Quarterly Disclosure Report

For the Three Months Ended September 30, 2017

(Unaudited)

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www.BaylorScottandWhite.com

Quarterly Disclosure Report for September 30, 2017

BAYLOR SCOTT & WHITE HEALTH

NOTICE
relating to:

BAYLOR HEALTH CARE SYSTEM
TAXABLE NOTES
SERIES 2000

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

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

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

TARRANT COUNTY CULTURAL EDUCATION 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 HEALTH PROJECT)
SERIES 2016A

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE COMMERCIAL PAPER NOTES
SERIES A

Quarterly Disclosure Report for September 30, 2017

CUSIP Nos:

072865AA6,	87638QFN4,	87638QFP9,	87638QFK0,	87638QFL8,	87638QFH7,	87638QFQ7,
87638QFR5,	87638QFS3,	87638QFJ3,	87638QFM6,	87638QFT1,	87638QFX2,	87638QEW5,
87638QHA0,	87638QGV5,	87638QGU7,	87638QGW3,	87638QGX1,	87638QGY9,	87638QGZ6,
87638QGT0,	87638QHB8,	072863AA1,	072863AB9,	072863AC7,	072863AD5,	072863AE3,
072863AF0,	87638QNX3,	87638QNY1,	87638QNZ8,	87638QPA1,	87638QPB9,	87638QPC7,
87638QPD5,	87638QNT2,	87638QNU9,	87638QNV7,	87638QNW5,	87638QPG8,	87638QPH6,
87638QPJ2,	87638QPM5,	87638QPN3,	87638QPQ6,	87638QPL7,	87638QPK9,	87638QPE3,
87638QPF0,	87638QPR4,	87638QPP8,	87638QGB9,	87638QGC7,	87638QGD5,	87638QGE3,
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ATTENTION

This document is marked with a dated date of September 30, 2017 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 affiliates (the "North Texas Division") and Scott & White Healthcare (S&W) and its affiliates (the "Central Texas Division"). 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 material affiliates.

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

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

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

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

The System operates Scott & White Health Plan and its subsidiary Insurance Company of Scott & White (collectively referred to as the "Health Plan" or "SWHP"), which provides health insurance benefits to approximately 239,000 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 nine short-stay surgery hospitals and 25 ambulatory surgery centers, BIR JV, LLP (BIR JV) with three rehabilitation hospitals and 64 clinics, EBD JV, LLP (EBD JV) with seven emergency medical centers and one under construction, ESWCT, LLC that operates one emergency medical center, BTDI JV, LLP (BTDI JV) with 34 imaging centers, THVG Bariatric, LLC (THVGB), which has provided bariatric services, and BT East Dallas JV, LLP and BT Garland JV, LLP with five hospitals.

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 Memorial. 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
- Memorial, a Texas nonprofit corporation, doing business as Scott & White Medical Center – Temple and 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.

<u>Awards and Distinctions</u>

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" 2016-2017 ratings, 13 Baylor Scott & White Health hospitals received recognition, the most of any other health system in Texas.

- Six hospitals with Magnet® designation for nursing excellence by the American Nurses Credentialing Center (achieved by less than 7% of hospitals nationwide).

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

- *Healthiest Employers* - Ranked #10 in the top 100 Healthiest Employers in America.

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, Gynecology, Neurology and Neurosurgery, Nephrology, Orthopedics, and Pulmonology.

- *American Nurses Credentialing Center* – Earned third consecutive Magnet® designation in 2013. Fewer than 7% of the nation's hospitals have achieved this designation three consecutive times.

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

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

SWMH

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

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

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

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

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

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

BSWQA

- In 2015, BSWQA was awarded a three–year accreditation as a Level 2 accountable care organization, the first to be awarded the recognition in North Texas and the second in the state.

- *Becker's Hospital Review* – Named to Becker's Top 110 ACOs to Know in 2017.

SWHP

- Scott and White Health Plan earned the highest rating in Texas by NCQA for both its commercial HMO and Medicare products for the 2016 – 2017 review. SWHP's commercial HMO received a rating of 4 out of 5 in NCQA's Private Health Insurance Plan ratings 2016 – 2017 while the Medicare plan was rated 4.5 out of 5 in NCQA's Medicare Health Insurance Plan Ratings 2016-2017.

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, 2017 and 2016, and the three months ended September 30, 2017 and 2016.

BSWH Key Operating and Financial Indicators
($ Thousands)

	Year Ended June 30, 2016	Year Ended June 30, 2017	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017
Total Operating Revenue	$ 8,366,215	$ 9,084,476	$ 2,221,944	$ 2,304,928
Operating Margin	5.9%	3.2%	5.1%	6.7%
Adjusted EBITDA (1)	$ 978,920	$ 888,767	$ 251,490	$ 343,024
Cash and Investments	$ 5,074,653	$ 5,268,661	$ 5,142,872	$ 5,502,480
Days in Patient Accounts Receivable (2)	40.7	38.5	38.9	37.5

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

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

FINANCIAL OPERATIONS SUMMARY

BSWH Combined Balance Sheets
($ Thousands)

	June 30, 2016	June 30, 2017	September 30, 2016	September 30, 2017
ASSETS				
Current assets	$ 2,968,997	$ 2,840,871	$ 2,951,461	$ 2,982,156
Long-term investments	3,169,764	3,562,260	3,279,087	3,667,688
Assets whose use is limited	275,970	324,526	272,421	326,685
Property and equipement, net	3,555,627	3,525,384	3,559,360	3,564,503
Other assets	818,528	893,565	875,995	1,086,439
Total assets	$ 10,788,886	$ 11,146,606	$ 10,938,324	$ 11,627,471
LIABILITIES AND NET ASSETS				
Current liabilities	$ 1,346,930	$ 1,422,380	$ 1,336,865	$ 1,593,539
Long-term debt and capital lease obligations, less current maturities	3,219,130	3,171,837	3,210,186	3,059,258
Other long-term liabilities	721,229	670,301	741,480	691,576
Total liabilities	5,287,289	5,264,518	5,288,531	5,344,373
Noncontrolling interests - redeemable	471,566	443,128	495,344	504,308
Net assets	5,030,031	5,438,960	5,154,449	5,778,790
Total liabilities and net assets	$ 10,788,886	$ 11,146,606	$ 10,938,324	$ 11,627,471

BSWH Summary Combined Statements of Operations
($ Thousands)

	Year Ended June 30, 2016	Year Ended June 30, 2017	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017
Total operating revenue	$ 8,366,215	$ 9,084,476	$ 2,221,944	$ 2,304,928
Total operating expenses	7,872,067	8,792,603	2,108,620	2,151,344
Income from operations	**494,148**	**291,873**	**113,324**	**153,584**
Non-operating (losses) gains and income tax expense	(241,066)	338,582	68,746	137,308
Excess of revenues over expenses	**$ 253,082**	**$ 630,455**	**$ 182,070**	**$ 290,892**

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BSWH Summary Financial Information
($ Thousands)

	Year Ended June 30, 2016	Year Ended June 30, 2017	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017
CASH FLOW				
Cash flow from operating activities	$ 987,167	$ 750,189	$ 185,811	$ 335,187
Adjusted operating cash flow (1)	$ 958,074	$ 793,144	$ 235,622	$ 278,362
Adjusted EBITDA (2)	$ 978,920	$ 888,767	$ 251,490	$ 343,024
Capital expenditures for property and equipment	$ 354,855	$ 406,207	$ 81,726	$ 115,434
Total capitalization (3)	$ 7,820,986	$ 8,164,839	$ 7,925,788	$ 8,494,667
FINANCIAL RATIOS				
Operating margin	5.9%	3.2%	5.1%	6.7%
Adjusted operating cash flow as a percentage of total revenue (1)	11.5%	8.7%	10.6%	12.1%
Adjusted EBITDA margin (4)	11.7%	9.8%	11.3%	14.9%
Debt to capitalization (5)	42.4%	40.0%	41.7%	39.3%
Debt to cash flow (6)	4.1x	4.4x	3.9x	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 amd commercial paper) plus current maturities) divided by (excess of revenues over expenses, plus depreciation and amortization, excluding unrealized gains/losses on investments, and unrealized gains/losses on interest rate swaps divided by number of days in the period times 365).

