Authority. The projects include renovation of portions of the existing hospital building, replacement of an existing central utility plant, construction of a new six-story tower, and the purchase of related furnishings and medical equipment. The projects will be completed in phases, with estimated completion of the entire project in mid 2020. Accordingly, in 2018 Irving recorded a temporarily restricted contribution of approximately \$122,700,000, net of discount, for building renovations, furnishings, and medical equipment, and a receipt of a right to use the new tower and central utility plant for the remainder of the lease term under the existing lease agreement. The contribution receivable is reflected in the accompanying combined balance sheets and the temporarily restricted contribution is reflected in the changes in temporarily restricted net assets in the accompanying combined statements of operations and changes in net assets.

BIR JV, LLP

BIR JV, LLP completed the acquisition of one rehabilitation hospital in 2018. BIR JV, LLP recorded goodwill and intangible assets, net, of approximately \$6,493,000, fixed assets of approximately \$368,000, and other net liabilities of approximately \$6,861,000 in 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements of the System have been prepared in conformity with accounting principles generally accepted in the United States. The following is a summary of the significant accounting and reporting policies used in preparing the financial statements.

Adoption of New Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, "*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.*" This ASU amendment requires management to assess an entity's ability to continue as a going concern. Management should evaluate whether conditions or events, considered in the aggregate, exist that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The System applied the provisions of ASU 2014-15 in fiscal year 2017, which did not have a material impact on the combined financial statements.

In January 2015, FASB issued ASU 2015-01, *"Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items."* The amendments in ASU 2015-01 eliminate the concept of extraordinary items in financial statements. The System applied the provisions of ASU 2015-01 in fiscal year 2017, which did not have a material impact on the combined financial statements.

In February 2015, FASB issued ASU 2015-02, "*Consolidation: Amendments to the Consolidation Analysis.*" The amendments in ASU 2015-02 improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The System applied the provisions of ASU 2015-02 in fiscal year 2018, which did not have a material impact on the combined financial statements.

In April 2015, FASB issued ASU 2015-03, "*Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.*" The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The System applied the provisions of ASU 2015-03 in fiscal year 2017, which had no net impact on its financial position, results of operations, or cash flows.

In April 2015, FASB issued ASU 2015-05, "*Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.*" The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The System applied the provisions of ASU 2015-05 in fiscal year 2017, which did not have a material impact on the combined financial statements.

In May 2015, FASB issued ASU 2015-07, "*Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).*" This ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The System applied the provisions of ASU 2015-07 in fiscal year 2018, which did not have a material impact on the combined financial statements.

In May 2015, FASB issued ASU 2015-09, "*Disclosures about Short-Duration Contracts.*" This ASU requires insurance entities to disclose, for annual reporting periods, information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change, and the effects on the financial statements. In addition, the amendments require insurance entities to disclose, for annual and interim reporting periods, a roll-forward of the liability for unpaid claims and claim adjustment expenses. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities, and expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. The System applied the provisions of ASU 2015-09 in fiscal year 2018, which did not have a material impact on the combined financial statements.

In July 2015, FASB issued ASU 2015-11, *"Simplifying the Measurement of Inventory."* This ASU requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments do not apply to inventory that is measured using LIFO or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. The System applied the provisions of ASU 2015-11 in fiscal year 2018, which did not have a material impact on the combined financial statements.

In August 2015, FASB issued ASU 2015-15, *"Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting)."* This ASU requires an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The System applied the provisions of ASU 2015-15 in fiscal year 2017, which did not have a material impact on the combined financial statements.

In September 2015, FASB issued ASU 2015-16, *"Simplifying the Accounting for Measurement-Period Adjustments."* This ASU requires that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period and any related income effects in the reporting period in which the adjustment amounts are determined. The ASU also requires an entity to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The System applied the provisions of ASU 2015-16 in fiscal year 2018, which did not have a material impact on the combined financial statements.

In March 2016, FASB issued ASU 2016-07, *"Simplifying the Transition to the Equity Method of Accounting."* This ASU eliminates the requirement that when an investment qualifies for use of the equity method, as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Retroactive adjustment of the investment is no longer required. The System applied the provisions of ASU 2016-07 in fiscal year 2018, which did not have a material impact on the combined financial statements.

In January 2017, FASB issued ASU 2017-02, "*Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*." This ASU retains the consolidation guidance that was in Subtopic 810-20. Not-for-profits that are general partners should continue to be presumed to control a for-profit limited partnership, regardless of the extent of their ownership interest, unless that presumption is overcome. The System applied the provisions of ASU 2017-02 in fiscal year 2018, which did not have a material impact on the combined financial statements.

Other Accounting Pronouncements

In May 2014, August 2015, April 2016, May 2016, December 2016, and February 2017, FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*"; ASU 2015-14, "*Revenue from Contracts with Customers*"; ASU 2016-10, "*Identifying Performance Obligations and Licensing*"; ASU 2016-12, "*Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*"; ASU 2016-20, "*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*"; and ASU 2017-05, "*Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*", respectively, which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, "*Revenue Recognition.*" These ASU's address when an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These ASU's are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years for public business entities and not-for-profit entities that have issued publicly traded debt, and December 15, 2018 for all other entities as amended by ASU 2015-14. These ASU's are not expected to have a material impact on total operating revenue.

In November 2015, FASB issued ASU 2015-17, *"Balance Sheet Classification of Deferred Taxes."* This ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The provisions of ASU 2015-17 are effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities, and December 15, 2017, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

In January 2016, FASB issued ASU 2016-01, *"Recognition and Measurement of Financial Assets and Financial Liabilities."* This ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income. This ASU also requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes. A reporting organization must present separately, in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk. The provisions of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018 for all other entities. The System is currently evaluating the impact of this ASU.

