BaylorScott&White HEALTH

Quarterly Disclosure Report

For the Nine Months Ended March 31, 2019

(Unaudited)

Penny D. Cermak
Executive Vice President
and Chief Financial Officer
Baylor Scott & White Health
214-820-7506
Penny.Cermak@BSWHealth.org

www.BaylorScottandWhite.com

Quarterly Disclosure Report for March 31, 2019

BAYLOR SCOTT & WHITE HEALTH

NOTICE
relating to:

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 FACILITIES FINANCE CORPORATION HOSPITAL REVENUE BONDS (BAYLOR HEALTH CARE SYSTEM PROJECT) SERIES 2013A

TARRANT COUNTY CULTURAL EDUCATION FACILITIES FINANCE CORPORATION HOSPITAL REVENUE BONDS (BAYLOR HEALTH CARE SYSTEM PROJECT) SERIES 2013B 7 MONTH WINDOW VRDB

TARRANT COUNTY CULTURAL EDUCATION FACILITIES FINANCE CORPORATION TAXABLE HOSPITAL REVENUE BONDS (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

Quarterly Disclosure Report for March 31, 2019

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ATTENTION

This document is marked with a dated date of March 31, 2019 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-three 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 d/b/a Baylor Scott and White Dallas Foundation, Scott & White Healthcare Foundation d/b/a Baylor Scott and White Central Texas Foundation, Irving Healthcare Foundation d/b/a Baylor Scott and White Irving Foundation, All Saints Health Foundation d/b/a Baylor Scott and White All Saints Health Foundation, Scott & White Healthcare Foundation Brenham d/b/a Baylor Scott and White Central Texas 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 subsidiaries, Insurance Company of Scott and White, Scott and White Care Plans, and SHA, L.L.C. d/b/a FirstCare Health Plans and its subsidiary, Southwest Life and Health (collectively referred to as the "Health Plan"), which provides health insurance benefits to approximately 369,000 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 ninety-three 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-eight 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.

- *Newsweek* – According to Newsweek's "World's Best Hospitals 2019," 3 Baylor Scott & White Health hospitals received recognition.

- *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 HTPN practices and fifty-one 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.

- *Newsweek* – Ranked as the No. 39 hospital in the U.S.

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

- *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.

- *Society of Thoracic Surgeons (STS)* – BUMC earned a distinguished three-star rating, denoting the highest category of quality among general thoracic surgery programs in the U.S. and Canada.

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.

- *Newsweek* – Ranked as the No. 131 hospital in the U.S.

- *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, 2020. This Accreditation verifies that BSWQA has a process in place to ensure safe transitions.

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

Health Plan

- Every year, Medicare evaluates plans based on a 5-star rating system. 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. SeniorCare Advantage HMO, which was first offered in 2018, also now bears the 4.5 out of 5 star rating, as the SeniorCare (Cost) membership was passively enrolled into the SeniorCare Advantage HMO effective January 1, 2019. Due to consistently achieving this star rating, the Health Plan was recently recognized as one of the 2019 Best Insurance Companies for Medicare Advantage by U.S. News & World Report – making it one of only two Medicare providers in Texas to be included on this prestigious list.

- The Health Plan is consistently rated one of the top health plans in Texas by NCQA's Private Health Insurance Plan Ratings.

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 and 2017, and the nine months ended March 31, 2019 and 2018.

BSWH Key Operating and Financial Indicators
($ Thousands)

	Year Ended June 30,		Nine Months Ended March 31,	
	2017	**2018**	**2018**	**2019**
Total operating revenue	$ 9,084,476	$ 9,476,624	$ 7,114,981	$ 7,439,420
Operating margin	3.2%	6.1%	6.9%	7.9%
Adjusted EBITDA (1)	$ 888,767	$ 1,244,121	$ 997,577	$ 1,055,419
Cash and investments	$ 5,268,661	$ 5,770,844	$ 5,686,141	$ 5,983,567
Days in patient accounts receivable (2)	38.5	36.0	36.7	37.4

(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 the period.

FINANCIAL OPERATIONS SUMMARY

BSWH Summary Combined Balance Sheets
($ Thousands)

	June 30,		March 31,	
	2017	**2018**	**2018**	**2019**
ASSETS				
Current assets	$ 2,840,871	$ 2,992,900	$ 2,897,382	$ 2,768,177
Long-term investments	3,562,260	4,024,716	3,960,006	4,484,875
Assets whose use is limited	324,526	302,997	301,043	305,738
Property and equipement, net	3,525,384	3,683,590	3,672,748	3,832,480
Other assets	893,565	1,133,858	1,120,350	1,172,638
Total assets	$ 11,146,606	$ 12,138,061	$ 11,951,529	$ 12,563,908
LIABILITIES AND NET ASSETS				
Current liabilities	$ 1,422,380	$ 1,797,414	$ 1,576,387	$ 1,816,708
Long-term debt and capital lease obligations less current maturities	3,171,837	3,087,064	3,150,747	3,032,749
Other long-term liabilities	670,301	635,141	670,979	703,093
Total liabilities	5,264,518	5,519,619	5,398,113	5,552,550
Noncontrolling interests - redeemable	443,128	424,704	411,598	449,086
Net assets	5,438,960	6,193,738	6,141,818	6,562,272
Total liabilities and net assets	$ 11,146,606	$ 12,138,061	$ 11,951,529	$ 12,563,908

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BSWH Summary Combined Statements of Operations
($ Thousands)

	Year Ended June 30,		Nine Months Ended March 31,	
	2017	**2018**	**2018**	**2019**
Total operating revenue	$ 9,084,476	$ 9,476,624	$ 7,114,981	$ 7,439,420
Total operating expenses	8,792,603	8,894,336	6,621,432	6,855,131
Income from operations	291,873	582,288	493,549	584,289
Nonoperating gains and income tax expense	338,582	258,771	234,352	34,843
Excess of revenues over expenses	$ 630,455	$ 841,059	$ 727,901	$ 619,132

BSWH Summary Financial Information
($ Thousands)

	Year Ended June 30,		Nine Months Ended March 31,	
	2017	**2018**	**2018**	**2019**
CASH FLOW				
Cash flow from operating activities	$ 750,189	$ 1,204,704	$ 906,315	$ 867,979
Adjusted operating cash flow (1)	$ 793,144	$ 1,083,089	$ 866,136	$ 976,391
Adjusted EBITDA (2)	$ 888,767	$ 1,244,121	$ 997,577	$ 1,055,419
Capital expenditures for property and equipment	$ 406,207	$ 485,271	$ 370,704	$ 413,884
Total capitalization (3)	$ 8,164,839	$ 8,863,978	$ 8,880,389	$ 9,212,319
FINANCIAL RATIOS				
Operating margin	3.2%	6.1%	6.9%	7.9%
Adjusted operating cash flow as a percentage of total revenue (1)	8.7%	11.4%	12.2%	13.1%
Adjusted EBITDA margin (4)	9.8%	13.1%	14.0%	14.2%
Debt to capitalization (5)	40.0%	38.0%	38.7%	36.2%
Debt to cash flow (6)	4.4x	3.2x	2.9x	2.8x

(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 and 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 income for the first nine months of fiscal year 2019 was $584.3 million or 7.9% of total operating revenue, compared to $493.5 million or 6.9% for the first nine months of fiscal year 2018. Adjusted EBITDA was $1,055.4 million or 14.2% of total operating revenue for the first nine months of fiscal year 2019 compared to $997.6 million or 14.0% for the first nine months of fiscal year 2018.