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MANAGEMENT DISCUSSION AND ANALYSIS

Net Operating Income

The System's operating margin for the first three months of fiscal year 2018 was $153.6 million or 6.7% of total operating revenue, compared to $113.3 million or 5.1% for the first three months of fiscal year 2017. Adjusted EBITDA was $343.0 million or 14.9% of total operating revenue for the first three months of fiscal year 2018 versus $251.5 million or 11.3% for the first three months of fiscal year 2017.

Net Operating Revenue

The combined total operating revenue increased $83.0 million or 3.7% to $2,304.9 million for the first three months of fiscal year 2018 compared to $2,221.9 million for the first three months of fiscal year 2017.

Net patient care revenue, net of patient related bad debt expense, increased $103.1 million or 5.5% to $1,987.9 million for the first three months of fiscal year 2018 compared to $1,884.8 million for the first three months of fiscal year 2017. The increase in net patient care revenue reflects higher volumes for fiscal year 2018.

Premium revenue decreased $52.8 million or -20.8% to $200.6 million for the first three months of fiscal year 2018 compared to $253.4 million for the first three months of fiscal year 2017. Premium revenue decreased for fiscal year 2018 due to the decision to exit the Individual ACA public exchange market and losing approximately 42,500 members related to this product on January 1, 2017.

Net assets released from restrictions for operations increased $0.8 million or 5.7% to $14.8 million for the first three months of fiscal year 2018 compared to $14.0 million for the first three months of fiscal year 2017.

Operating Expenses

Combined operating expenses for the first three months of fiscal year 2018 were $2,151.3 million, an increase of $42.7 million or 2.0% compared to $2,108.6 million for the first three months of fiscal year 2017.

Salaries, wages, and employee benefits increased $30.2 million or 2.8% to $1,091.3 million for the first three months of fiscal year 2018 compared to $1,061.1 million for the first three months of fiscal year 2017, representing approximately 47.3% and 47.8% of total operating revenue for the first three months of fiscal year 2018 and 2017, respectively. Salaries, wages, and employee benefits represented each of approximately 50.7% and 50.3% of total operating expenses for the first three months of fiscal year 2018 and 2017, respectively.

Supplies and other operating expenses increased $42.1 million or 5.1% for the first three months of fiscal year 2018 to $872.5 million compared to $830.4 million for the first three months of fiscal year 2017, and represented approximately 37.9% and 37.4% of total operating revenue for the first three months of fiscal year 2018 and 2017, respectively. Supplies and other operating expenses represented approximately 40.6% and 39.4% of total operating expenses for the first three months of fiscal year 2018 and 2017, respectively.

Medical claims decreased $23.6 million or -24.9% for the first three months of fiscal year 2018 to $71.2 million compared to $94.8 million for the first three months of fiscal year 2017. Medical claims decreased when compared to fiscal year 2017 as a result of exiting the Individual ACA public exchange market and losing approximately 42,500 members related to this product on January 1, 2017.

Depreciation and amortization increased $0.1 million or 0.1% to $94.1 for the first three months of fiscal year 2018 compared to $94.0 million for the first three months of fiscal year 2017.

Interest expense increased $2.4 million or 8.5% to $30.7 million for the first three months of fiscal year 2018 compared to $28.3 million for the first three months of fiscal year 2017.

BSWH Operating Expenses
($ Thousands)

	Year Ended June 30,		Three Months Ended September 30,	
	2016	**2017**	**2016**	**2017**
Salaries, wages, and employee benefits	$ 4,028,300	$ 4,367,194	$ 1,061,127	$ 1,091,325
Supplies	1,442,096	1,582,408	379,724	385,443
Other operating expenses	1,636,765	1,893,278	450,682	487,051
Medical claims	303,670	357,860	94,798	71,210
(Gains) losses on fixed asset sales and disposals, net	(2,690)	2,649	(9)	(8,463)
Impairment losses	-	87,943	-	-
Depreciation and amortization	365,738	385,528	93,955	94,062
Interest expense	98,188	115,743	28,343	30,716
Total operating expenses	$ 7,872,067	$ 8,792,603	$ 2,108,620	$ 2,151,344

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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**	**September 30, 2017 Total**
Physician FTEs	991	-	840	1,831
Advanced practice provider FTEs	430	-	291	721
Joint venture FTEs(1)	-	-	6,844	6,844
Other employee FTEs	25,959	483	9,812	36,254
Total FTEs	**27,380**	**483**	**17,787**	**45,650**

(1) Joint venture FTEs above include THVG JV, BIR JV, BTDI JV, EBD JV and BT East Dallas JV. THVGB JV and ESWCT, LLC FTEs are not included in the table.

Nonoperating Gains (Losses)

The System recorded unrestricted unrealized gains on investments of $72.3 million for the first three months of fiscal year 2018 compared to unrestricted unrealized gains on investments of $62.5 million for the first three months of fiscal year 2017. Unrestricted investment income and realized gains on investments were $32.9 million for the first three months of fiscal year 2018 compared to unrestricted investment income and realized gains on investments of $25.7 million for the first three months of fiscal year 2017, representing an increase of $7.2 million or 28.0%. The System recorded unrealized gains in its interest rate swap portfolio of $2.6 million for the first three months of fiscal year 2018 compared to unrealized losses in its interest rate swap portfolio of $4.9 million for the first three months of fiscal year 2017.

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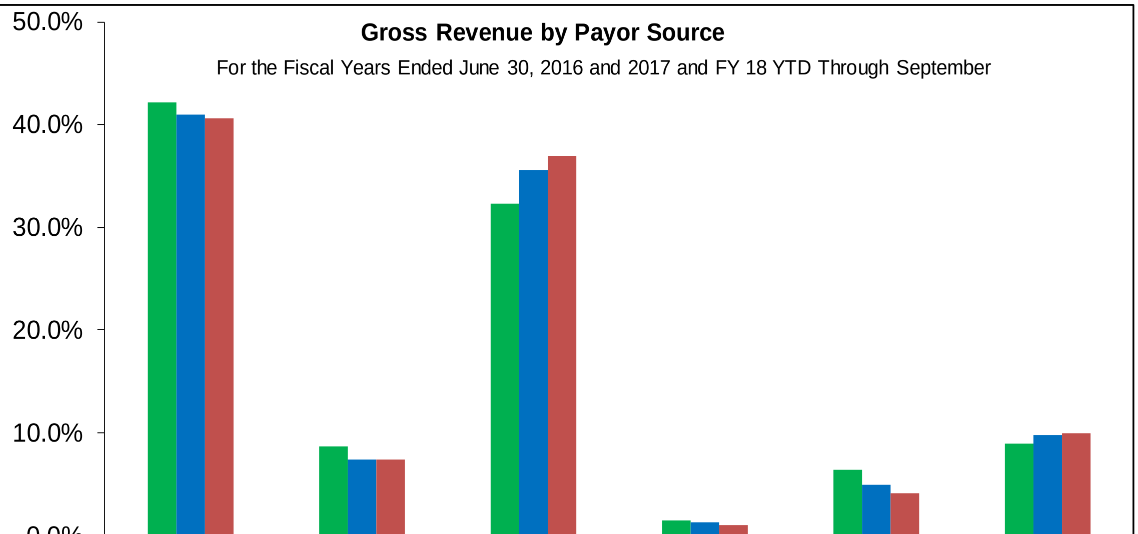
Utilization Statistics

