Baylor Scott & White Holdings
and Its Controlled Affiliates

Combined Financial Statements and Supplementary Information

For the Years Ended June 30, 2019 and 2018

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

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Report of Independent Auditors

To the Board of Trustees of
Baylor Scott & White Holdings

We have audited the accompanying combined financial statements of Baylor Scott & White Holdings and its controlled affiliates, which comprise the combined balance sheets as of June 30, 2019 and 2018, and the related combined statements of operations and changes in net assets, and of cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Baylor Scott & White Holdings and its controlled affiliates as of June 30, 2019 and 2018, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The other community benefits information is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Dallas, Texas
November 1, 2019

BAYLOR SCOTT & WHITE HOLDINGS AND ITS CONTROLLED AFFILIATES

COMBINED BALANCE SHEETS - JUNE 30, 2019 and 2018

(In millions)

ASSETS	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	$ 813	$ 1,264
Short-term investments	337	180
THVG funds due from United Surgical Partners, Inc.	104	118
Accounts receivable:		
Patient, net of allowance for uncollectibles of $540 at 2018	845	805
Premiums	111	93
Other	228	187
Other current assets	355	348
Total current assets	2,793	2,995
LONG-TERM INVESTMENTS:		
Unrestricted	4,201	3,519
Restricted	518	506
Total long-term investments	4,719	4,025
ASSETS WHOSE USE IS LIMITED:		
Other designated assets	151	162
Self insurance reserves	116	111
Funds held by bond trustee	-	30
Total assets whose use is limited	267	303
PROPERTY AND EQUIPMENT, net	3,890	3,684
CONTRIBUTIONS RECEIVABLE, net	203	186
OTHER LONG-TERM ASSETS:		
Equity investment in unconsolidated entities	64	62
Goodwill and intangible assets, net	878	864
Interest in net assets of related foundation	4	4
Other	17	15
Total other long-term assets	963	945
Total assets	$ 12,835	$ 12,138

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	$ 142	$ 131
Long-term debt subject to short-term remarketing arrangements	95	95
Commercial paper	208	188
Trade accounts payable	349	339
Accrued liabilities:		
Payroll related	454	410
Third-party programs	104	114
Medical claims payable	73	29
Other	479	492
Total current liabilities	1,904	1,798
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	3,022	3,087
OTHER LONG-TERM LIABILITIES:		
Self insurance and other insurance liabilities	114	108
Interest rate swap liabilities, net	274	220
Other	336	306
Total other long-term liabilities	724	634
Total liabilities	5,650	5,519
COMMITMENTS AND CONTINGENCIES		
NONCONTROLLING INTERESTS – REDEEMABLE	453	425
NET ASSETS:		
Net assets without donor restrictions:		
Attributable to BSWH	5,727	5,212
Noncontrolling interests-nonredeemable	278	282
Total net assets without donor restrictions	6,005	5,494
Net assets with donor restrictions	727	700
Total net assets	6,732	6,194
Total liabilities and net assets	$ 12,835	$ 12,138

The accompanying notes are an integral part of these financial statements.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In millions)

	2019	2018
OPERATING REVENUE:		
Net patient care revenue before patient related bad debt expense		$ 8,902
Less patient related bad debt expense		744
Net patient care revenue	$ 8,447	8,158
Premium revenue	1,153	827
Other operating revenue	386	424
Net assets released from restrictions for operations	67	67
Total operating revenue	10,053	9,476
OPERATING EXPENSES:		
Salaries, wages, and employee benefits	4,561	4,444
Supplies	1,661	1,596
Other operating expenses	2,006	2,015
Medical claims	556	291
Losses (gains) on fixed asset sales and disposals, net	4	(5)
Impairment losses	-	52
Depreciation and amortization	415	379
Interest	125	122
Total operating expenses	9,328	8,894
INCOME FROM OPERATIONS	725	582
NONOPERATING GAINS (LOSSES):		
Gains on investments, net	224	216
Interest rate swap activity	(88)	31
Equity in earnings of unconsolidated entities	3	37
Loss from extinguishment of debt	-	(1)
Total nonoperating gains	139	283
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	864	865
LESS INCOME TAX EXPENSE	15	25
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	849	840