In February 2016 and January 2018, FASB issued ASU 2016-02, "*Leases*" and ASU 2018-01, "*Land Easement Practical Expedient*", respectively. Additionally, in July 2018, FASB issued ASU 2018-10, "*Codification Improvements to Topic 842, Leases*" and ASU 2018-11, "*Leases (Topic 842): Targeted Improvements*." These ASU's require lessees to record a lease liability that represents the lessee's future lease obligation payments and a right-of-use asset that represents the lessee's right to use or control of a specified asset for the lease term. The main difference with current practice being that lessees will be required to record an asset and liability for what is now considered an operating lease. These ASU's are effective for fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities and not-for-profit entities that have issued publicly traded debt, and December 15, 2019 for all other entities. The System is currently evaluating the impact of these ASU's and believes they will have a material impact on the combined financial statements.

In March 2016, FASB issued ASU 2016-05, *"Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships."* This ASU clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. The provisions of ASU 2016-05 are effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities, and December 15, 2017, and interim periods thereafter for all other entities. The System is currently evaluating the impact of this ASU.

In March 2016, FASB issued ASU 2016-06, "*Contingent Put and Call Options in Debt Instruments."* This ASU clarifies what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The provisions of ASU 2016-06 are effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities, and December 15, 2017, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

In June 2016, FASB issued ASU 2016-13, "*Financial Instruments-Credit Losses (Topic 326).*" This ASU requires health care entities to evaluate the collectability of the transaction price for goods or services that will be transferred to the patient rather than the stated contract price or the amount billed for those items. Additionally, health care entities are required to estimate variable consideration using either the "expected value" method or the "most-likely-amount" method. These amendments expand disclosures regarding revenue from contracts with customers. The provisions of ASU 2016-13 are effective for fiscal years beginning after December 15, 2020. The System is currently evaluating the impact of this ASU.

In August 2016, FASB issued ASU 2016-14, *"Presentation of Financial Statements of Not-for-Profit Entities."* This ASU requires not-for-profit entities to report two classes of net assets, as well as enhances disclosures on board designated funds, liquidity, and functional expenses. The provisions of ASU 2016-14 are effective for fiscal years beginning after December 15, 2017, and interim periods thereafter. This ASU is not expected to have a material impact on the combined financial statements.

In August 2016, FASB issued ASU 2016-15, *"Classification of Certain Cash Receipts and Cash Payments."* This ASU provides cash flow statement classification guidance related to debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions made from equity method investees, separately identifiable cash flows, and application of the predominance principle. The provisions of ASU 2016-15 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018, and interim periods thereafter for all other entities. The System is currently evaluating the impact of this ASU.

In October 2016, FASB issued ASU 2016-16, "*Intra-Entity Transfers of Assets Other Than Inventory.*" This ASU requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The provisions of ASU 2016-16 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018, and interim periods thereafter for all other entities. The System is currently evaluating the impact of this ASU.

In November 2016, FASB issued ASU 2016-18, "*Restricted Cash: a Consensus of the FASB Emerging Issues Task Force.*" This ASU requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The provisions of ASU 2016-18 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018, and interim periods thereafter for all other entities. This ASU is expected to have a material impact on the combined statements of cash flows.

In January 2017, FASB issued ASU 2017-01, "*Clarifying the Definition of a Business*." By clarifying the definition of a business, the amendments of this ASU affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The provisions of ASU 2017-01 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018, and interim periods within those years for all other entities. The System is currently evaluating the impact of this ASU.

In January 2017, FASB issued ASU 2017-04, "*Simplifying the Test for Goodwill Impairment.*" This ASU eliminates Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The provisions of ASU 2017-04 are effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities, and December 15, 2021, and interim periods within those years for all other entities. The System is currently evaluating the impact of this ASU.

In March 2017, FASB issued ASU 2017-07, "*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*." This ASU requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The provisions of ASU 2017-07 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

In March 2017, FASB issued ASU 2017-08, "*Premium Amortization on Purchased Callable Debt Securities*." This ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. However, the amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The provisions of ASU 2017-08 are effective for fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities, and December 15, 2019, and interim periods thereafter for all other entities. The System is currently evaluating the impact of this ASU.

In June 2018, FASB issued ASU 2018-08, "*Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*." These amendments clarify the accounting guidance around contributions of cash and other assets made and received by not-for-profit organizations and business enterprises. When the entity is a resource recipient, the provisions of ASU 2018-08 are effective for fiscal years beginning after June 15, 2018 and interim periods within those years, for public business entities and not-for-profit entities, and December 15, 2018 for all other entities. When the entity is a resource provider, the provisions of ASU 2018-08 are effective for fiscal years beginning after December 15, 2018 and interim periods within those years, for public business entities and not-for-profit entities, and December 15, 2019 for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

In August 2018, FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*." The amendments in ASU 2018-13 remove certain disclosure requirements related to transfers between fair value levels, the valuation of Level 3 assets and liabilities, as well as the changes in unrealized gains and losses included in earnings for Level 3. Additionally, these amendments modify certain disclosure requirements related to transfers, purchases, and issuances in and out of Level 3 for nonpublic entities. The provisions of ASU 2018-13 are effective for fiscal years beginning after December 15, 2019 and interim periods within those years. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. The System is currently evaluating the impact of this ASU.