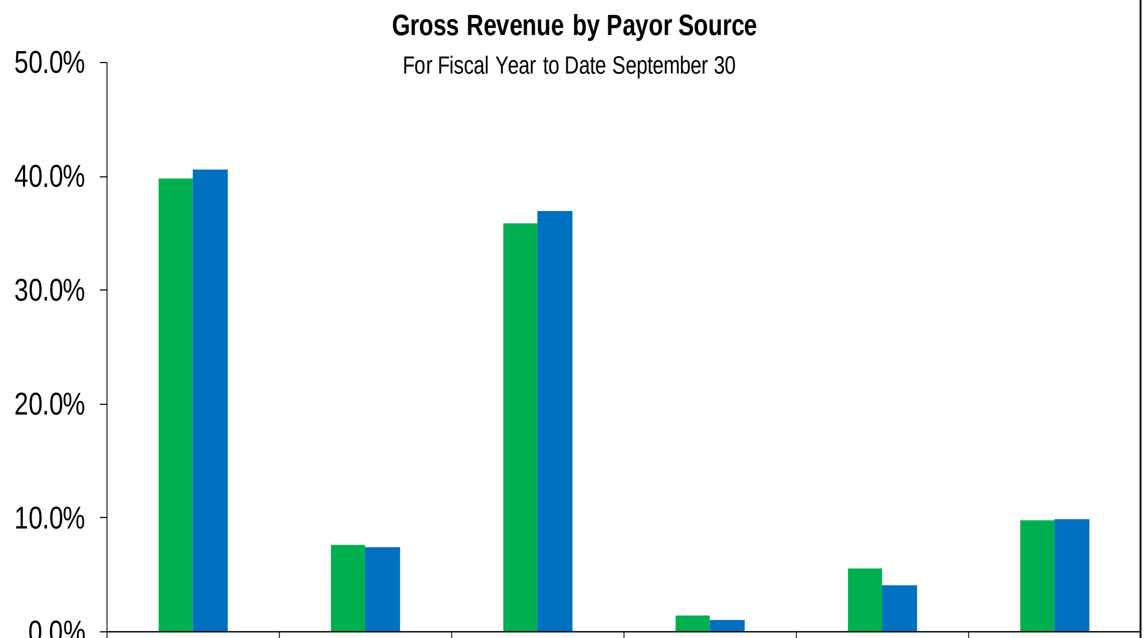
BSWH derives its patient revenue from managed care companies, Medicare, Medicaid, commercial insurers, self paying patients, and other sources.

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



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Health Plan*	Self-pay / Other
FY16	42.2%	8.7%	32.3%	1.5%	6.4%	8.9%
FY17	41.0%	7.4%	35.6%	1.3%	4.9%	9.8%
FY18 YTD	40.6%	7.4%	37.0%	1.0%	4.1%	9.9%

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



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Health Plan*	Self-pay / Other
FYTD 17	39.8%	7.6%	35.9%	1.4%	5.5%	9.8%
FYTD 18	40.6%	7.4%	37.0%	1.0%	4.1%	9.9%

**Health Plan excludes SeniorCare, RightCare and HIE products offered by SWHP which are in their natural classification.*
FY17 and FY18 payor mix is for BSWH excluding THVGB, EBD JV, and ESWCT, LLC.

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Operating Data - BSWH Total

	Year Ended June 30,		Three Months Ended September 30,	
	2016	2017	2016	2017
Licensed Beds	5,676	5,371	5,443	5,389
Inpatient Admissions (1)	208,789	235,112	57,641	59,179
Patient Days	1,041,162	1,127,959	280,200	269,784
Occupancy	69.3%	74.1%	73.3%	69.5%
Average Length of Stay (Days)	5.0	4.8	4.9	4.6
Average Daily Census	2,845	3,090	3,046	2,932
Discharges	208,624	235,103	57,601	58,993
Emergency Room Visits	805,270	857,198	214,156	211,929
Inpatient Surgical Cases	58,513	65,310	15,963	16,163
Outpatient Surgical Cases	197,003	191,865	47,946	47,573
Outpatient Registrations	3,596,884	3,851,015	936,008	966,655
Clinic Visits (IP & OP)	2,953,076	3,072,119	740,838	764,087
Patient Encounters	2,912,997	3,603,664	879,862	908,277
Relative Value Units (2)	13,280,343	15,563,238	3,749,679	3,930,094
Deliveries	31,368	31,781	8,581	8,430
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	60.1%	59.4%	59.6%	60.9%

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

(2) Relative value units include amounts from the North Texas Division and Central Texas Division.

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

Operating Data - Obligated Affiliates Subtotal

	Year Ended June 30,		Three Months Ended September 30,	
	2016	2017	2016	2017
Licensed Beds	3,707	3,413	3,474	3,411
Inpatient Admissions (1)	150,002	156,579	38,423	39,755
Patient Days	767,866	786,564	195,860	189,578
Occupancy	73.0%	73.1%	72.0%	69.8%
Average Length of Stay (Days)	5.1	5.0	5.1	4.8
Average Daily Census	2,098	2,155	2,129	2,060
Discharges	149,886	156,669	38,375	39,729
Emergency Room Visits	477,537	452,124	112,831	113,714
Inpatient Surgical Cases	37,797	39,732	9,652	9,757
Outpatient Surgical Cases	62,875	63,913	15,837	16,022
Outpatient Registrations	2,747,436	2,837,938	686,192	710,994
Clinic Visits (IP & OP)	2,650,531	2,755,984	664,673	688,150
Relative Value Units (2)	6,429,132	6,857,230	1,645,462	1,743,485
Deliveries	22,865	22,419	6,041	6,023
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	53.7%	53.8%	53.9%	55.2%

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

(2) Relative value units include amounts from the North Texas Division and Central Texas Division.

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,		Three Months Ended September 30,	
	2016	2017	2016	2017
Licensed Beds	1,969	1,958	1,969	1,978
Inpatient Admissions [(1)]	58,787	78,533	19,218	19,424
Patient Days	273,296	341,395	84,340	80,206
Occupancy	60.8%	76.5%	76.5%	68.7%
Average Length of Stay (Days)	4.7	4.4	4.4	4.2
Average Daily Census	747	935	917	872
Discharges	58,738	78,434	19,226	19,264
Emergency Room Visits	327,733	405,074	101,325	98,215
Inpatient Surgical Cases	20,716	25,578	6,311	6,406
Outpatient Surgical Cases	134,128	127,952	32,109	31,551
Outpatient Registrations	849,448	1,013,077	249,816	255,661
Clinic Visits (IP & OP)	302,545	316,135	76,165	75,937
Patient Encounters	2,912,997	3,603,664	879,862	908,277
Relative Value Units [(2)]	6,851,211	8,706,008	2,104,217	2,186,609
Deliveries	8,503	9,362	2,540	2,407
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	70.0%	66.7%	67.1%	68.2%

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

(2) Relative value units include amounts from the North Texas Division and Central Texas Division.

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

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Quarterly Disclosure Report for September 30, 2017

BSWH Adult and Pediatric Licensed Beds - September 30, 2017	Licensed Beds
Baylor University Medical Center	914
Scott & White Medical Center - Temple	574
Baylor Scott & White All Saints Medical Center - Fort Worth	538
Baylor Scott & White Medical Center - Grapevine	302
Baylor Scott & White Medical Center - Hillcrest	236
Baylor Scott & White Medical Center - Plano	160
Baylor Scott & White Medical Center - McKinney	143
Baylor Scott & White Medical Center - College Station	119
Baylor Scott & White Medical Center - Lakeway [(2)]	106
Baylor Scott & White Medical Center - Waxahachie	104
Baylor Scott & White Medical Center - Round Rock	101
Baylor Scott & White McLane Children's Medical Center [(1)]	64
Baylor Scott & White Continuing Care Hospital	50
Obligated Affiliates Subtotal	**3,411**
BT East Dallas JV, LLP (4 hospitals)	518
Baylor Scott & White Medical Center - Irving	293
Texas Health Ventures Group (9 hospitals)	240
Baylor Scott & White Medical Center - Carrollton	216
BIR JV, LLP (3 hospitals)	178
The Heart Hospital Baylor Plano	116
BT Garland JV, LLP (1 hospital)	113
Baylor Jack and Jane Hamilton Heart and Vascular Hospital	60
Baylor Scott & White Medical Center - Brenham	60
EBD JV, LLP (7 emergency medical centers)	56
Baylor Scott & White Medical Center - Marble Falls	46
Baylor Scott & White Medical Center - Llano	27
Baylor Scott & White Medical Center - Taylor	25
The Heart Hospital Baylor Denton	22
ESWCT, LLC (1 emergency medical center)	8
Non-Obligated Alliliates Subtotal	**1,978**
Total	**5,389**

[(1)] Baylor Scott & White McLane Children's Medical Center is operated as part of 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, September 11, 2017

Liquidity

Unrestricted cash and investments of $4.7 billion at September 30, 2017 increased $291.1 million as compared to unrestricted cash and investments of $4.4 billion at June 30, 2017 after capital expenditures of $115.4 million and net gains on trading investments of $107.5 million. Unrestricted days cash on hand increased to 209.9 days at September 30, 2017 from 194.2 days at June 30, 2017. Including restricted funds, days cash on hand totaled 246.1 days at September 30, 2017 compared to 228.7 days at June 30, 2017. The debt to capitalization ratio decreased to 39.3% at September 30, 2017 from 40.0% at June 30, 2017 and total assets increased 4.3% to $11,627.5 million at September 30, 2017 from $11,146.6 million at June 30, 2017.