Total Operating Revenue

The combined total operating revenue increased $324.4 million or 4.6% to $7,439.4 million for the first nine months of fiscal year 2019 compared to $7,115.0 million for the first nine months of fiscal year 2018.

Net patient care revenue, increased $209.9 million or 3.4% to $6,330.4 million for the first nine months of fiscal year 2019 compared to $6,120.5 million for the first nine months of fiscal year 2018. The increase in net patient care revenue reflects higher volumes in other outpatient registrations, clinic visits, and patient encounters for fiscal year 2019.

Premium revenue increased $164.2 million or 26.8% to $776.8 million for the first nine months of fiscal year 2019 compared to $612.6 million for the first nine months of fiscal year 2018. Premium revenue increased for the first nine months of fiscal year 2019 primarily due to the acquisition of FirstCare Health Plans in 2019.

Net assets released from restrictions for operations increased $0.5 million or 1.0% to $51.1 million for the first nine months of fiscal year 2019 compared to $50.6 million for the first nine months of fiscal year 2018.

Total Operating Expenses

Combined total operating expenses for the first nine months of fiscal year 2019 were $6,855.1 million, an increase of $233.7 million or 3.5% compared to $6,621.4 million for the first nine months of fiscal year 2018.

Salaries, wages, and employee benefits expense increased $55.4 million or 1.7% to $3,396.7 million for the first nine months of fiscal year 2019 compared to $3,341.3 million for the first nine months of fiscal year 2018, representing approximately 45.7% and 47.0% of total operating revenue for the first nine months of fiscal years 2019 and 2018, respectively. Salaries, wages, and employee benefits expense represented approximately 49.5% and 50.5% of total operating expenses for the first nine months of fiscal years 2019 and 2018, respectively.

Supplies and other operating expenses increased $30.4 million or 1.1% for the first nine months of fiscal year 2019 to $2,727.1 million compared to $2,696.7 million for the first nine months of fiscal year 2018, and represented approximately 36.7% and 37.9% of total operating revenue for the first nine months of fiscal years 2019 and 2018, respectively. Supplies and other operating expenses represented approximately 39.8% and 40.7% of total operating expenses for the first nine months of fiscal years 2019 and 2018, respectively.

Medical claims increased $124.7 million or 58.0% for the first nine months of fiscal year 2019 to $339.6 million compared to $214.9 million for the first nine months of fiscal year 2018. Medical claims increased when compared to the first nine months of fiscal year 2018 primarily due to the acquisition of FirstCare Health Plans in 2019.

Depreciation and amortization increased $13.5 million or 4.8% to $295.6 for the first nine months of fiscal year 2019 compared to $282.1 million for the first nine months of fiscal year 2018.

Interest expense increased $6.0 million or 6.6% to $96.5 million for the first nine months of fiscal year 2019 compared to $90.5 million for the first nine months of fiscal year 2018.

BSWH Operating Expenses
($ Thousands)

	Year Ended June 30,		Nine Months Ended March 31,	
	2017	**2018**	**2018**	**2019**
Salaries, wages, and employee benefits	$ 4,367,194	$ 4,444,457	$ 3,341,303	$ 3,396,694
Supplies	1,582,408	1,595,620	1,198,365	1,239,956
Other operating expenses	1,893,278	2,014,958	1,498,270	1,487,138
Medical claims	357,860	291,107	214,913	339,553
Losses (gains) on fixed asset sales and disposals, net	2,649	(5,073)	(4,006)	(312)
Impairment losses	87,943	52,466	-	-
Depreciation and amortization	385,528	379,168	282,075	295,559
Interest expense	115,743	121,633	90,512	96,543
Total operating expenses	$ 8,792,603	$ 8,894,336	$ 6,621,432	$ 6,855,131

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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	March 31, 2019 Total
Physician FTEs	1,144	-	958	2,102
Advanced practice provider FTEs	495	-	348	843
Joint venture FTEs[1]	-	-	6,007	6,007
Other employee FTEs	26,388	642	10,460	37,490
Total FTEs	**28,027**	**642**	**17,773**	**46,442**

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

Nonoperating Gains (Losses)

The System recorded unrestricted unrealized gains on investments of $0.8 million for the first nine months of fiscal year 2019 compared to unrestricted unrealized gains on investments of $68.7 million for the first nine months of fiscal year 2018. Unrestricted investment income and realized gains on investments were $91.9 million for the first nine months of fiscal year 2019 compared to unrestricted investment income and realized gains on investments of $111.3 million for the first nine months of fiscal year 2018, representing a decrease of $19.4 million or -17.4%. The System recorded unrealized losses in its interest rate swap portfolio of $31.7 million for the first nine months of fiscal year 2019 compared to unrealized gains of $45.7 million for the first nine months of fiscal year 2018 due to interest rate fluctuations since June 30, 2018.

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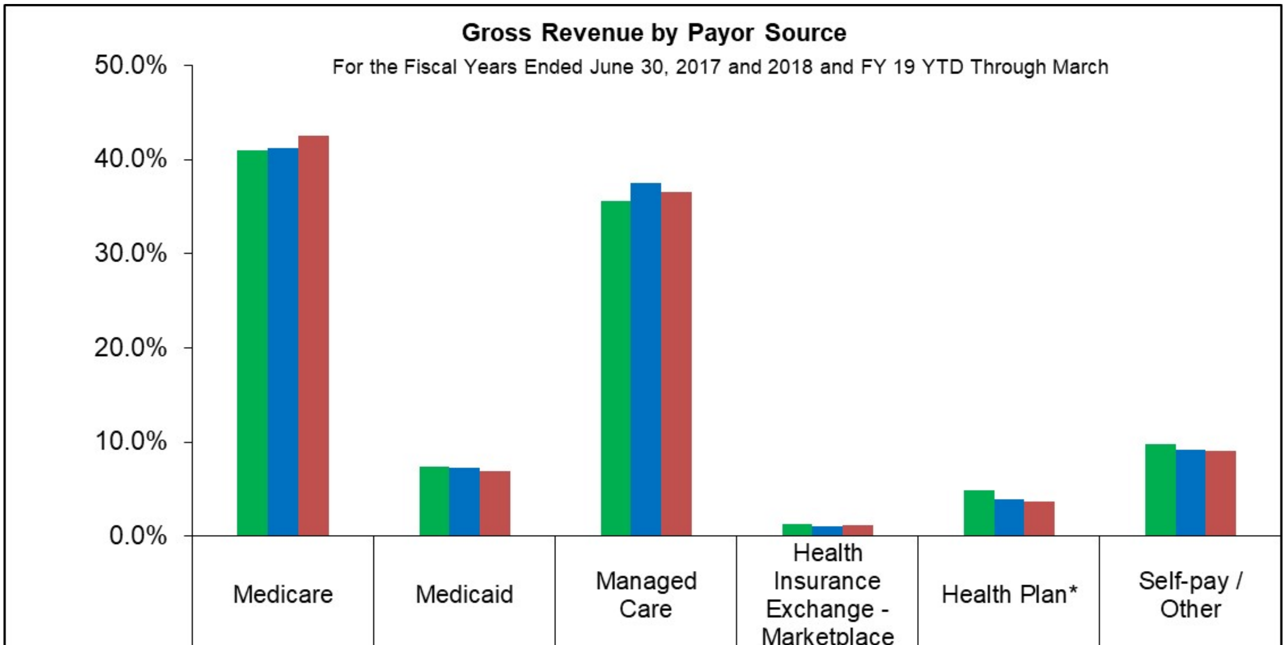
Utilization Statistics

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
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%
FY19 YTD	42.5%	6.9%	36.6%	1.2%	3.7%	9.1%

**Health Plan excludes SeniorCare, RightCare, and HIE products offered by SWHP which are in their natural classification.*
Payor mix is for BSWH excluding THVGB, EBD JV, and ESWCT, LLC.