In August 2018, FASB issued ASU 2018-14, "*Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*." The amendments in ASU 2018-14 remove certain requirements related to the amount and timing of plan assets expected to be returned to the employer, related party disclosures, and disclosures related to Level 3 fair value. Additionally, these amendments clarify and enhance the disclosures for projected benefit obligation and accumulated benefit obligation. The provisions of ASU 2018-14 are effective for fiscal years ending after December 15, 2020, for public business entities and December 15, 2021, for all other entities. The System is currently evaluating the impact of this ASU.

In August 2018, FASB issued ASU 2018-15, "*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.*" The amendments in ASU 2018-15 determine which implementation costs to capitalize as an asset and which costs to expense. Additionally, these amendments clarify how the capitalized implementation costs should be presented within the financial statements. The provisions of ASU 2018-15 are effective for fiscal years ending after December 15, 2019, for public business entities and December 15, 2020, for all other entities. The System is currently evaluating the impact of this ASU.

Cash and Cash Equivalents

Cash equivalents are defined as investments which have original maturities of three months or less. Cash equivalents consist primarily of securities issued by the United States government or its agencies, certificates of deposit, commercial paper, and dollar denominated foreign issuer investments.

THVG Funds Due From United Surgical Partners, Inc.

THVG participates in a shared services accounts payable program with USPI, wherein USPI has custody of substantially all of THVG's cash, paying THVG and its facilities interest income on the net balance at prevailing market rates. Amounts held by USPI on behalf of THVG totaled approximately $117,752,000, $85,888,000, and $70,264,000, at June 30, 2018, 2017, and 2016, respectively. The funds due from USPI are available on demand.

Investments

The System has designated all of its investments as trading except for those investments held at Highground Advisors (HA) for the benefit of the BHCS Foundation and the investments of All Saints Health Foundation. For all trading investments, the interest and dividends, realized gains (losses) and unrealized gains (losses) are included in gains (losses) on investments, net, in the accompanying combined statements of operations and changes in net assets. For other than trading investments, interest and dividends and realized gains (losses) are included in gains (losses) on investments, net, unless restricted by donor. Unrealized gains (losses) on other than trading investments are included in other changes in unrestricted net assets, unless restricted by donor.

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Interest and dividends, realized gains, and unrealized gains (losses) consisted of the following (in thousands):

	Year ended June 30, 2018			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 55,588	$ 90,597	$ 70,305	$ 216,490
Other changes in unrestricted net assets	-	-	(2,688)	(2,688)
Changes in temporarily restricted net assets	9,451	14,104	10,042	33,597
Changes in permanently restricted net assets	-	2,333	(122)	2,211
	$ 65,039	**$ 107,034**	**$ 77,537**	**$ 249,610**

	Year ended June 30, 2017			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 37,371	$ 95,293	$ 138,667	$ 271,331
Other changes in unrestricted net assets	-	-	(1,786)	(1,786)
Changes in temporarily restricted net assets	7,615	9,754	18,562	35,931
Changes in permanently restricted net assets	-	175	370	545
	$ 44,986	**$ 105,222**	**$ 155,813**	**$ 306,021**

	Year ended June 30, 2016			
	Interest and Dividends	Realized Gains	Unrealized Losses	Total
Nonoperating gains (losses)	$ 36,003	$ 16,994	$ (60,103)	$ (7,106)
Other changes in unrestricted net assets	-	-	(1,390)	(1,390)
Changes in temporarily restricted net assets	5,919	2,231	(13,303)	(5,153)
Changes in permanently restricted net assets	-	409	(313)	96
	$ 41,922	**$ 19,634**	**$ (75,109)**	**$ (13,553)**

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements

As defined in ASC 820, "*Fair Value Measurements*", fair value is based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a three-tier fair value hierarchy for disclosure of fair value measurements.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable by market participants for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 - Inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability are unobservable and developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying values of cash and cash equivalents, THVG funds due from USPI, patient accounts receivable, other receivables, investments of insurance subsidiaries, accounts payable, accrued liabilities, and estimated third-party payor settlements payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

Fair values of short-term investments and long-term investments are generally based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. This applies to investments such as domestic equities, U.S. treasuries, exchange-traded mutual funds, and agency securities.

Alternative Investments

Investments held consist of marketable securities as well as securities that do not have readily determinable fair values. Private equity investments, real estate investments, and hedge funds are collectively referred to as "alternative investments". These are included in unrestricted long-term investments in the accompanying combined balance sheets, other than those held at HA. The investments in alternative investments are valued by management at fair value utilizing the net asset value (NAV) provided by the underlying investment companies unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties as the System does not intend to sell such investments before the expiration of the early redemption periods. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Investments valued at NAV are not leveled within the fair value hierarchy.

Included in collective investment funds held at HA for the BHCS Foundation are alternative investment interests in private equity funds and oil and gas interests. These interests are included in restricted long-term investments in the accompanying combined balance sheets. These alternative investments are in limited partnership interests and are carried at the NAV provided by the underlying investment companies unless management determines some other valuation is more appropriate. BHCS Foundation also has other real estate and oil and gas interests which are carried at lower of cost or market and represent Level 3 assets.