BSWH Cash and Investments
($ Thousands)

	June 30, 2016	June 30, 2017	September 30, 2016	September 30, 2017
Cash and cash equivalents (1)	$ 1,527,749	$ 1,189,606	$ 1,488,712	$ 1,316,760
Short-term investments (2)	101,170	192,269	102,652	191,347
Long-term investments (3)	3,445,734	3,886,786	3,551,508	3,994,373
Total cash and investments	5,074,653	5,268,661	5,142,872	5,502,480
Less: restricted cash and investments (4)	731,111	795,601	739,345	807,837
Total unrestricted cash and investments	$ 4,343,542	$ 4,473,060	$ 4,403,527	$ 4,694,643
Average daily operating expenses (less depreciation and impairment losses)	$ 20,509	$ 22,792	$ 21,898	$ 22,362
Average daily operating expenses (less depreciation)	$ 20,509	$ 23,033	$ 21,898	$ 22,362
Unrestricted days cash on hand (excluding impairment losses) (5)	211.8	196.3	201.1	209.9
Unrestricted days cash on hand (6)	211.8	194.2	201.1	209.9
Days cash on hand (7)	247.4	228.7	234.9	246.1

(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) Unrestricted days cash on hand (excluding impairment losses) is calculated as unrestricted cash and investments divided by average daily operating expense (less depreciation and impairment losses).
(6) Unresticted days cash on hand is calculated as unrestricted cash and investments divided by average daily operating expenses (less depreciation).
(7) Days cash on hand includes restricted funds.

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Quarterly Disclosure Report for September 30, 2017

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

		September 30, 2017
Daily Liquidity		
Money Market Funds - Aaa-rated	$	34,603
Checking and deposit accounts at P-1 rated bank		738,942
Short-term investment funds at P-1 rated bank		10,801
Subtotal Daily Liquidity (Cash & Securities)		784,346
$400 Million General Purpose LOC (undrawn amount) [1]		376,000
Subtotal Daily Liquidity	**$**	**1,160,346**
Weekly Liquidity		
Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3		280,636
Fixed Income: Publicly Traded Fixed Income Securities rate below Aa3		630,477
Fixed Income: Other Cash & Cash Equivalents		100,883
Equities: Exchange Traded Equity (ownership of shares of stock)		164,878
Equities: Equity Funds		575,993
Subtotal Weekly Liquidity		1,752,867
Total Daily and Weekly Liquidity	**$**	**2,913,213**
Longer Term Liquidity		
Funds, vehicles, investments that allow withdrawals with one month notice or longer	$	1,104,289

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

The table above sets forth those assets that would reasonably be available to BSWH to satisfy a liquidity event. The table does not include assets held by affiliates of BSWH that would not be reasonably available to BSWH to satisfy a liquidity event, including assets held by the five foundations as described further in this report, THVG, Texas Heart Hospital of the Southwest, LLP (THHSW) and Baylor Heart and Vascular Center, LLP (BHVC), 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,		September 30,	
	2016	**2017**	**2016**	**2017**
Unrestricted	$ 128,727	$ 147,833	$ 133,332	$ 148,476
Temporarily restricted	254,828	269,588	264,512	281,433
Permanently restricted	258,394	260,838	259,311	262,282
Total	**$ 641,949**	**$ 678,259**	**$ 657,155**	**$ 692,191**

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Quarterly Disclosure Report for September 30, 2017

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

	June 30,		September 30,	
ASSETS	**2016**	**2017**	**2016**	**2017**
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,527,749	$ 1,189,606	$ 1,488,712	$ 1,316,760
Short-term investments	101,170	192,269	102,652	191,347
THVG funds due from United Surgical Partners, Inc.	70,264	85,888	72,202	86,586
Accounts receivables:				
Patient, net	793,910	816,598	797,376	810,216
Premium	59,871	116,182	65,050	89,559
Other	190,389	185,862	190,942	199,774
Other current assets	225,644	254,466	234,527	287,914
Total current assets	2,968,997	2,840,871	2,951,461	2,982,156
LONG-TERM INVESTMENTS:				
Unrestricted	2,714,623	3,091,185	2,812,163	3,186,536
Restricted	455,141	471,075	466,924	481,152
Total long-term investments	3,169,764	3,562,260	3,279,087	3,667,688
ASSETS WHOSE USE IS LIMITED:				
Other designated assets	83,396	165,128	87,359	170,642
Self insurance reserves	94,125	98,272	98,421	105,125
Funds held by bond trustee	98,449	61,126	86,641	50,918
Total assets whose use is limited	275,970	324,526	272,421	326,685
ASSETS HELD FOR SALE	-	16,354	-	16,373
PROPERTY AND EQUIPMENT, net	3,555,627	3,525,384	3,559,360	3,564,503
CONTRIBUTIONS RECEIVABLE, net	60,211	61,014	59,907	129,155
INTEREST IN NET ASSETS OF RELATED FOUNDATION	3,740	4,048	3,740	4,048
OTHER LONG-TERM ASSETS:				
Equity investment in unconsolidated entities	65,582	57,548	66,402	65,706
Goodwill and intangible assets, net	673,525	734,291	727,295	848,484
Other	15,470	20,310	18,651	22,673
Total other long-term assets	754,577	812,149	812,348	936,863
Total assets	$ 10,788,886	$ 11,146,606	$ 10,938,324	$ 11,627,471

Quarterly Disclosure Report for September 30, 2017

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

	June 30,		September 30,	
LIABILITIES AND NET ASSETS	**2016**	**2017**	**2016**	**2017**
CURRENT LIABILITIES:				
Current maturities of long-term debt and capital lease obligations	$ 63,416	$ 126,644	$ 62,564	$ 72,400
Long-term debt subject to short-term remarketing arrangements	95,000	95,000	95,000	95,000
Commercial paper	-	-	-	187,946
Trade accounts payable	266,636	303,893	233,941	245,530
Accrued liabilities:				
Payroll related	466,195	373,398	439,557	400,956
Third-party programs	87,865	87,195	82,317	96,558
Medical claims payable	34,950	37,354	31,162	31,456
Other	332,868	398,896	392,324	463,693
Total current liabilities	1,346,930	1,422,380	1,336,865	1,593,539
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	3,219,130	3,171,837	3,210,186	3,059,258
OTHER LONG-TERM LIABILITIES:				
Self insurance and other insurance liabilities	96,549	99,208	98,281	105,918
Interest rate swap liabilities, net	357,006	265,129	358,810	265,362
Other	267,674	305,964	284,389	320,296
Total other long-term liabilities	721,229	670,301	741,480	691,576
Total liabilities	5,287,289	5,264,518	5,288,531	5,344,373
COMMITMENTS AND CONTINGENCIES				
NONCONTROLLING INTERESTS - REDEEMABLE	471,566	443,128	495,344	504,308
NET ASSETS:				
Unrestricted - attributable to BSWH	4,311,163	4,695,399	4,420,842	4,901,457
Unrestricted - noncontrolling interests - nonredeemable	195,693	202,603	199,760	251,006
Total unrestricted net assets	4,506,856	4,898,002	4,620,602	5,152,463
Temporarily restricted	261,321	276,585	271,014	360,476
Permanently restricted	261,854	264,373	262,833	265,851
Total net assets	5,030,031	5,438,960	5,154,449	5,778,790
Total liabilities and net assets	$ 10,788,886	$ 11,146,606	$ 10,938,324	$ 11,627,471