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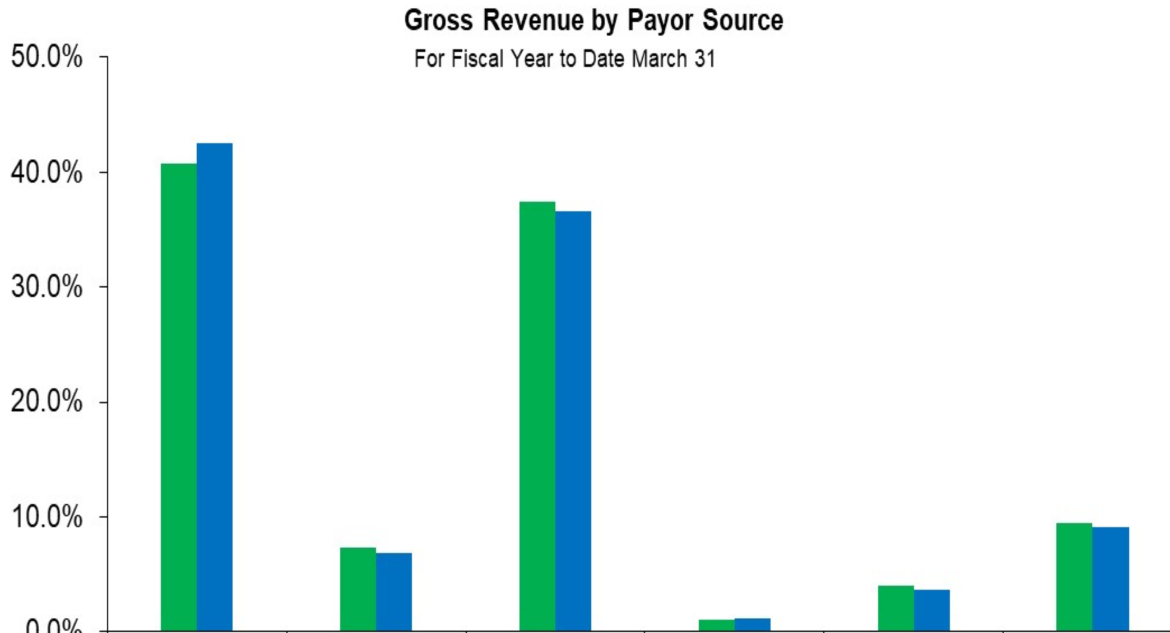

	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Health Plan*	Self-pay / Other
FYTD 18	40.8%	7.3%	37.4%	1.0%	4.0%	9.5%
FYTD 19	42.5%	6.9%	36.6%	1.2%	3.7%	9.1%

**Health Plan excludes SeniorCare, RightCare and HIE products offered by SWHP which are in their natural classification.*
Payor mix is for BSWH excluding THVGB, EBD JV, and ESWCT, LLC.

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Operating Data - BSWH Total

	Year Ended June 30, 2017	Year Ended June 30, 2018	Nine Months Ended March 31, 2018	Nine Months Ended March 31, 2019
Licensed Beds	5,371	5,125	5,091	5,181
Inpatient Admissions (1)	235,112	233,237	178,626	166,327
Patient Days	1,127,959	1,111,454	835,303	786,571
Occupancy*	66.9%	60.8%	61.1%	63.9%
Average Length of Stay (Days)	4.8	4.8	4.7	4.7
Average Daily Census	3,090	3,045	3,049	2,871
Discharges	235,103	233,737	179,203	166,401
Emergency Room Visits	857,198	863,024	664,291	618,205
Inpatient Surgical Cases	65,310	64,895	49,047	46,449
Outpatient Surgical Cases	191,865	200,561	149,217	159,451
Outpatient Registrations	3,851,015	3,980,821	2,986,069	3,199,043
Clinic Visits (IP & OP)	3,072,119	3,255,645	2,427,557	2,585,585
Patient Encounters	3,603,664	3,761,762	2,812,258	2,952,615
Relative Value Units (2)	15,563,238	16,391,475	12,189,723	12,735,122
Deliveries	31,781	31,253	24,110	22,533
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	59.4%	61.6%	61.0%	63.1%

(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 quarter statistics may be updated accordingly for comparative purposes.

* The occupancy % for the prior periods has been restated for a previous error in affiliate staffed beds at BT East Dallas JV, a non-obligated affiliate.

Operating Data - Obligated Affiliates Subtotal

	Year Ended June 30, 2017	Year Ended June 30, 2018	Nine Months Ended March 31, 2018	Nine Months Ended March 31, 2019
Licensed Beds	3,413	3,436	3,436	3,436
Inpatient Admissions (1)	156,579	160,158	120,961	119,231
Patient Days	786,564	776,928	588,659	578,913
Occupancy	73.1%	70.1%	71.1%	69.5%
Average Length of Stay (Days)	5.0	4.9	4.9	4.9
Average Daily Census	2,155	2,129	2,149	2,113
Discharges	156,669	160,125	121,005	119,059
Emergency Room Visits	452,124	471,193	354,053	360,958
Inpatient Surgical Cases	39,732	39,381	29,274	29,235
Outpatient Surgical Cases	63,913	66,197	49,388	49,682
Outpatient Registrations	2,837,938	2,935,096	2,195,431	2,364,509
Clinic Visits (IP & OP)	2,755,984	2,938,292	2,187,846	2,339,052
Relative Value Units (2)	6,857,230	7,327,645	5,420,667	5,766,866
Deliveries	22,419	22,553	17,277	17,024
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	53.8%	55.3%	54.9%	55.6%

(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 quarter statistics may be updated accordingly for comparative purposes.