Beneficial Interest

The System records charitable remainder trusts, where it is not the trustee, at the discounted present value of the estimated future cash flows. These trusts are reported in contributions receivable, net, in the accompanying combined balance sheets. When a third-party serves as trustee, the beneficial interest is required to be measured at fair value on a recurring basis. As beneficial interests utilize multiple unobservable inputs, including no active markets, and are measured using management's assumption about risk inherent in the valuation technique, beneficial interests in split-interest agreements represent Level 3 assets.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table below sets forth, by level, the financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 (in thousands):

	June 30, 2018			
Assets:	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents				
Cash	$ 1,213,815	$ 1,213,815	$ -	$ -
Money market funds	48,279	48,279	-	-
U.S. government securities	1,497	-	1,497	-
Total cash and cash Equivalents	1,263,591	1,262,094	1,497	-
Short-term investments				
Mutual funds	173,749	173,749	-	-
Fixed income securities	616	-	616	-
U.S. government securities	4,098	-	4,098	-
Other	1,077	1,000	77	-
Total short-term investments	179,540	174,749	4,791	-
Unrestricted long-term investments				
Cash	2,579	2,579	-	-
Certificates of deposit	500	500	-	-
Mutual funds	37,562	37,457	105	-
Equity securities	1,486,633	327,148	1,159,485	-
Fixed income securities	221,084	29	221,055	-
U.S. government securities	305,592	-	305,592	-
Mortgage-backed securitites	353,501	53,207	300,294	-
Split-interest agreements	1,264	-	1,264	-
Cash surrender value life insurance	35	-	-	35
Other	1,301	-	722	579
Common funds, held at HA				
Group investment fund	621	-	621	-
Group bond fund	35	-	35	-
Group equity fund	76	-	76	-
Other funds	28	27	-	1
Assets held at NAV practical expedient (1)				
Hedge fund/diversifiers alternative investments	627,590			
Private equity alternative investments	213,717			
Real estate alternative investments	138,014			
Other funds	3			
Total unrestricted long-term investments	3,390,135	420,947	1,989,249	615

(1) Hedge fund/diversifiers alternative investments, private equity alternative investments, real estate alternative investments, and other investments for which fair value is measured using the NAV per share as a practical expedient are not leveled within the fair value hierarchy and are included as a reconciling item to total investments.

In the accompanying combined balance sheets, unrestricted long-term investments at June 30, 2018 includes an investment of approximately $128,947,000 accounted for under the cost method.

	June 30, 2018			
Assets (continued):	**Total**	**Level 1**	**Level 2**	**Level 3**
Restricted long-term investments				
Cash	8,165	8,165	-	-
Mutual funds	50,707	50,455	252	-
Equity securities	192,483	47,248	145,235	-
Fixed income securities	14,492	69	14,423	-
U.S. government securities	22,365	-	22,365	-
Mortgage-backed securitites	26,008	3,971	22,037	-
Split-interest agreements	5,148	-	5,148	-
Real estate	339	-	-	339
Cash surrender value life insurance	1,229	-	-	1,229
Other	1	1	-	-
Common funds, held at HA				
Group investment fund	47,409	-	47,409	-
Group bond fund	2,701	-	2,701	-
Group equity fund	5,779	-	5,779	-
Other funds	2,166	2,112	-	54
Assets held at NAV practical expedient (1)				
Hedge fund/diversifiers alternative investments	73,417			
Private equity alternative investments	40,635			
Real estate alternative investments	12,291			
Other funds	299			
Total restricted long-Term investments	505,634	112,021	265,349	1,622
Assets whose use is limited				
Cash	54,596	54,596	-	-
Money market funds	5,908	5,908	-	-
Mutual funds	184,134	184,134	-	-
Equity securities	1,596	1,596	-	-
Fixed income securities	21,894	-	21,894	-
U.S. government securities	34,710	-	34,710	-
Other	159	-	159	-
Total assets whose use is limited	302,997	246,234	56,763	-
Contributions receivable, net				
Beneficial interest in split-interest agreements	24,584	-	-	24,584
Total assets at fair value	$ 5,666,481	$ 2,216,045	$ 2,317,649	$ 26,821
Liabilities:				
Interest rate swap agreements, net of collateral	220,123	-	220,123	-
Total Liabilities at Fair Value	$ 220,123	$ -	$ 220,123	$ -

(1) Hedge fund/diversifiers alternative investments, private equity alternative investments, real estate alternative investments, and other investments for which fair value is measured using the NAV per share as a practical expedient are not leveled within the fair value hierarchy and are included as a reconciling item to total investments.

The following table is a roll forward of the combined balance sheet amounts for financial instruments classified by the System within Level 3 of the valuation hierarchy defined above for the year ended June 30, 2018 (in thousands):

	June 30, 2018			
	Split-Interest Agreements	Common Investment Funds	Other	Total
Balance, beginning of period	$ 21,596	$ 55	$ 2,331	$ 23,982
Realized losses, net	(4,068)	-	-	(4,068)
Unrealized (losses) gains, net	(341)	-	257	(84)
Purchases	7,894	-	756	8,650
Settlements	(497)	-	(756)	(1,253)
Transfers out of Level 3	-	-	(406)	(406)
Balance, end of period	$ 24,584	$ 55	$ 2,182	$ 26,821

At June 30, 2018, alternative investments recorded at NAV consisted of the following (in thousands):

	June 30, 2018			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency if Currently Eligible**	**Redemption Notice Period**
Equity-linked investments [a]	$ 62,494	$ -	quarterly, annually	60-90 days
Event-driven investments [b]	86,129	-	quarterly, annually	30-90 days
Credit-linked investments [c]	84,112	-		
Multi-strategy investments [d]	2,202	-	monthly, quarterly	30-90 days
Tactical trading investments [e]	246,482	-	daily, monthly	2-90 days
Risk parity and global asset allocation fund[f]	219,588	-	monthly	5-30 days
Real estate funds - open ended [g]	79,201	-	quarterly	90 days
Real estate funds - closed ended [h]	71,104	33,854		
Oil and gas funds [i]	302	-		
Private equity funds [j]	194,852	125,951		
Private debt funds [k]	59,500	32,519		
Total	$ 1,105,966	$ 192,324		