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

	Year Ended June 30, 2016	Year Ended June 30, 2017	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017
OPERATING REVENUE:				
Net patient care revenue	$ 7,907,699	$ 8,664,811	$ 2,127,223	$ 2,148,820
Less patient related bad debt expense	773,501	927,168	242,392	160,931
Net patient care revenue, net of patient related bad debt expense	7,134,198	7,737,643	1,884,831	1,987,889
Premium revenue	867,510	903,261	253,422	200,588
Other operating revenue	303,167	378,332	69,682	101,671
Net assets released from restrictions for operations	61,340	65,240	14,009	14,780
Total operating revenue	8,366,215	9,084,476	2,221,944	2,304,928
OPERATING EXPENSES:				
Salaries, wages, and employee benefits	4,028,300	4,367,194	1,061,127	1,091,325
Supplies	1,442,096	1,582,408	379,724	385,443
Other operating expenses	1,636,765	1,893,278	450,682	487,051
Medical claims	303,670	357,860	94,798	71,210
(Gains) losses on fixed asset sales and disposals, net	(2,690)	2,649	(9)	(8,463)
Impairment losses	-	87,943	-	-
Depreciation and amortization	365,738	385,528	93,955	94,062
Interest	98,188	115,743	28,343	30,716
Total operating expenses	7,872,067	8,792,603	2,108,620	2,151,344
Income from operations	494,148	291,873	113,324	153,584
NONOPERATING GAINS (LOSSES):				
(Losses) gains on investments, net	(7,106)	271,331	87,652	107,450
Interest rate swap activity	(167,386)	82,624	(13,106)	(3,348)
Contributions	1,012	779	79	82
Equity in (losses) gains of unconsolidated entities	(2,365)	(9,515)	(1,653)	37,539
Loss from extinguishment of debt	(53,253)	-	-	(721)
Other	(348)	378	9	167
Total nonoperating (losses) gains	(229,446)	345,597	72,981	141,169
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	264,702	637,470	186,305	294,753
LESS INCOME TAX EXPENSE	11,620	7,015	4,235	3,861
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	253,082	630,455	182,070	290,892

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

	Year Ended June 30, 2016	Year Ended June 30, 2017	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Unrealized (losses) gains on investments, net	$ (1,390)	$ (1,786)	$ 473	$ (2,300)
Net assets released from restrictions for capital expenditures	24,053	25,584	5,272	1,280
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(9,759)	(65,871)	(15,902)	25,069
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests- redeemable	(222,826)	(206,727)	(58,335)	(60,376)
Net assets acquired	13,001	185	-	-
Other	(16,999)	9,306	168	(104)
INCREASE IN UNRESTRICTED NET ASSETS	39,162	391,146	113,746	254,461
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	64,245	69,369	17,830	86,222
Realized gains and investment income, net	8,150	17,369	3,151	4,334
Unrealized (losses) gains on investments, net	(13,303)	18,562	8,034	9,956
Changes in value of split-interest agreements	(1,162)	386	397	99
Net assets released from restrictions for operations	(61,340)	(65,240)	(14,009)	(14,780)
Net assets released from restrictions for capital expenditures	(24,053)	(25,584)	(5,272)	(1,280)
Changes in net assets of related foundation	(297)	281	-	-
Other	(3,563)	121	(438)	(660)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(31,323)	15,264	9,693	83,891
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	22,070	918	93	866
Realized gains and investment income, net	409	175	13	65
Unrealized (losses) gains on investments, net	(313)	370	114	136
Changes in value of split-interest agreements	(1,557)	918	759	5
Changes in net assets of related foundation	2	27	-	-
Other	1,944	111	-	406
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	22,555	2,519	979	1,478
INCREASE IN NET ASSETS	30,394	408,929	124,418	339,830
NET ASSETS, beginning of year	4,999,637	5,030,031	5,030,031	5,438,960
NET ASSETS, end of year	$ 5,030,031	$ 5,438,960	$ 5,154,449	$ 5,778,790

Quarterly Disclosure Report for September 30, 2017

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

	June 30, 2016	June 30, 2017	September 30, 2016	September 30, 2017
Cash Flows From Operating Activities:				
Increase in net assets	$ 30,394	$ 408,929	$ 124,418	$ 339,830
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Loss from extinguishment of debt	3,462	-	-	721
Unrealized losses (gains) on investments, net	75,109	(155,813)	(70,607)	(82,383)
Realized gains on investments, net	(19,634)	(105,222)	(17,288)	(22,532)
Unrealized losses (gains) on interest rate swap, net	136,936	(111,307)	4,873	(2,637)
Contributions restricted for long-term purposes	(22,070)	(918)	(93)	(866)
Patient related bad debt expense	773,501	927,168	242,392	160,931
Depreciation and amortization	365,738	385,528	93,955	94,062
Impairment losses	-	87,943	-	-
(Gains) losses on fixed asset sales and disposal, net	(2,690)	2,649	(9)	(8,463)
Equity in losses (gains) of unconsolidated entities	2,365	9,515	1,653	(37,539)
Change in value of split-interest agreements	2,719	(1,304)	(1,156)	(104)
Deferred rent	(3,698)	3,444	666	(272)
Other changes attributable to noncontrolling interests	232,585	272,598	74,237	35,307
Net assets acquired	(13,001)	(185)	-	-
Changes in operating assets and liabilities (net of acquisitions):				
Increase in net patient accounts receivable	(862,121)	(956,746)	(310,908)	(139,752)
Decrease (increase) in other accounts receivable	32,695	(43,212)	61,169	12,736
Decrease (increase) in other assets	15,608	(35,497)	(11,938)	(71,301)
Increase (decrease) in trade accounts payable and accrued liabilities	142,075	8,786	(9,452)	28,773
Increase in other liabilities	97,194	53,833	3,899	28,676
Net cash provided by operating activities	987,167	750,189	185,811	335,187
Cash Flows From Investing Activities:				
Purchases of property and equipment, net	(354,855)	(406,207)	(81,726)	(115,434)
Cash proceeds from sales of assets	18,397	3,088	796	9,306
Cash paid for acquisitions, net of cash received	(300,472)	(83,875)	(71,672)	(41,451)
Increase in THVG funds due from United Surgical Partners, Inc.	(11,388)	(15,624)	(1,938)	(698)
(Increase) decrease in trading investments	(155,205)	(226,306)	(20,797)	227
(Payments) receipts on interest rate swap	(68,911)	(6,352)	9,660	(4,556)
(Increase) decrease in other than trading investments	(2,457)	7,279	(718)	433
(Increase) decrease in assets whose use is limited	(67,245)	(48,556)	3,549	(2,159)
Net cash used in investing activities	(942,136)	(776,553)	(162,846)	(154,332)
Cash Flows From Financing Activities:				
Principal payments on long-term debt	(1,045,817)	(75,424)	(14,777)	(400,746)
Proceeds from issuance of long-term debt	1,599,512	75,443	4,070	412,622
Distributions to noncontrolling interest owners	(287,041)	(320,346)	(58,361)	(65,884)
Purchases of noncontrolling interests	(20,323)	(18,565)	3,468	(14,234)
Sales of noncontrolling interests	38,436	25,956	4,434	14,653
Cash receipts for long-term purposes	13,616	2,045	114	111
Annuity payments to beneficiaries	(950)	(888)	(950)	(223)
Net cash provided by (used in) financing activities	297,433	(311,779)	(62,002)	(53,701)
Net Increase (Decrease) in Cash and Cash Equivalents	342,464	(338,143)	(39,037)	127,154
Cash and Cash Equivalents, beginning of period	1,185,285	1,527,749	1,527,749	1,189,606
Cash and Cash Equivalents, end of period	$ 1,527,749	$ 1,189,606	$ 1,488,712	$ 1,316,760

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 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-five 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 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 nine 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, THVG Bariatric, LLC, providing bariatric services, and HTPN Gastroenterology Services, LLP, providing endoscopic services. All significant intercompany accounts and transactions among entities included in the combined financial statements have been eliminated.

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

THVG

BUMC has a majority ownership of 50.1% in THVG with USP North Texas, Inc. (USP), a Texas corporation and subsidiary of United Surgical Partners, Inc. (USPI) holding the remaining 49.9%. THVG had net patient care revenue included in the System's combined financial statements of approximately $254,848,000 and $230,101,000 in the first three months of fiscal years ended 2018 and 2017, respectively.

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

THVG completed the acquisition of one surgical hospital 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.