Operating Data - Non-Obligated Affiliates Subtotal

	Year Ended June 30,		Nine Months Ended March 31,	
	2017	2018	2018	2019
Licensed Beds	1,958	1,689	1,655	1,745
Inpatient Admissions (1)	78,533	73,079	57,665	47,096
Patient Days	341,395	334,526	246,644	207,658
Occupancy*	56.0%	46.5%	46.2%	52.3%
Average Length of Stay (Days)	4.4	4.5	4.2	4.4
Average Daily Census	935	916	900	758
Discharges	78,434	73,612	58,198	47,342
Emergency Room Visits	405,074	391,831	310,238	257,247
Inpatient Surgical Cases	25,578	25,514	19,773	17,214
Outpatient Surgical Cases	127,952	134,364	99,829	109,769
Outpatient Registrations	1,013,077	1,045,725	790,638	834,534
Clinic Visits (IP & OP)	316,135	317,353	239,711	246,533
Patient Encounters	3,603,664	3,761,762	2,812,258	2,952,615
Relative Value Units (2)	8,706,008	9,063,830	6,769,056	6,968,256
Deliveries	9,362	8,700	6,833	5,509
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	66.7%	70.1%	69.1%	73.7%

(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 quarter statistics may be updated accordingly for comparative purposes.

* The occupancy % for the prior periods has been restated for a previous error in affiliate staffed beds at BT East Dallas JV, a non-obligated affiliate.

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Quarterly Disclosure Report for March 31, 2019

BSWH Adult and Pediatric Licensed Beds - March 31, 2019

	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 - Waxahachie	129
Baylor Scott & White Medical Center - College Station	119
Baylor Scott & White Medical Center - Lakeway (2)	106
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)	309
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	144
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 - Pflugerville	25
Baylor Scott & White Medical Center - Taylor	25
The Heart Hospital Baylor Denton	22
ESWCT, LLC (1 emergency medical center)	8
Non-Obligated Alliliates Subtotal	**1,745**
Total	**5,181**

(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, April 3, 2019

Liquidity

Unrestricted cash and investments of $5.2 billion at March 31, 2019 decreased $206.6 million as compared to unrestricted cash and investments of $5.0 billion at June 30, 2018 after capital expenditures of $413.9 million and net gains on trading investments of $92.7 million. Unrestricted days cash on hand increased to 215.9 days at March 31, 2019 from 212.7 days at June 30, 2018. Including restricted funds, days cash on hand totaled 249.9 days at March 31, 2019 compared to 247.4 days at June 30, 2018. The debt to capitalization ratio decreased to 36.2% at March 31, 2019 from 38.0% at June 30, 2018 and total assets increased 3.5% to $12.6 billion at March 31, 2019 from $12.1 billion at June 30, 2018.

BSWH Cash and Investments
($ Thousands)

	June 30,		March 31,	
	2017	2018	2018	2019
Cash and cash equivalents [1]	$ 1,189,606	$ 1,263,591	$ 1,341,273	$ 889,446
Short-term investments [2]	192,269	179,540	83,819	303,508
Long-term investments [3]	3,886,786	4,327,713	4,261,049	4,790,613
Total cash and investments	5,268,661	5,770,844	5,686,141	5,983,567
Less: restricted cash and investments [4]	795,601	808,631	806,525	814,788
Total unrestricted cash and investments	$ 4,473,060	$ 4,962,213	$ 4,879,616	$ 5,168,779
Average daily operating expenses (less depreciation)	$ 23,033	$ 23,329	$ 23,136	$ 23,940
Unrestricted days cash on hand [5]	194.2	212.7	210.9	215.9
Days cash on hand [6]	228.7	247.4	245.8	249.9

(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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Quarterly Disclosure Report for March 31, 2019

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

		March 31, 2019
Daily Liquidity		
Money Market Funds - Aaa-rated	$	25,900
Checking and deposit accounts at P-1 rated bank		457,851
Short-term investment funds at P-1 rated bank		11,151
Subtotal Daily Liquidity (Cash & Securities)		494,902
$400 Million General Purpose LOC (undrawn amount) [1]		320,600
Subtotal Daily Liquidity	**$**	**815,502**
Weekly Liquidity		
Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3		638,204
Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3		830,158
Equities: Exchange Traded Equity (ownership of shares of stock)		190,705
Equities: Equity Funds		684,906
Subtotal Weekly Liquidity		2,343,973
Total Daily and Weekly Liquidity	**$**	**3,159,475**
Longer Term Liquidity		
Funds, vehicles, investments that allow withdrawals with one month notice or longer	$	1,075,945

[1] Baylor Scott & White Holdings $400MM line of credit expires January 14, 2020.

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,		March 31,	
	2017	**2018**	**2018**	**2019**
Unrestricted	$ 147,835	$ 158,745	$ 146,303	$ 150,340
Temporarily restricted	269,586	291,725	289,703	291,679
Permanently restricted	260,812	273,983	271,788	279,439
Total	**$ 678,233**	**$ 724,453**	**$ 707,794**	**$ 721,458**

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

	June 30,		March 31,	
ASSETS	**2017**	**2018**	**2018**	**2019**
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,189,606	$ 1,263,591	$ 1,341,273	$ 889,446
Short-term investments	192,269	179,540	83,819	303,508
THVG funds due from United Surgical Partners, Inc.	85,888	117,752	90,076	97,288
Accounts receivable:				
Patient, net	816,598	804,751	820,769	864,757
Premiums	116,182	92,556	80,563	103,446
Other	185,862	187,159	97,163	164,543
Other current assets	254,466	347,551	383,719	345,189
Total current assets	2,840,871	2,992,900	2,897,382	2,768,177
LONG-TERM INVESTMENTS:				
Unrestricted	3,091,185	3,519,082	3,454,524	3,975,825
Restricted	471,075	505,634	505,482	509,050
Total long-term investments	3,562,260	4,024,716	3,960,006	4,484,875
ASSETS WHOSE USE IS LIMITED:				
Other designated assets	165,128	162,361	133,605	156,877
Self insurance reserves	98,272	110,783	116,282	130,552
Funds held by bond trustee	61,126	29,853	51,156	18,309
Total assets whose use is limited	324,526	302,997	301,043	305,738
ASSETS HELD FOR SALE	16,354	-	-	-
PROPERTY AND EQUIPMENT, net	3,525,384	3,683,590	3,672,748	3,832,480
CONTRIBUTIONS RECEIVABLE, net	61,014	185,946	174,948	167,240
INTEREST IN NET ASSETS OF RELATED FOUNDATION	4,048	4,217	4,220	4,073
OTHER LONG-TERM ASSETS:				
Equity investment in unconsolidated entities	57,548	61,748	63,992	61,971
Goodwill and intangible assets, net	734,291	864,239	860,411	923,702
Other	20,310	17,708	16,779	15,652
Total other long-term assets	812,149	943,695	941,182	1,001,325
Total assets	$ 11,146,606	$ 12,138,061	$ 11,951,529	$ 12,563,908