a) Equity-linked fund managers buy equities that are expected to increase in value and sell short equities that are expected to decrease in value. Portfolios range from net short to net long, depending on market conditions. Aggressive funds may capture returns by exceeding 100% exposure while conservative funds mitigate market risk by maintaining net exposures of between 0-50%. Typically, equity-linked strategies are based on "bottom up" fundamental analysis of the individual companies, in which investments are made. There may also be "top down" analysis of the risks and opportunities offered by industries, sectors, countries, and the macroeconomic situation. Equity-linked managers may be generalists or focus on certain industries, sectors, regions or equity category (i.e. small or large cap and value or growth). There are many trading styles, with frequent or dynamic traders and some longer-term investors. Returns are generally more correlated with the direction of the equity markets, although reduction in market risk exposure through shorting is expected to enhance the absolute and risk-adjusted returns relative to the overall performance of the asset class. The fair values of the investments in this class have been estimated using the net asset value per share of the funds.

b) Event-driven fund managers seek to exploit pricing inefficiencies that may occur before or after corporate events such as an earnings announcement, bankruptcy, merger, acquisition, or spinoff. Returns are less correlated with the general direction of market movements primarily due to the idiosyncratic nature of individual events. Several investment managers include quarterly percentage redemption limits. The fair values of the investments in this class have been estimated using the net asset value per share of the funds.

c) Credit-linked fund managers seek to profit from the mispricing of related securities. These strategies utilize quantitative and qualitative analysis to identify securities or spreads between securities that deviate from their fair value and/or historical norms. Examples include convertible arbitrage, fixed arbitrage, statistical arbitrage, and select global macro strategies. Fund returns are generally not dependent on the direction of market movements. The fair values of the investments in this class have been estimated using the net asset value per share of the funds.

d) Multi-strategy fund managers focus on large, long-term mispricing in the global fixed-income, equity and credit markets, capturing relative-value anomalies via multi-product trades. Returns are relatively uncorrelated with the general direction of market movements since they avoid taking a directional bias with regards to the price movement of a specific stock or market. Several investment managers include quarterly percentage redemption limits and/or early redemption penalties. The fair values of the investments in this class have been estimated using the net asset value per share of the funds.

e) Tactical trading fund managers generally invest on a large scale around the world using economic theory to justify the decision making process on either a discretionary or systematic basis. Strategies are typically based on forecasts and analysis about interest rate trends, the general flow of funds, political changes, government policies, inter-government relations, and other broad systemic and technical factors. Returns are relatively uncorrelated with the general direction of market movements. Several investment managers include quarterly percentage redemption limits. The fair values of the investments in this class have been estimated using the net asset value per share of the funds.

f) Risk parity and global asset allocation fund managers invest across global markets including equities, nominal government bonds, inflation linked bonds, commodities, and emerging markets on a risk balanced framework. Typically these strategies incorporate leverage to increase the risk contribution from low volatility asset classes (e.g., inflation linked bonds and nominal government bonds). The fair values of the investments in this class have been estimated using the net asset value per share of the funds.

g) Real estate - open end fund managers invest in U.S. commercial real estate. Redemptions are available on a quarterly basis, subject to the discretion of the General Partners. The General Partners may elect to establish a redemption queue should the level of redemptions for a given quarter be detrimental to the fund's overall performance. The fair values of the investments in this class have been estimated using the net asset value, which is based on the ownership interest of partners' capital.

h) Real estate - closed end fund managers invest primarily in U.S. commercial real estate and industries related to real estate, with some having minimal exposure outside of the U.S. These partnerships are illiquid and therefore do not have a redemption feature. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of these funds will be liquidated over the next six years with the value of those underlying asset being replaced by investments in new real estate funds. The fair values of the investments in this class have been estimated using the net asset value, which is based on the ownership interest of partners' capital.

i) Oil and gas fund managers invested in mineral properties located in Texas and Wyoming. The fund in this category is closed to new investors, is illiquid and redemption is subject to fund management approval. Royalty income is distributed quarterly subject to fund management approval ($0.50 per unit per quarter in 2018 and 2017). Distributions from the fund will be received as the underlying investments are depleted. The fair value of the mineral properties have been estimated by multiplying the most recent twelve months of royalty income, excluding lease bonus income, times a factor of five. The fund's management used a multiple of five for the valuation based on current industry methodology, recent market transactions, and the fund's extensive experience in mineral properties.

j) Thirty - seven private equity fund managers invest in a variety of mostly private companies. These investments have a drawdown structure where a portion of commitments (which are made upon entering the partnership) are called gradually over the first 3-6 years of the partnership's life. It is expected that most of the unfunded commitments should be called within the next 6 years. These partnerships are illiquid and therefore do not have a redemption feature. Instead, the nature of the investments in this class is that distributions are received as the investment in the underlying companies are sold. It is estimated that the current underlying assets of these partnerships should be liquidated within the next 10 years. The investments are valued based on each partnership's valuation policy which is then subject to annual third party financial audits. Financial audits are available approximately 90 days following year end. Therefore, the valuation at year end reflects the latest reported manager valuation with adjustments for new capital calls and distributions.

k) Seven private debt fund managers invest in a variety of mostly private companies. These investments have a drawdown structure where a portion of commitments (which are made upon entering the partnership) are called gradually over the first 1-3 years of the partnership's life. It is expected that most of the unfunded commitments should be called within the next 4 years. These partnerships are illiquid and therefore do not have a redemption feature. Instead, the nature of the investments in this class is that distributions are received as income from the debt is received and as the investment in the underlying companies are sold or the debt principal is repaid. It is estimated that the current underlying assets of these partnerships should be liquidated within the next 6 years. The investments are valued based on each partnership's valuation policy which is then subject to annual third party financial audits. Financial audits are available approximately 90 days following year end. Therefore, the valuation at year end reflects the latest reported manager valuation with adjustments for new capital calls and distributions.