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 is to own, operate, and manage five community hospitals focused on delivering integrated, value-based care to communities in Rockwall, Collin, and Dallas counties. The System recorded goodwill and intangible assets, net, of approximately $256,957,000, fixed assets of approximately $186,930,000, redeemable noncontrolling interests of approximately $151,286,000, and other net liabilities of approximately $292,601,000 in 2016.

Blue Star Sports Medicine and Performance Facility

In June 2016, BSWH executed lease agreements for space in the Blue Star Sports Medicine and Performance Facility to be constructed in Frisco, Texas, with an estimated completion date of February 2018. The lease agreements will be recorded as a capital lease after commencement of the agreements.

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.

Interest Rate Swaps

Effective November 15, 2016, BSW Holdings, BHCS, and SWH entered into a swap novation transaction that novated two swaps previously between BHCS and Deutsche Bank, NA and two swaps previously between SWH and Deutsche Bank, NA so that all four swaps are now between BSW Holdings and Citibank, NA.

Assets Held for Sale

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. The transactions are expected to close in fiscal year 2018.

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 was recorded in nonoperating gains (losses).

Line of Credit

In July 2017, BSW Holdings drew approximately $24,000,000 on its revolving line of credit to purchase a building in Waco, Texas that was previously recorded as an operating lease to Hillcrest Baptist Medical Center, an affiliate of BSWH.

Texas Spine & Joint Hospital

In August 2017, THVG purchased a controlling interest in Texas Spine & Joint Hospital in Tyler, Texas, a 20 bed orthopedic hospital and related outpatient facilities.

Irving Hospital Authority Contribution to Irving

In August 2017, Irving executed lease amendments in which the Authority agreed to renovate the properties leased from the Authority, with an estimated completion date of early 2019. These transactions were recorded as a temporarily restricted contribution receivable of approximately $71,589,000.

Debt Portfolio Refinancing

On September 1, 2017, BSW Holdings placed its Series 2017A, 2017B, and 2017C revenue bonds (the “BSW Holdings Series 2017A, B and C”) with various banks. Proceeds from the BSW Holdings Series 2017A, B and C were used to refinance the following revenue bonds via the TCCEFC conduit issuer: Hospital Revenue Bonds (Scott &White Healthcare Project) Series 2013B, Hospital Revenue Bonds (Baylor Health Care System Project) Series 2011F, Hospital Revenue Bonds (Baylor Health Care System Project) Series 2011G, and Hospital Revenue Refunding Bonds (Baylor Scott & White Health Project) Series 2015D with an aggregate outstanding balance of $195,700,000. A loss on extinguishment of debt of approximately $306,000 will be recorded related to this transaction in fiscal year 2018.

On September 6, 2017, BSW Holdings created its Series 2017A commercial paper program (the “BSW Holdings Series 2017A CP Program”). Under the BSW Holdings Series 2017A CP Program, BSWH may issue up to $400,000,000 of commercial paper notes of which $188,162,000 was issued on September 6, 2017 at a discount of approximately $282,000. Proceeds from the issuances under the BSW Holdings Series 2017A CP Program were used to refinance various outstanding debt, with an aggregate outstanding balance of $187,880,000. A loss on extinguishment of debt of approximately $414,000 will be recorded related to this transaction in fiscal year 2018.

On September 6, 2017, BHCS substituted its irrevocable direct-pay letter of credit supporting its Series 2011C Revenue Bonds with a new irrevocable direct-pay letter by a different issuer. Additionally, BHCS converted the Series 2011C Revenue Bonds from a weekly interest rate period to a daily interest rate period.

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 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.

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 2017, 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.

Other Accounting Pronouncements

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

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 provisions of ASU 2015-02 are effective for fiscal years beginning after December 15, 2015, and interim periods within those years for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to 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 provisions of ASU 2015-09 are effective for fiscal years beginning after December 15, 2015, and interim periods thereafter for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to 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 provisions of ASU 2015-11 are effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to 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 provisions of ASU 2015-16 are effective for fiscal years beginning after December 15, 2015, and interim periods within those years for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

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, FASB issued ASU 2016-02, *"Leases."* This ASU requires 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. The provisions of ASU 2016-02 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 this ASU and believes it 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 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 for all other entities. The System is currently evaluating the impact of this ASU.

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 provisions of ASU 2016-07 are effective for fiscal years beginning after December 15, 2016 and interim periods within those years. This ASU is not expected to have a material impact on the combined financial statements.

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. The System is currently evaluating the impact of this ASU.

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. The System is currently evaluating the impact of this ASU.

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 2017-02, "*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 provisions of ASU 2017-02 are effective for fiscal years beginning after December 15, 2016, and interim periods thereafter. This ASU is not expected to have a material impact on the combined financial statements.

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. The System is currently evaluating the impact of this ASU.

In March 2017, FASB issued ASU 2017-08, "*Premium Amortization on Purchased Callable Debt Securities*." This 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 System has not evaluated all of the provisions of ASU 2017-08, which 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.

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 $86,586,000 and $85,888,000, at September 30, 2017 and June 30, 2017, 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, the investments of All Saints Health Foundation and the investments of the Health Plan. For all trading investments, the interest and dividends, realized gains (losses) and unrealized gains (losses) are included in gains (losses) on investments, net, in the accompanying combined statements of operations and changes in net assets. For other than trading investments, interest and dividends and realized gains (losses) are included in gains (losses) on investments, net, unless restricted by donor. Unrealized gains (losses) on other than trading investments are included in other changes in unrestricted net assets, unless restricted by donor.

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

	Three months ended September 30, 2017			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 12,887	$ 19,972	$ 74,591	$ 107,450
Other changes in unrestricted net assets	-	-	(2,300)	(2,300)
Changes in temporarily restricted net assets	1,839	2,495	9,956	14,290
Changes in permanently restricted net assets	-	65	136	201
	$ 14,726	**$ 22,532**	**$ 82,383**	**$ 119,641**

	Three months ended September 30, 2016			
	Interest and Dividends	Realized Gains	Unrealized Gains	Total
Nonoperating gains	$ 9,909	$ 15,757	$ 61,986	$ 87,652
Other changes in unrestricted net assets	-	-	473	473
Changes in temporarily restricted net assets	1,633	1,518	8,034	11,185
Changes in permanently restricted net assets	-	13	114	127
	$ 11,542	**$ 17,288**	**$ 70,607**	**$ 99,437**

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

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

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements

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

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

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

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

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

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

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

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

Alternative Investments

Investments held consist of marketable securities as well as securities that do not have readily determinable fair values. Private equity investments, real estate investments, and hedge funds are collectively referred to as "alternative investments". These are included in unrestricted long-term investments in the accompanying combined balance sheets, other than those held at HA. The investments in alternative investments are valued by management at fair value utilizing the net asset value (NAV) provided by the underlying investment companies unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties as the System does not intend to sell such investments before the expiration of the early redemption periods. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. As this valuation methodology is based primarily on unobservable inputs, these investments represent Level 3 assets. Any hedge funds valued at NAV which are redeemable by the System at NAV per share (or its equivalent) at the measurement date are transferred from Level 3 assets to Level 2 assets. Any hedge funds valued at NAV that were classified in prior year as Level 2 assets that are not redeemable by the System at NAV per share (or its equivalent) at the measurement date are transferred from Level 2 assets to Level 3 assets.

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. As this valuation methodology is based primarily on unobservable inputs, these investments represent Level 3 assets. Also included in Level 3 assets for the BHCS Foundation are other real estate and oil and gas interests which are carried at lower of cost or market.