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

	June 30,		March 31,	
LIABILITIES AND NET ASSETS	**2017**	**2018**	**2018**	**2019**
CURRENT LIABILITIES:				
Current maturities of long-term debt and capital lease obligations	$ 126,644	$ 131,040	$ 48,567	$ 141,135
Long-term debt subject to short-term remarketing arrangements	95,000	95,000	95,000	95,000
Commercial paper	-	187,868	187,704	207,537
Trade accounts payable	303,893	338,506	268,461	255,223
Accrued liabilities:				
Payroll related	373,398	410,212	390,601	426,887
Third-party programs	87,195	113,845	101,008	80,265
Medical claims payable	37,354	28,878	28,337	85,666
Other	398,896	492,065	456,709	524,995
Total current liabilities	1,422,380	1,797,414	1,576,387	1,816,708
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	3,171,837	3,087,064	3,150,747	3,032,749
OTHER LONG-TERM LIABILITIES:				
Self insurance and other insurance liabilities	99,208	107,627	115,269	129,534
Interest rate swap liabilities, net	265,129	220,123	227,865	246,297
Other	305,964	307,391	327,845	327,262
Total other long-term liabilities	670,301	635,141	670,979	703,093
Total liabilities	5,264,518	5,519,619	5,398,113	5,552,550
COMMITMENTS AND CONTINGENCIES				
NONCONTROLLING INTERESTS - REDEEMABLE	443,128	424,704	411,598	449,086
NET ASSETS:				
Unrestricted - attributable to BSWH	4,695,399	5,212,273	5,156,465	5,590,603
Unrestricted - noncontrolling interests - nonredeemable	202,603	281,773	290,473	286,430
Total unrestricted net assets	4,898,002	5,494,046	5,446,938	5,877,033
Temporarily restricted	276,585	422,107	419,499	402,264
Permanently restricted	264,373	277,585	275,381	282,975
Total net assets	5,438,960	6,193,738	6,141,818	6,562,272
Total liabilities and net assets	$ 11,146,606	$ 12,138,061	$ 11,951,529	$ 12,563,908

Quarterly Disclosure Report for March 31, 2019

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

	Year Ended June 30,		Nine Months Ended March 31,	
	2017	**2018**	**2018**	**2019**
OPERATING REVENUE:				
Net patient care revenue	$ 8,664,811	$ 8,902,330	$ 6,657,330	$ 6,330,412
Less patient related bad debt expense*	927,168	744,220	536,855	-
Net patient care revenue, net of patient related bad debt expense	7,737,643	8,158,110	6,120,475	6,330,412
Premium revenue	903,261	827,199	612,606	776,789
Other operating revenue	378,332	424,107	331,294	281,076
Net assets released from restrictions for operations	65,240	67,208	50,606	51,143
Total operating revenue	9,084,476	9,476,624	7,114,981	7,439,420
OPERATING EXPENSES:				
Salaries, wages, and employee benefits	4,367,194	4,444,457	3,341,303	3,396,694
Supplies	1,582,408	1,595,620	1,198,365	1,239,956
Other operating expenses	1,893,278	2,014,958	1,498,270	1,487,138
Medical claims	357,860	291,107	214,913	339,553
Losses (gains) on fixed asset sales and disposals, net	2,649	(5,073)	(4,006)	(312)
Impairment losses	87,943	52,466	-	-
Depreciation and amortization	385,528	379,168	282,075	295,559
Interest	115,743	121,633	90,512	96,543
Total operating expenses	8,792,603	8,894,336	6,621,432	6,855,131
INCOME FROM OPERATIONS	291,873	582,288	493,549	584,289
NONOPERATING GAINS (LOSSES):				
Gains on investments, net	271,331	216,490	182,613	92,695
Interest rate swap activity	82,624	31,033	28,406	(45,333)
Contributions	779	30	101	1
Equity in (losses) gains of unconsolidated entities	(9,515)	36,919	36,976	588
Loss from extinguishment of debt	-	(721)	(721)	(200)
Other	378	331	314	195
Total nonoperating gains	345,597	284,082	247,689	47,946
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	637,470	866,370	741,238	632,235
LESS INCOME TAX EXPENSE	7,015	25,311	13,337	13,103
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	630,455	841,059	727,901	619,132

*As of FY2019, BSWH adopted the provisions of ASU 2014-09.

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

	Year Ended June 30,		Nine Months Ended March 31,	
	2017	**2018**	**2018**	**2019**
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Unrealized (losses) gains on investments, net	$ (1,786)	$ (2,688)	$ (2,568)	$ 25
Net assets released from restrictions for capital expenditures	25,584	12,471	6,701	28,084
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(65,871)	(6,781)	15,746	(61,936)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(206,727)	(255,035)	(189,327)	(206,537)
Net assets acquired	185	-	-	6,955
Other	9,306	7,018	(9,517)	(2,736)
INCREASE IN UNRESTRICTED NET ASSETS	391,146	596,044	548,936	382,987
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	69,369	193,302	170,926	48,779
Realized gains and investment income, net	17,369	23,555	18,796	18,755
Unrealized gains (losses) on investments, net	18,562	10,042	11,044	(8,455)
Change in value of split-interest agreements	386	(546)	253	148
Net assets released from restrictions for operations	(65,240)	(67,208)	(50,606)	(51,143)
Net assets released from restrictions for capital expenditures	(25,584)	(12,471)	(6,701)	(28,084)
Changes in net assets of related foundation	281	138	170	(157)
Other	121	(1,290)	(968)	314
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	15,264	145,522	142,914	(19,843)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	918	12,134	11,556	5,059
Realized gains and investment income, net	175	2,333	629	953
Unrealized gains (losses) on investments, net	370	(122)	(103)	(245)
Change in value of split-interest agreements	918	(1,763)	(1,639)	(218)
Changes in net assets of related foundation	27	31	2	13
Other	111	599	563	(172)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	2,519	13,212	11,008	5,390
INCREASE IN NET ASSETS	408,929	754,778	702,858	368,534
NET ASSETS, beginning of period	5,030,031	5,438,960	5,438,960	6,193,738
NET ASSETS, end of period	$ 5,438,960	$ 6,193,738	$ 6,141,818	$ 6,562,272