4. ENDOWMENTS

The System's endowments consist of donor-restricted and board-designated endowment funds for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The System has interpreted the State of Texas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as not requiring the maintaining of purchasing power of permanently restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate endowment funds:

1) The duration and preservation of the fund
2) The purposes of the System and the donor restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the System and
7) The investment policies of the System

Endowment Return Objectives and Risk Parameters

The System follows an investment policy that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against various indices, based on the endowment's target allocation applied to the appropriate individual benchmarks.

To achieve its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The System targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Relationship of Endowment Spending Practices to Investment Objectives

The System determines the appropriation of endowment funds for expenditure reimbursement through the budgeting process. Distribution policies for the System's endowments govern the amount of endowment funds that may be appropriated during this process. In establishing its policies, the System considered the long-term expected return on its endowments. Accordingly, over the long-term, the System expects the current distribution policies to allow its endowments to grow at an average of the long-term rate of inflation and maintain its purchasing power. In order to maintain the purchasing power of endowment assets, expenditures are based on investment performance and spending is curbed in response to deficit situations. Over the long-term, the System expects its endowment to grow consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

5. RETIREMENT BENEFITS

The System provides 401(k) defined contribution plans for eligible employees. Employees are eligible to contribute to the plans immediately with no minimum service or age requirement.

The System had four frozen defined benefit plans at the time of merger. Three of the four plans are subject to ERISA and all are being funded in accordance with regulatory requirements. Three of the four plans were merged together in fiscal year 2017.

6. CONTINGENCIES

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, physician ownership and self-referral, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with applicable fraud and abuse laws and regulations as well as other applicable federal and state laws and regulations.

7. SUBSEQUENT EVENTS

Letter of Intent with Memorial Hermann

On September 28, 2018, BSWH executed a letter of intent with Memorial Hermann Health System to pursue merging the operations of the two health systems through the creation of a new nonprofit, tax-exempt parent corporation. The boards of the two health systems are continuing to evaluate the potential alignment and are initiating the due diligence process. A definitive agreement is subject to negotiation and approval of appropriate regulatory bodies and board approvals. The potential combination would strengthen the respective communities served by the two health systems, advance the health of Texans, and transform the delivery of care. BSWH can give no assurance that the transaction will occur.

FirstCare Health Plans

On October 5, 2018, the Health Plan signed a definitive agreement to acquire FirstCare Health Plans. The definitive agreement signed by the Health Plan and FirstCare Health Plans' owners, Covenant Health System and Hendrick Health System, is now subject to regulatory approval.

The System has performed an evaluation of material subsequent events and transactions from June 30, 2018 through Nov 12, 2018, which is the date the financial statements were issued.

Annual Disclosure Report for June 30, 2018

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets
June 30, 2018
($ Thousands)

ASSETS	Obigated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total Financials
CURRENT ASSETS:					
Cash and cash equivalents	$ 709,796	$ 98,179	$ 455,616	$ -	$ 1,263,591
Short-term investments	159,592	4,714	15,234	-	179,540
THVG funds due from United Surgical Partners, Inc.	-	-	117,752	-	117,752
Accounts receivable:					
Patient, net	477,203	-	362,465	(34,917)	804,751
Premium	-	92,556	-	-	92,556
Affiliates, net	7,986	-	-	(7,986)	-
Other	93,802	14,712	85,742	(7,097)	187,159
Other current assets	241,044	11,258	95,249	-	347,551
Total current assets	1,689,423	221,419	1,132,058	(50,000)	2,992,900
LONG-TERM INVESTMENTS:					
Unrestricted	2,926,219	109,507	483,356	-	3,519,082
Restricted	2,480	-	503,154	-	505,634
Total long-term investments	2,928,699	109,507	986,510	-	4,024,716
ASSETS WHOSE USE IS LIMITED:					
Other designated assets	129,220	2,200	30,941	-	162,361
Self insurance reserves	-	-	110,783	-	110,783
Funds held by bond trustee	29,853	-	-	-	29,853
Total assets whose use is limited	159,073	2,200	141,724	-	302,997
PROPERTY AND EQUIPMENT, net	2,655,546	15,339	1,212,831	(200,126)	3,683,590
CONTRIBUTIONS RECEIVABLE, net	-	-	186,002	(56)	185,946
DUE FROM AFFILIATES	220,528	-	1,965	(222,493)	-
INTEREST IN NET ASSETS OF RELATED FOUNDATIONS	553,587	-	106,716	(656,086)	4,217
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES	1,869,115	-	-	(1,869,115)	-
OTHER LONG-TERM ASSETS:					
Equity investment in unconsolidated entities	39,078	191	22,479	-	61,748
Goodwill and intangible assets, net	89,766	-	776,902	(2,429)	864,239
Other	9,482	1,805	13,413	(6,992)	17,708
Total other long-term assets	138,326	1,996	812,794	(9,421)	943,695
Total assets	$ 10,214,297	$ 350,461	$ 4,580,600	$ (3,007,297)	$ 12,138,061

*Obligated Affiliates combines Baylor Health Care System; Baylor University Medical Center; Baylor All Saints Medical Center; Baylor Medical Center at Waxahachie; Baylor Regional Medical Center at Grapevine; Baylor Medical Center at Plano; Scott & White Healthcare; Scott & White Memorial Hospital (inclusive of McLane Children's Hospital Scott & White); Scott & White Clinic; Scott & White Hospital - Round Rock; Scott & White Continuing Care Hospital; Hillcrest Baptist Medical Center; Baylor Scott & White Holdings; Baylor Scott & White Health; Baylor Medical Centers at Garland and McKinney; and Scott & White Hospital - College Station.