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 September 30, 2017 (in thousands):

	September 30, 2017			
Assets:	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and Cash Equivalents				
Cash	$ 1,273,578	$ 1,273,578	$ -	$ -
Money market funds	43,182	43,182	-	-
Total Cash and Cash Equivalents	**1,316,760**	**1,316,760**	**-**	**-**
Short-Term Investments				
Mutual funds	63,999	63,999	-	-
Certificates of deposit	101,183	101,183	-	-
Fixed income securities	24,118	-	24,118	-
U.S. government securities	898	-	898	-
Other	1,146	1,054	92	-
Assets held at NAV practical expedient (1)				
Fixed income securities	3	-	-	-
Total Short-Term Investments	**191,347**	**166,236**	**25,108**	**-**
Unrestricted Long-Term Investments				
Cash	11,028	11,028	-	-
Mutual funds	24,049	24,049	-	-
Equity securities	1,188,034	273,802	914,232	-
Fixed income securities	398,752	27	398,725	-
U.S. government securities	232,453	-	232,453	-
Mortgage-backed securitites	310,246	75,351	234,895	-
Common funds, held at HA				
Group investment fund	2,769	-	2,769	-
Group bond fund	163	-	163	-
Group equity fund	394	-	394	-
Other funds	93	90	-	3
Other	697	-	-	697
Assets held at NAV practical expedient (1)				
Hedge fund/diversifiers alternative investments	571,858	-	-	-
Private equity alternative investments	194,060	-	-	-
Real estate alternative investments	121,927	-	-	-
Other funds	16	-	-	-
Total Unrestricted Long-Term Investments	**3,056,539**	**384,347**	**1,783,631**	**700**

(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 September 30, 2017 includes an investment of approximately $129,997,000 accounted for under the cost method.

Notes to Combined Financial Statements - continued

	September 30, 2017			
Assets (continued):	**Total**	**Level 1**	**Level 2**	**Level 3**
Restricted Long-Term Investments				
Cash	8,713	8,713	-	-
Mutual funds	47,396	47,396	-	-
Equity securities	172,545	42,152	130,393	-
Fixed income securities	30,457	78	30,379	-
U.S. government securities	18,285	-	18,285	-
Mortgage-backed securitites	23,088	5,625	17,463	-
Split-interest agreements	7,263	-	7,263	-
Real estate	1,094	-	-	1,094
Cash surrender value life insurance	1,262	-	-	1,262
Other	306	1	-	305
Common funds, held at HA				
Group investment fund	43,006	-	43,006	-
Group bond fund	2,532	-	2,532	-
Group equity fund	6,126	-	6,126	-
Other funds	1,438	1,387	-	51
Assets held at NAV practical expedient [(1)]				
Hedge fund/diversifiers alternative investments	67,740	-	-	-
Private equity alternative investments	38,470	-	-	-
Real estate alternative investments	11,177	-	-	-
Other funds	254	-	-	-
Total Restricted Long-Term Investments	**481,152**	**105,352**	**255,447**	**2,712**
Assets Whose Use is Limited				
Cash	91,631	91,631	-	-
Money market funds	13,585	13,585	-	-
Mutual funds	159,138	159,138	-	-
Equity securities	1,666	1,666	-	-
Fixed income securities	30,284	-	30,284	-
U.S. government securities	30,215	-	30,215	-
Other	166	-	166	-
Total Assets Whose Use is Limited	**326,685**	**266,020**	**60,665**	**-**
Contributions Receivable, net				
Beneficial interest in split-interest agreements	21,675	-	-	21,675
Total Assets at Fair Value	**$ 5,394,158**	**$ 2,238,715**	**$ 2,124,851**	**$ 25,087**
Liabilities:				
Interest rate swap agreements, net of collateral	265,362	-	265,362	-
Total Liabilities at Fair Value	**$ 265,362**	**$ -**	**$ 265,362**	**$ -**

(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 three months ended September 30, 2017 (in thousands):

	September 30, 2017			
	Split-Interest Agreements	Common Investment Funds	Other	Total
Balance, beginning of period	$ 21,596	$ 55	$ 2,330	$ 23,981
Realized (losses), net	(146)	-	-	(146)
Unrealized gains, net	225	-	271	496
Purchases	-	-	756	756
Settlements	-	-	-	-
Balance, end of period	$ 21,675	$ 55	$ 3,357	$ 25,087

At September 30, 2017, alternative investments recorded at NAV consisted of the following (in thousands):

	September 30, 2017			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency if Currently Eligible**	**Redemption Notice Period**
Equity-linked investments [a]	$ 79,488	$ -	quarterly, annually	60-90 days
Event-driven investments [b]	55,967	-	quarterly, annually	30-90 days
Credit-linked investments [c]	83,159	-		
Multi-strategy investments [d]	3,315	-	monthly, quarterly	30-90 days
Tactical trading investments [e]	204,932	-	daily, monthly	2-90 days
Risk parity and global asset allocation fund [f]	212,737	-	monthly	5-30 days
Real estate funds - open ended [g]	73,587	-	quarterly	90 days
Real estate funds - closed ended [h]	59,516	30,274		
Oil and gas funds [i]	270	-		
Private equity funds [j]	173,916	134,099		
Private debt funds [k]	58,615	22,045		
Non-agency asset backed security [l]	3	-		
Total	$ 1,005,505	$ 186,418		

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

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

i) Oil and gas fund managers invested in mineral properties located in Texas and Wyoming. The fund in this category is closed to new investors, is illiquid and redemption is subject to fund management approval. Royalty income is distributed quarterly subject to fund management approval ($0.50 per unit per quarter in 2017 and $0.75 per unit per quarter in 2016). 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.

l) The non-agency asset backed security is a Term Note (the "Note") issued by Ocwen Loan Servicing LLC. The Note is secured by servicing advance receivables associated with Ocwen's servicing portfolio. The parent company Ocwen Financial Corporation is a financial services holding company which, through its subsidiaries, is engaged in the servicing and origination of mortgage loans. This security is priced using bid evaluation prices from Bloomberg.

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
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 defined contribution plans for eligible employees. Employees are eligible to contribute to the plan 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 September 30, 2017 through November 9, 2017, the date the financial statements were available to be issued.

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Quarterly Disclosure Report for September 30, 2017

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets
September 30, 2017
($ Thousands)

ASSETS	Obigated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
CURRENT ASSETS:					
Cash and cash equivalents	$ 733,571	$ 129,555	$ 453,634	$ -	$ 1,316,760
Short-term investments	167,333	5,735	18,279	-	191,347
THVG funds due from United Surgical Partners, Inc.	-	-	86,586	-	86,586
Accounts receivable:					
Patient, net	464,339	-	382,159	(36,282)	810,216
Premium	-	89,559	-	-	89,559
Affiliates, net	66,579	-	-	(66,579)	-
Other	62,779	29,355	113,389	(5,749)	199,774
Other current assets	176,395	8,655	102,848	16	287,914
Total current assets	1,670,996	262,859	1,156,895	(108,594)	2,982,156
LONG-TERM INVESTMENTS:					
Unrestricted	2,682,407	48,925	455,204	-	3,186,536
Restricted	2,778	-	478,374	-	481,152
Total long-term investments	2,685,185	48,925	933,578	-	3,667,688
ASSETS WHOSE USE IS LIMITED:					
Other designated assets	113,954	2,200	54,488	-	170,642
Self insurance reserves	-	-	105,125	-	105,125
Funds held by bond trustee	50,918	-	-	-	50,918
Total assets whose use is limited	164,872	2,200	159,613	-	326,685
ASSETS HELD FOR SALE	-	-	16,373	-	16,373
PROPERTY AND EQUIPMENT, net	2,615,167	15,724	1,104,566	(170,954)	3,564,503
CONTRIBUTIONS RECEIVABLE, net	-	-	129,212	(57)	129,155
DUE FROM AFFILIATES	183,798	-	3,038	(186,836)	-
INTEREST IN NET ASSETS OF RELATED FOUNDATIONS	489,052	-	99,334	(584,338)	4,048
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES	1,660,883	-	-	(1,660,883)	-
OTHER LONG-TERM ASSETS:					
Equity investment in unconsolidated entities	41,981	177	23,548	-	65,706
Goodwill and intangible assets, net	77,173	-	773,766	(2,455)	848,484
Other	9,260	2,581	17,824	(6,992)	22,673
Total other long-term assets	128,414	2,758	815,138	(9,447)	936,863
Total assets	$ 9,598,367	$ 332,466	$ 4,417,747	$ (2,721,109)	$ 11,627,471

*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 SWHP includes Scott & White Health Plan and Insurance Company of Scott & White.