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

	June 30, 2017	June 30, 2018	March 31, 2018	March 31, 2019
Cash Flows From Operating Activities:				
Increase in net assets	$ 408,929	$ 754,778	$ 702,858	$ 368,534
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Loss from extinguishment of debt	-	721	721	200
Unrealized (gains) losses on investments, net	(155,813)	(77,537)	(79,688)	7,883
Realized gains on investments, net	(105,222)	(107,034)	(85,253)	(53,094)
Unrealized (gains) losses on interest rate swap, net	(111,307)	(53,466)	(45,654)	31,674
Contributions restricted for long-term purposes	(918)	(12,134)	(11,556)	(5,059)
Patient related bad debt expense	927,168	744,220	536,855	-
Depreciation and amortization	385,528	379,168	282,075	295,559
Impairment losses	87,943	52,466	-	-
Losses (gains) on fixed asset sales and disposals, net	2,649	(5,073)	(4,006)	(312)
Equity in losses (earnings) of unconsolidated entities	9,515	(36,919)	(36,976)	(588)
Change in value of split-interest agreements	(1,304)	2,309	1,386	70
Deferred rent	3,444	(3,528)	(1,659)	(774)
Other changes attributable to noncontrolling interests	272,598	271,358	182,963	268,473
Net assets acquired	(185)	-	-	(6,955)
Changes in operating assets and liabilities (net of acquisitions):				
Increase in net patient accounts receivable	(956,746)	(735,554)	(526,229)	(60,006)
(Increase) decrease in other accounts receivable	(43,212)	26,176	124,332	49,457
(Increase) decrease in other assets	(35,497)	(185,372)	(220,500)	13,709
Increase (decrease) in trade accounts payable and accrued liabilities	8,786	154,349	35,167	(95,150)
Increase in other long-term liabilities	53,833	35,776	58,759	58,152
Net cash provided by operating activities	750,189	1,204,704	913,595	871,773
Cash Flows From Investing Activities:				
Purchases of property and equipment, net	(406,207)	(485,271)	(370,704)	(413,884)
Cash proceeds from sales of assets	3,088	34,332	18,143	2,527
Cash paid for acquisitions, net of cash received	(83,875)	(48,949)	(42,317)	(53,051)
(Increase) decrease in THVG funds due from United Surgical Partners, Inc.	(15,624)	(31,864)	(4,188)	20,464
Increase in trading investments	(226,306)	(272,696)	(112,750)	(496,084)
Net payments on interest rate swaps	(6,352)	(13,869)	(10,459)	(21,024)
Decrease (increase) in other than trading investments	7,279	(1,528)	(14,609)	(11,384)
(Increase) decrease in assets whose use is limited	(48,556)	21,529	23,483	(1,646)
Net cash used in investing activities	(776,553)	(798,316)	(513,401)	(974,082)
Cash Flows From Financing Activities:				
Principal payments on long-term debt	(75,424)	(515,732)	(436,002)	(165,441)
Proceeds from issuance of long-term debt	75,443	553,178	481,913	138,840
Distributions to noncontrolling interests	(320,346)	(442,558)	(346,000)	(241,368)
Purchases of noncontrolling interests	(18,565)	(34,727)	(16,715)	(13,074)
Sales of noncontrolling interests	25,956	96,165	56,884	7,241
Cash receipts restricted for long-term purposes	2,045	12,110	12,029	2,596
Annuity payments to beneficiaries	(888)	(839)	(636)	(630)
Net cash used in financing activities	(311,779)	(332,403)	(248,527)	(271,836)
Net (Decrease) Increase in Cash and Cash Equivalents	(338,143)	73,985	151,667	(374,145)
Cash and Cash Equivalents, beginning of period	1,527,749	1,189,606	1,189,606	1,263,591
Cash and Cash Equivalents, end of period	$ 1,189,606	$ 1,263,591	$ 1,341,273	$ 889,446

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-three 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 2017 - 2019:

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 $915,917,000 and $805,815,000 in the first nine months of fiscal years 2019 and 2018, respectively.

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.

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 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.

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.

Debt Restructuring

In November 2018, BSWH issued an additional $20,000,000 of commercial paper under its $400,000,000 commercial paper program. The proceeds were used to redeem the remaining $19,700,000 of Baylor Health Care System Taxable Notes, Series 2000, with a loss on extinguishment of debt of $200,000.

In December 2018, BSWH extended the $400,000,000 revolving line of credit, which was scheduled to expire in January 2019, to January 2020.

FirstCare Health Plans

On January 1, 2019, the Health Plan acquired SHA, L.L.C. d/b/a FirstCare Health Plans and its subsidiary, Southwest Life & Health Insurance Company, from Covenant Health System in Lubbock, Texas and Hendrick Health System in Abilene, Texas.

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.

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. The System adopted the guidance under these ASU's in fiscal year 2019 using a modified retrospective method of transition. While the adoption had an effect on the presentation of net patient care revenue, it did not have a material impact on the combined financial statements.

Other Accounting Pronouncements

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, January 2018, July 2018, July 2018, December 2018, and March 2019, FASB issued ASU 2016-02, "*Leases*"; ASU 2018-01, "*Land Easement Practical Expedient*"; ASU 2018-10, *"Codification Improvements to Topic 842, Leases";* ASU 2018-11, *"Leases (Topic 842): Targeted Improvements."*; ASU 2018-20, "*Leases (Topic 842): Narrow-Scope Improvements for Lessors"*, and ASU 2019-01, "*Leases (Topic 842): Codification Improvements"*, respectively. 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 and November 2018, FASB issued ASU 2016-13, *"Financial Instruments-Credit Losses (Topic 326)"*, and, ASU 2018-19, *"Codification Improvements to Topic 326, Financial Instruments - Credit Losses"*, respectively. These ASU's require 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. These ASU's are effective for fiscal years beginning after December 15, 2020 and interim periods thereafter. The System is currently evaluating the impact of these ASU's.

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 $97,288,000 and $117,752,000, at March 31, 2019 and June 30, 2018, 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.

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

	Nine months ended March 31, 2019			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 47,220	$ 44,683	$ 792	$ 92,695
Other changes in unrestricted net assets	-	-	25	25
Changes in temporarily restricted net assets	11,297	7,458	(8,455)	10,300
Changes in permanently restricted net assets	-	953	(245)	708
	$ 58,517	**$ 53,094**	**$ (7,883)**	**$ 103,728**

	Nine months ended March 31, 2018			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 38,484	$ 72,814	$ 71,315	$ 182,613
Other changes in unrestricted net assets	-	-	(2,568)	(2,568)
Changes in temporarily restricted net assets	6,986	11,810	11,044	29,840
Changes in permanently restricted net assets	-	629	(103)	526
	$ 45,470	**$ 85,253**	**$ 79,688**	**$ 210,411**

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	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**

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.

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Notes to Combined Financial Statements - continued

The following table below sets forth, by level, the financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 (in thousands):

	March 31, 2019			
Assets:	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents				
Cash	$ 854,595	$ 854,595	$ -	$ -
Money market funds	34,851	34,851	-	-
Total cash and cash equivalents	889,446	889,446	-	-
Short-term investments				
Cash	77	77	-	-
Mutual funds	284,256	284,256	-	-
Fixed income securities	3,261	-	3,261	-
U.S. government securities	13,916	-	13,916	-
Other	1,998	1,947	51	-
Total short-term investments	303,508	286,280	17,228	-
Unrestricted long-term investments				
Cash	1,319	1,319	-	-
Certificates of deposit	500	500	-	-
Mutual funds	512,004	512,004	-	-
Equity securities	1,154,844	272,719	882,125	-
Fixed income securities	685,796	-	685,796	-
U.S. government securities	544,858	-	544,858	-
Mortgage-backed securities	95,943	-	95,943	-
Split-interest agreements	1,236	-	1,236	-
Cash surrender value life insurance	663	-	-	663
Other	40	3	-	37
Common funds, held at HA				
Group investment fund	613	-	613	-
Group bond fund	33	-	33	-
Group equity fund	70	-	70	-
Other funds	20	19	-	1
Assets held at NAV practical expedient (1)				
Fixed income securities	2,146			
Hedge fund/diversifiers alternative investments	489,814			
Private equity alternative investments	239,175			
Real estate alternative investments	117,801			
Other funds	3			
Total unrestricted long-term investments	3,846,878	786,564	2,210,674	701

(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 March 31, 2019 includes an investment of approximately $128,947,000 accounted for under the cost method.