†Consolidated Health Plan includes Scott and White Health Plan and Insurance Company of Scott and White.

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets - continued
June 30, 2018
($ Thousands)

LIABILITIES AND NET ASSETS	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total Financials
CURRENT LIABILITIES:					
Current maturities of long-term debt and capital lease obligations	$ 94,589	$ -	$ 36,451	$ -	$ 131,040
Long-term debt subject to short-term remarketing arrangements	95,000	-	-	-	95,000
Commercial paper	187,868	-	-	-	187,868
Accounts payable:					
Trade accounts payable	130,548	13,095	206,972	(12,109)	338,506
Affiliates, net	-	10,396	2,650	(13,046)	-
Accrued liabilities:					
Payroll related	337,927	1,014	71,271	-	410,212
Third-party programs	59,685	9,161	13,071	31,928	113,845
Medical claims payable	-	95,723	-	(66,845)	28,878
Other	278,114	73,771	156,839	(16,659)	492,065
Total current liabilities	1,183,731	203,160	487,254	(76,731)	1,797,414
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	2,626,311	-	460,753	-	3,087,064
OTHER LONG-TERM LIABILITIES:					
Self insurance and other insurance liabilities	(3,159)	-	110,786	-	107,627
Interest rate swap liabilities, net	220,123	-	-	-	220,123
Other	174,578	21,402	117,560	(6,149)	307,391
Total other long-term liabilities	391,542	21,402	228,346	(6,149)	635,141
DUE TO AFFILIATES	-	-	338,065	(338,065)	-
Total liabilities	4,201,584	224,562	1,514,418	(420,945)	5,519,619
COMMITMENTS AND CONTINGENCIES					
NONCONTROLLING INTERESTS - REDEEMABLE	-	-	307,941	116,763	424,704
NET ASSETS:					
Unrestricted - attributable to BSWH	5,448,310	125,899	1,905,825	(2,267,761)	5,212,273
Unrestricted - noncontrolling interests - nonredeemable	18,990	-	53,868	208,915	281,773
Total unrestricted net assets	5,467,300	125,899	1,959,693	(2,058,846)	5,494,046
Temporarily restricted	334,722	-	476,876	(389,491)	422,107
Permanently restricted	210,691	-	321,672	(254,778)	277,585
Total net assets	6,012,713	125,899	2,758,241	(2,703,115)	6,193,738
Total liabilities and net assets	$ 10,214,297	$ 350,461	$ 4,580,600	$ (3,007,297)	$ 12,138,061

*Obligated Affiliates combines Baylor Health Care System; Baylor University Medical Center; Baylor All Saints Medical Center; Baylor Medical Center at Waxahachie; Baylor Regional Medical Center at Grapevine; Baylor Medical Center at Plano; Scott & White Healthcare; Scott & White Memorial Hospital (inclusive of McLane Children's Hospital Scott & White); Scott & White Clinic; Scott & White Hospital - Round Rock; Scott & White Continuing Care Hospital; Hillcrest Baptist Medical Center; Baylor Scott & White Holdings; Baylor Scott & White Health; Baylor Medical Centers at Garland and McKinney; and Scott & White Hospital - College Station.

† Consolidated Health Plan includes Scott and White Health Plan and Insurance Company of Scott and White.

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Statements of Operations and Changes in Net Assets
For the Twelve Months Ended June 30, 2018
($ Thousands)

	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total Financials
OPERATING REVENUE:					
Net patient care revenue	$ 5,047,095	$ -	$ 4,266,082	$ (410,847)	$ 8,902,330
Less patient related bad debt expense	298,568	-	445,652	-	744,220
Net patient care revenue, less patient related bad debt expense	4,748,527	-	3,820,430	(410,847)	8,158,110
Premium revenue	-	827,673	-	(474)	827,199
Other operating revenue	414,485	16,609	693,749	(700,736)	424,107
Net assets released from restrictions for operations	11,401	-	71,495	(15,688)	67,208
Total operating revenue	5,174,413	844,282	4,585,674	(1,127,745)	9,476,624
OPERATING EXPENSES:					
Salaries, wages, and employee benefits	2,651,085	44,088	1,799,168	(49,884)	4,444,457
Supplies	784,931	138	810,551	-	1,595,620
Other operating expenses	1,164,088	74,505	1,439,621	(663,256)	2,014,958
Medical claims	-	720,296	-	(429,189)	291,107
(Gains) on fixed asset sales and disposals, net	(4,698)	-	(375)	-	(5,073)
Impairment losses	-	-	52,466	-	52,466
Depreciation and amortization	255,523	509	129,141	(6,005)	379,168
Interest	93,693	2,472	39,285	(13,817)	121,633
Total operating expenses	4,944,622	842,008	4,269,857	(1,162,151)	8,894,336
Income from operations	229,791	2,274	315,817	34,406	582,288
NONOPERATING GAINS (LOSSES):					
Gains (losses) on investments, net	175,742	2,776	46,649	(8,677)	216,490
Interest rate swap activity	31,033	-	-	-	31,033
Contributions	20,190	-	1,536	(21,696)	30
Equity in (losses) gains of unconsolidated entities	(902)	-	37,821	-	36,919
Loss from extinguishment of debt	(721)	-	-	-	(721)
Other	172,340	(21)	12,963	(184,951)	331
Total nonoperating gains (losses)	397,682	2,755	98,969	(215,324)	284,082
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE TAXES	627,473	5,029	414,786	(180,918)	866,370
LESS INCOME TAX EXPENSE (BENEFIT)	195	(503)	25,619	-	25,311
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	627,278	5,532	389,167	(180,918)	841,059

*Obligated Affiliates combines Baylor Health Care System; Baylor University Medical Center; Baylor All Saints Medical Center; Baylor Medical Center at Waxahachie; Baylor Regional Medical Center at Grapevine; Baylor Medical Center at Plano; Scott & White Healthcare; Scott & White Memorial Hospital (inclusive of McLane Children's Hospital Scott & White); Scott & White Clinic; Scott & White Hospital - Round Rock; Scott & White Continuing Care Hospital; Hillcrest Baptist Medical Center; Baylor Scott & White Holdings; Baylor Scott & White Health; Baylor Medical Centers at Garland and McKinney; and Scott & White Hospital - College Station.