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets - continued
September 30, 2017
($ Thousands)

LIABILITIES AND NET ASSETS	Obligated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
CURRENT LIABILITIES:					
Current maturities of long-term debt and capital lease obligations	$ 31,758	$ -	$ 40,642	$ -	$ 72,400
Long-term debt subject to short-term remarketing arrangements	95,000	-	-	-	95,000
Commercial paper	187,946	-	-	-	187,946
Accounts payable:					
Trade accounts payable	105,656	7,759	142,419	(10,304)	245,530
Affiliates, net	-	9,236	60,044	(69,280)	-
Accrued liabilities:					
Payroll related	345,348	271	55,337	-	400,956
Third-party programs	46,011	4,055	11,982	34,510	96,558
Medical claims payable	-	102,249	-	(70,793)	31,456
Other	238,672	63,872	177,663	(16,514)	463,693
Total current liabilities	1,050,391	187,442	488,087	(132,381)	1,593,539
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	2,622,346	-	436,912	-	3,059,258
OTHER LONG-TERM LIABILITIES:					
Self insurance and other insurance liabilities	849	-	105,069	-	105,918
Interest rate swap liabilities, net	265,362	-	-	-	265,362
Other	172,795	31,195	122,454	(6,148)	320,296
Total other long-term liabilities	439,006	31,195	227,523	(6,148)	691,576
DUE TO AFFILIATES	-	-	273,989	(273,989)	-
Total liabilities	4,111,743	218,637	1,426,511	(412,518)	5,344,373
COMMITMENTS AND CONTINGENCIES					
NONCONTROLLING INTERESTS - REDEEMABLE	-	-	217,213	287,095	504,308
NET ASSETS:					
Unrestricted - attributable to BSWH	4,983,373	113,829	1,994,111	(2,189,856)	4,901,457
Unrestricted - noncontrolling interests - nonredeemable	16,213	-	63,138	171,655	251,006
Total unrestricted net assets	4,999,586	113,829	2,057,249	(2,018,201)	5,152,463
Temporarily restricted	295,881	-	401,831	(337,236)	360,476
Permanently restricted	191,157	-	314,943	(240,249)	265,851
Total net assets	5,486,624	113,829	2,774,023	(2,595,686)	5,778,790
Total liabilities and net assets	$ 9,598,367	$ 332,466	$ 4,417,747	$ (2,721,109)	$ 11,627,471

*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 SWHP includes Scott & White Health Plan and Insurance Company of Scott & White.

Quarterly Disclosure Report for September 30, 2017

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 Three Months Ended September 30, 2017
($ Thousands)

	Obligated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
OPERATING REVENUE:					
Net patient care revenue	$ 1,196,313	$ -	$ 1,061,192	$ (108,685)	$ 2,148,820
Less patient related bad debt expense	50,853	-	110,078	-	160,931
Net patient care revenue, less patient related bad debt expense	1,145,460	-	951,114	(108,685)	1,987,889
Premium revenue	-	200,628	-	(40)	200,588
Other operating revenue	103,359	3,649	166,970	(172,307)	101,671
Net assets released from restrictions for operations	1,950	-	14,710	(1,880)	14,780
Total operating revenue	1,250,769	204,277	1,132,794	(282,912)	2,304,928
OPERATING EXPENSES:					
Salaries, wages, and employee benefits	654,462	10,696	438,385	(12,218)	1,091,325
Supplies	189,891	38	195,514	-	385,443
Other operating expenses	265,084	17,235	365,109	(160,377)	487,051
Medical claims	-	183,462	-	(112,252)	71,210
(Losses) gains on fixed asset sales and disposals,net	(5,977)	-	(2,611)	125	(8,463)
Depreciation and amortization	63,185	127	32,338	(1,588)	94,062
Interest	23,359	618	9,906	(3,167)	30,716
Total operating expenses	1,190,004	212,176	1,038,641	(289,477)	2,151,344
Income (loss) from operations	60,765	(7,899)	94,153	6,565	153,584
NONOPERATING GAINS (LOSSES):					
Gains (losses) on investments, net	90,443	1,182	17,891	(2,066)	107,450
Interest rate swap activity	(3,348)	-	-	-	(3,348)
Contributions	3,725	-	90	(3,733)	82
Equity in gains of unconsolidated entities	311	-	37,228	-	37,539
Loss from extinguishment of debt	(721)	-	-	-	(721)
Other	41,186	(6)	3,309	(44,322)	167
Total nonoperating gains (losses)	131,596	1,176	58,518	(50,121)	141,169
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE TAXES	192,361	(6,723)	152,671	(43,556)	294,753
LESS INCOME TAX (BENEFIT) EXPENSE	(10)	(185)	4,056	-	3,861
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	192,371	(6,538)	148,615	(43,556)	290,892

*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 SWHP includes Scott & White Health Plan and Insurance Company of Scott & White.

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 Three Months Ended September 30, 2017
($ Thousands)

	Obligated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
OTHER CHANGES IN UNRESTRICTED NET ASSETS:					
Unrealized losses on investments, net	$ -	$ -	$ (2,300)	$ -	$ (2,300)
Net assets released from restrictions for capital expenditures	-	-	1,280	-	1,280
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(2,707)	-	16,764	11,012	25,069
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	-	-	(37,711)	(22,665)	(60,376)
Transfers between entities under common control	(3,680)	-	5,941	(2,261)	-
Other	8	-	(112)	-	(104)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	185,992	(6,538)	132,477	(57,470)	254,461
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	2,189	-	85,913	(1,880)	86,222
Realized investment income	-	-	4,334	-	4,334
Unrealized gains on investments	-	-	9,956	-	9,956
Change in value of split-interest agreements	5	-	94	-	99
Net assets released from restrictions for operations	(1,950)	-	(14,710)	1,880	(14,780)
Net assets released from restrictions for capital expenditures	-	-	(1,280)	-	(1,280)
Other	-	-	(660)	-	(660)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	244	-	83,647	-	83,891
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	-	-	866	-	866
Realized investment income	-	-	65	-	65
Unrealized gains on investments	-	-	136	-	136
Change in value of split-interest agreements	35	-	(30)	-	5
Other	-	-	406	-	406
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	35	-	1,443	-	1,478
INCREASE (DECREASE) IN NET ASSETS	186,271	(6,538)	217,567	(57,470)	339,830
NET ASSETS, beginning of period	5,300,353	120,367	2,556,456	(2,538,216)	5,438,960
NET ASSETS, end of period	$ 5,486,624	$ 113,829	$ 2,774,023	$ (2,595,686)	$ 5,778,790

*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 SWHP includes Scott & White Health Plan and Insurance Company of Scott & White.

Baylor Scott & White Health
Obligated Affiliates - Combined Statement of Cash Flows
For the Three Months Ended September 30, 2017
($ Thousands)

Cash Flows from Operating Activities:	
Increase in net assets	$ 186,271
Adjustments to reconcile increase in net assets	
to net cash provided by operating activities:	
Loss on extinguishment of debt	721
Unrealized gains on investments, net	(62,027)
Realized gains on sales of investments, net	(15,792)
Gains on interest rate swap, net	(2,637)
Patient related bad debt expense	50,853
Depreciation and amortization	63,185
Gains on fixed asset sales and disposals, net	(5,977)
Change in value of split-interest agreements	(40)
Transfers between entities under common control	3,680
Other changes attributable to noncontrolling interests	2,707
Changes in operating assets and liabilities (net of acquisitions):	
Increase in net patient accounts receivable	(48,258)
Increase in other accounts receivable	(5,848)
Increase in other assets	(31,199)
Increase in due from affiliates, net	(2,692)
Decrease in trade accounts payable and accrued liabilities	31,741
Decrease in other liabilities	14,926
Net cash provided by operating activities	179,614
Cash Flows from Investing Activities:	
Purchases of property and equipment, net	(91,562)
Cash proceeds from sales of assets	6,024
Increase in investments, net	(29,628)
Net payments on interest rate swap	(4,556)
Increase in investments of subsidiaries	(47,782)
Decrease in assets whose use is limited	4,112
Net cash used in investing activities	(163,392)
Cash Flows from Financing Activities:	
Principal payments on long-term debt	(389,540)
Proceeds from issuance of long-term debt	407,375
Transfers between entities under common control	(3,680)
Purchases of noncontrolling interests	(2,707)
Net cash provided by financing activities	11,448
Net Increase in Cash and Cash Equivalents	27,670
Cash and Cash Equivalents, beginning of period	705,901
Cash and Cash Equivalents, end of period	$ 733,571