Notes to Combined Financial Statements - continued

	March 31, 2019			
Assets (continued):	**Total**	**Level 1**	**Level 2**	**Level 3**
Restricted long-term investments				
Cash	$ 3,791	$ 3,791	$ -	$ -
Mutual funds	85,024	85,024	-	-
Equity securities	172,444	41,238	131,206	-
Fixed income securities	37,467	-	37,467	-
U.S. government securities	27,402	-	27,402	-
Mortgage-backed securities	6,658	-	6,658	-
Split-interest agreements	4,812	-	4,812	-
Real estate	258	-	-	258
Cash surrender value life insurance	1,143	-	-	1,143
Other	1	1	-	-
Common funds, held at HA				
Group investment fund	47,722	-	47,722	-
Group bond fund	2,584	-	2,584	-
Group equity fund	5,445	-	5,445	-
Other funds	1,511	1,460	-	51
Assets held at NAV practical expedient (1)				
Fixed income securities	86			
Hedge fund/diversifiers alternative investments	59,043			
Private equity alternative investments	43,324			
Real estate alternative investments	10,069			
Other funds	266			
Total restricted long-term investments	509,050	131,514	263,296	1,452
Assets Whose Use is Limited				
Cash	29,719	29,719	-	-
Money market funds	6,010	6,010	-	-
Mutual funds	208,929	208,929	-	-
Equity securities	1,662	1,662	-	-
Fixed income securities	17,661	-	17,661	-
U.S. government securities	41,591	-	41,591	-
Other	166	166	-	-
Total assets whose use is limited	305,738	246,486	59,252	-
Contributions receivable, net				
Beneficial interest in split-interest agreements	26,911	-	-	26,911
Total assets at fair value	$ 5,881,531	$ 2,340,290	$ 2,550,450	$ 29,064
Liabilities:				
Interest rate swap agreements, net of collateral	$ 246,297	$ -	$ 246,297	$ -
Total liabilities at fair value	$ 246,297	$ -	$ 246,297	$ -

(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 nine months ended March 31, 2019 (in thousands):

	March 31, 2019			
	Split-Interest Agreements	Common Investment Funds	Other	Total
Balance, beginning of period	$ 24,584	$ 55	$ 2,182	$ 26,821
Realized gains (losses), net	183	-	(77)	106
Unrealized (losses) gains, net	(156)	(3)	1	(158)
Purchases	2,520	-	-	2,520
Settlements	(220)	-	(5)	(225)
Balance, end of period	$ 26,911	$ 52	$ 2,101	$ 29,064

At March 31, 2019, alternative investments recorded at NAV consisted of the following (in thousands):

	March 31, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Equity-linked investments [a]	$ 49,620	$ -	quarterly, annually	60-90 days
Event-driven investments [b]	84,859	-	quarterly, annually	30-90 days
Credit-linked investments [c]	83,985	-		
Multi-strategy investments [d]	1,271	-	monthly, quarterly	30-90 days
Tactical trading investments [e]	109,811	-	daily, monthly	2-90 days
Risk parity and global asset allocation fund [f]	219,311	-	monthly	5-30 days
Real estate funds - open ended [g]	56,258	-	quarterly	90 days
Real estate funds - closed ended [h]	71,612	31,334		
Oil and gas funds [i]	269	-		
Private equity funds [j]	211,963	179,140		
Private debt funds [k]	70,536	30,658		
Total	$ 961,727	$ 241,132		

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 ($0.35 per unit per quarter in 2019 and $.50 per unit per quarter in 2018). 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

The System has performed an evaluation of material subsequent events and transactions from March 31, 2019 through May 15, 2019.

Quarterly Disclosure Report for March 31, 2019

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets
March 31, 2019
($ Thousands)

ASSETS	Obigated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total Financials
CURRENT ASSETS:					
Cash and cash equivalents	$ 434,322	$ 129,536	$ 324,737	$ 851	$ 889,446
Short-term investments	158,449	79,724	65,335	-	303,508
THVG funds due from United Surgical Partners, Inc.	-	-	97,288	-	97,288
Accounts receivable:					
Patient, net	528,775	-	385,745	(49,763)	864,757
Premiums	-	103,446	-	-	103,446
Affiliates, net	50,824	-	-	(50,824)	-
Other	35,558	40,552	97,238	(8,805)	164,543
Other current assets	228,635	13,537	103,017	-	345,189
Total current assets	1,436,563	366,795	1,073,360	(108,541)	2,768,177
LONG-TERM INVESTMENTS:					
Unrestricted	3,326,949	146,172	503,555	(851)	3,975,825
Restricted	2,418	-	506,632	-	509,050
Total long-term investments	3,329,367	146,172	1,010,187	(851)	4,484,875
ASSETS WHOSE USE IS LIMITED:					
Other designated assets	139,133	2,200	15,544	-	156,877
Self insurance reserves	-	-	130,552	-	130,552
Funds held by bond trustee	18,309	-	-	-	18,309
Total assets whose use is limited	157,442	2,200	146,096	-	305,738
PROPERTY AND EQUIPMENT, net	2,700,994	21,775	1,326,288	(216,577)	3,832,480
CONTRIBUTIONS RECEIVABLE, net	2,043	-	165,252	(55)	167,240
DUE FROM AFFILIATES	316,592	-	1,357	(317,949)	-
INTEREST IN NET ASSETS OF RELATED FOUNDATIONS	527,830	-	107,301	(631,058)	4,073
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES	1,995,755	-	-	(1,995,755)	-
OTHER LONG-TERM ASSETS:					
Equity investment in unconsolidated entities	39,674	253	22,044	-	61,971
Goodwill and intangible assets, net	89,548	41,281	795,277	(2,404)	923,702
Other	9,430	1,874	11,340	(6,992)	15,652
Total other long-term assets	138,652	43,408	828,661	(9,396)	1,001,325
Total assets	$ 10,605,238	$ 580,350	$ 4,658,502	$ (3,280,182)	$ 12,563,908

*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, Insurance Company of Scott and White, Scott and White Care Plans, and FirstCare Health Plans.

Quarterly Disclosure Report for March 31, 2019

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets - continued
March 31, 2019
($ 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	$ 99,366	$ -	$ 41,769	$ -	$ 141,135
Long-term debt subject to short-term remarketing arrangements	95,000	-	-	-	95,000
Commercial paper	207,537	-	-	-	207,537
Accounts payable:					
Trade accounts payable	135,034	9,039	125,506	(14,356)	255,223
Affiliates, net	-	37,141	17,749	(54,890)	-
Accrued liabilities:					
Payroll related	350,830	347	75,710	-	426,887
Third-party programs	16,849	14,098	13,520	35,798	80,265
Medical claims payable	-	171,227	-	(85,561)	85,666
Other	297,326	83,826	162,026	(18,183)	524,995
Total current liabilities	1,201,942	315,678	436,280	(137,192)	1,816,708
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	2,585,858	-	446,891	-	3,032,749
OTHER LONG-TERM LIABILITIES:					
Self insurance and other insurance liabilities	(1,018)	-	130,552	-	129,534
Interest rate swap liabilities, net	246,297	-	-	-	246,297
Other	192,272	30,465	110,195	(5,670)	327,262
Total other long-term liabilities	437,551	30,465	240,747	(5,670)	703,093
DUE TO AFFILIATES	-	-	452,067	(452,067)	-
Total liabilities	4,225,351	346,143	1,575,985	(594,929)	5,552,550
COMMITMENTS AND CONTINGENCIES					
NONCONTROLLING INTERESTS - REDEEMABLE	-	-	316,481	132,605	449,086
NET ASSETS:					
Unrestricted - attributable to BSWH	5,839,934	234,207	1,922,728	(2,406,266)	5,590,603
Unrestricted - noncontrolling interests - nonredeemable	24,651	-	54,132	207,647	286,430
Total unrestricted net assets	5,864,585	234,207	1,976,860	(2,198,619)	5,877,033
Temporarily restricted	308,187	-	462,002	(367,925)	402,264
Permanently restricted	207,115	-	327,174	(251,314)	282,975
Total net assets	6,379,887	234,207	2,766,036	(2,817,858)	6,562,272
Total liabilities and net assets	$ 10,605,238	$ 580,350	$ 4,658,502	$ (3,280,182)	$ 12,563,908

*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, Insurance Company of Scott and White, Scott and White Care Plans, and FirstCare Health Plans.