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Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Statements of Operations and Changes in Net Assets - continued
For the Twelve Months Ended June 30, 2018
($ Thousands)

	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total Financials
OTHER CHANGES IN UNRESTRICTED NET ASSETS:					
Unrealized losses on investments, net	$ -	$ -	$ (2,688)	$ -	$ (2,688)
Net assets released from restrictions for capital expenditures	907	-	12,587	(1,023)	12,471
Other changes in net assets attributable to noncontrolling interests - nonredeemable	1,304	-	(239,918)	231,833	(6,781)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	-	-	(199,291)	(55,744)	(255,035)
Transfers between entities under common control	10,345	-	72,536	(82,881)	-
Other	13,872	-	2,528	(9,382)	7,018
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	653,706	5,532	34,921	(98,115)	596,044
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	11,561	-	198,452	(16,711)	193,302
Realized investment income	-	-	23,555	-	23,555
Unrealized gains on investments	-	-	10,042	-	10,042
Change in value of split-interest agreements	99	-	(645)	-	(546)
Net assets released from restrictions for operations	(11,401)	-	(71,495)	15,688	(67,208)
Net assets released from restrictions for capital expenditures	(907)	-	(12,587)	1,023	(12,471)
Transfers between entities under common control	(280)	-	280	-	-
Changes in net assets of related foundations	40,013	-	12,380	(52,255)	138
Other	-	-	(1,290)	-	(1,290)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	39,085	-	158,692	(52,255)	145,522
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	-	-	12,134	-	12,134
Realized investment income	-	-	2,333	-	2,333
Unrealized losses on investments	-	-	(122)	-	(122)
Change in value of split-interest agreements	9	-	(1,773)	1	(1,763)
Changes in net assets of related foundations	19,560	-	(4,999)	(14,530)	31
Other	-	-	599	-	599
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	19,569	-	8,172	(14,529)	13,212
INCREASE (DECREASE) IN NET ASSETS	712,360	5,532	201,785	(164,899)	754,778
NET ASSETS, beginning of period	5,300,353	120,367	2,556,456	(2,538,216)	5,438,960
NET ASSETS, end of period	$ 6,012,713	$ 125,899	$ 2,758,241	$ (2,703,115)	$ 6,193,738

*Obligated Affiliates combines Baylor Health Care System; Baylor University Medical Center; Baylor All Saints Medical Center; Baylor Medical Center at Waxahachie; Baylor Regional Medical Center at Grapevine; Baylor Medical Center at Plano; Scott & White Healthcare; Scott & White Memorial Hospital (inclusive of McLane Children's Hospital Scott & White); Scott & White Clinic; Scott & White Hospital - Round Rock; Scott & White Continuing Care Hospital; Hillcrest Baptist Medical Center; Baylor Scott & White Holdings; Baylor Scott & White Health; Baylor Medical Centers at Garland and McKinney; and Scott & White Hospital - College Station.

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Baylor Scott & White Health
Obligated Affiliates - Combined Statement of Cash Flows
For the Year Ended June 30, 2018
($ Thousands)

Cash Flows from Operating Activities:	
Increase in net assets	$ 712,360
Adjustments to reconcile increase in net assets	
to net cash provided by operating activities:	
Loss on extinguishment of debt	721
Unrealized gains on investments, net	(52,794)
Realized gains on sales of investments, net	(71,800)
Gains on interest rate swap, net	(53,466)
Patient related bad debt expense	298,568
Depreciation and amortization	255,523
Gains on fixed asset sales and disposals, net	(4,698)
Change in value of split-interest agreements	(108)
Transfers between entities under common control	(10,065)
Other changes attributable to noncontrolling interests	(1,304)
Changes in operating assets and liabilities (net of acquisitions):	
Increase in net patient accounts receivable	(308,837)
Increase in other accounts receivable	(36,871)
Increase in other assets	(170,757)
Decrease in affiliates receivable, net and due from affiliates, net	19,171
Increase in trade accounts payable and accrued liabilities	102,776
Increase in other liabilities	27,690
Net cash provided by operating activities	706,109
Cash Flows from Investing Activities:	
Purchases of property and equipment, net	(303,388)
Cash proceeds from sales of assets	6,540
Increase in investments, net	(218,626)
Net payments on interest rate swap	(13,869)
Increase in investments of subsidiaries	(256,014)
Decrease in assets whose use is limited	9,911
Net cash used in investing activities	(775,446)
Cash Flows from Financing Activities:	
Principal payments on long-term debt	(447,949)
Proceeds from issuance of long-term debt	509,812
Transfers between entities under common control	10,065
Sales of noncontrolling interests	1,304
Net cash provided by financing activities	73,232
Net Increase in Cash and Cash Equivalents	3,895
Cash and Cash Equivalents, beginning of period	705,901
Cash and Cash Equivalents, end of period	$ 709,796