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 Nine Months Ended March 31, 2019
($ Thousands)

	Obligated Affiliates *	Consolidated Health Plan[†]	Other System Entities	Reclassifications and Eliminations	Total Financials
OPERATING REVENUE:					
Net patient care revenue	$ 3,701,416	$ -	$ 2,949,562	$ (320,566)	$ 6,330,412
Premium revenue	-	777,131	-	(342)	776,789
Other operating revenue	356,686	13,813	453,968	(543,391)	281,076
Net assets released from restrictions for operations	8,564	-	51,071	(8,492)	51,143
Total operating revenue	4,066,666	790,944	3,454,601	(872,791)	7,439,420
OPERATING EXPENSES:					
Salaries, wages, and employee benefits	2,036,641	40,080	1,355,881	(35,908)	3,396,694
Supplies	608,791	105	631,060	-	1,239,956
Other operating expenses	936,846	68,320	1,002,761	(520,789)	1,487,138
Medical claims	-	667,790	-	(328,237)	339,553
(Gains) losses on fixed asset sales and disposals, net	(1,072)	-	760	-	(312)
Depreciation and amortization	196,235	1,310	103,837	(5,823)	295,559
Interest	75,222	1,854	33,298	(13,831)	96,543
Total operating expenses	3,852,663	779,459	3,127,597	(904,588)	6,855,131
INCOME FROM OPERATIONS	214,003	11,485	327,004	31,797	584,289
NONOPERATING GAINS (LOSSES):					
Gains (losses) on investments, net	77,028	6,852	17,081	(8,266)	92,695
Interest rate swap activity	(45,333)	-	-	-	(45,333)
Contributions	19,445	-	441	(19,885)	1
Equity in gains (losses) of unconsolidated entities	668	-	(80)	-	588
Loss from extinguishment of debt	(200)	-	-	-	(200)
Other	146,116	-	9,803	(155,724)	195
Total nonoperating gains (losses)	197,724	6,852	27,245	(183,875)	47,946
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE TAXES	411,727	18,337	354,249	(152,078)	632,235
LESS INCOME TAX EXPENSE	627	27	12,449	-	13,103
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	411,100	18,310	341,800	(152,078)	619,132

*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, Insurance Company of Scott and White, Scott and White Care Plans, and FirstCare Health Plans.

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 Nine Months Ended March 31, 2019
($ Thousands)

	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total Financials
OTHER CHANGES IN UNRESTRICTED NET ASSETS:					
Unrealized gains on investments, net	$ -	$ -	$ 25	$ -	$ 25
Net assets released from restrictions for capital expenditures	115	-	27,977	(8)	28,084
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(935)	-	(233,899)	172,898	(61,936)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	-	-	(151,657)	(54,880)	(206,537)
Transfers between entities under common control	(12,996)	89,998	26,574	(103,576)	-
Net assets acquired	-	-	6,955	-	6,955
Other	1	-	(608)	(2,129)	(2,736)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	397,285	108,308	17,167	(139,773)	382,987
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	4,364	-	52,916	(8,501)	48,779
Realized investment income	-	-	18,755	-	18,755
Unrealized losses on investments	-	-	(8,455)	-	(8,455)
Change in value of split-interest agreements	(6)	-	154	-	148
Net assets released from restrictions for operations	(8,564)	-	(51,071)	8,492	(51,143)
Net assets released from restrictions for capital expenditures	(115)	-	(27,977)	8	(28,084)
Changes in net assets of related foundations	(22,235)	-	511	21,567	(157)
Other	21	-	293	-	314
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(26,535)	-	(14,874)	21,566	(19,843)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	-	-	5,059	-	5,059
Realized investment income	-	-	953	-	953
Unrealized losses on investments	-	-	(245)	-	(245)
Change in value of split-interest agreements	(53)	-	(167)	2	(218)
Changes in net assets of related foundations	(3,523)	-	74	3,462	13
Other	-	-	(172)	-	(172)
(DECREASE) INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	(3,576)	-	5,502	3,464	5,390
INCREASE (DECREASE) IN NET ASSETS	367,174	108,308	7,795	(114,743)	368,534
NET ASSETS, beginning of period	6,012,713	125,899	2,758,241	(2,703,115)	6,193,738
NET ASSETS, end of period	$ 6,379,887	$ 234,207	$ 2,766,036	$ (2,817,858)	$ 6,562,272

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Baylor Scott & White Health
Obligated Affiliates - Combined Statement of Cash Flows
For the Nine Months Ended March 31, 2019
($ Thousands)

Cash Flows from Operating Activities:	
Increase in net assets	$ 367,174
Adjustments to reconcile increase in net assets	
to net cash provided by operating activities:	
Loss on extinguishment of debt	200
Unrealized losses on investments, net	(847)
Realized gains on sales of investments, net	(34,613)
Losses on interest rate swap, net	31,674
Depreciation and amortization	196,235
Gains on fixed asset sales and disposals, net	(1,072)
Change in value of split-interest agreements	59
Transfers between entities under common control	12,996
Other changes attributable to noncontrolling interests	935
Changes in operating assets and liabilities (net of acquisitions):	
Increase in net patient accounts receivable	(51,572)
Decrease in other accounts receivable	58,244
Decrease in other assets	35,506
Increase in affiliates receivable, net and due from affiliates, net	(138,902)
Decrease in trade accounts payable and accrued liabilities	(5,786)
Increase in other liabilities	35,300
Net cash provided by operating activities	505,531
Cash Flows from Investing Activities:	
Purchases of property and equipment, net	(241,639)
Cash proceeds from sales of assets	1,119
Increase in investments, net	(364,065)
Net payments on interest rate swap	(21,024)
Increase in investments of subsidiaries	(126,640)
Decrease in assets whose use is limited	1,631
Net cash used in investing activities	(750,618)
Cash Flows from Financing Activities:	
Principal payments on long-term debt	(135,920)
Proceeds from issuance of long-term debt	119,464
Transfers between entities under common control	(12,996)
Sales of noncontrolling interests	(935)
Net cash used in financing activities	(30,387)
Net Decrease in Cash and Cash Equivalents	(275,474)
Cash and Cash Equivalents, beginning of period	709,796
Cash and Cash Equivalents, end of period	$ 434,322