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - continued

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(In millions)

	2019	2018
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Unrealized losses on investments, net	$ -	$ (3)
Net assets released from restrictions for capital expenditures	31	12
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(92)	(7)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(274)	(255)
Net assets acquired	7	-
Other	(10)	9
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	511	596
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	98	205
Realized gains and investment income, net	28	26
Unrealized (losses) gains on investments, net	(1)	10
Change in value of split-interest agreements	2	(2)
Net assets released from restrictions for operations	(67)	(67)
Net assets released from restrictions for capital expenditures	(31)	(12)
Other	(2)	(1)
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	27	159
INCREASE IN NET ASSETS	538	755
NET ASSETS, beginning of period	6,194	5,439
NET ASSETS, end of period	$ 6,732	$ 6,194

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018
(In millions)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITES:		
Increase in net assets	$ 538	$ 755
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Loss from extinguishment of debt	-	1
Unrealized gains on investments, net	(69)	(77)
Realized gains on investments, net	(100)	(107)
Unrealized losses (gains) on interest rate swap, net	70	(53)
Contributions restricted for long-term purposes	(15)	(57)
Patient related bad debt expense	-	744
Depreciation and amortization	415	379
Impairment losses	-	52
Losses (gains) on fixed assets sales and disposals, net	4	(5)
Equity in earnings of unconsolidated entities	(3)	(37)
Change in value of split-interest agreements	(2)	2
Deferred rent	(2)	(4)
Other changes attributable to noncontrolling interests	360	271
Net assets acquired	(7)	-
Changes in operating assets and liabilities (net of acquisitions):		
Increase in net patient accounts receivable	(40)	(736)
(Increase) decrease in other accounts receivable	(19)	26
Increase in other assets	(23)	(137)
Increase in trade accounts payable and accrued liabilities	4	154
Increase in other long-term liabilities	57	36
Net cash provided by operating activities	1,168	1,207
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(590)	(485)
Cash proceeds from sales of assets	6	34
Cash paid for acquisitions, net of cash received	(31)	(49)
Decrease (increase) in THVG funds due from United Surgical Partners, Inc.	14	(32)
Increase in trading investments	(650)	(273)
Net payments on interest rate swaps	(34)	(14)
Purchases of other than trading investments	(19)	(31)
Sales of other than trading investments	19	29
Decrease in assets whose use is limited	37	22
Net cash used in investing activities	(1,248)	(799)

BAYLOR SCOTT & WHITE HOLDINGS AND ITS CONTROLLED AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS - continued

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(In millions)

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITES:		
Principal payments on long-term debt	$ (178)	$ (516)
Proceeds from issuance of long-term debt	140	553
Distributions to noncontrolling interests	(320)	(443)
Purchases of noncontrolling interests	(24)	(35)
Sales of noncontrolling interests	9	96
Cash receipts restricted for long-term purposes	3	12
Annuity payments to beneficiaries	(1)	(1)
Net cash used in financing activities	(371)	(334)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(451)	74
CASH AND CASH EQUIVALENTS, beginning of period	1,264	1,190
CASH AND CASH EQUIVALENTS, end of period	$ 813	$ 1,264
SUPPLEMENTAL CASH FLOW DATA:		
Cash paid for interest	$ 125	$ 120
Cash paid for income tax	$ 16	$ 14
Property and equipment acquired under capital leases	$ 3	$ 63
(Decrease) increase in accounts payable due to property and equipment received but not paid	$ (13)	$ 22
Decrease in contributions receivable for property and equipment	$ 14	$ -

1. ORGANIZATION

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

The combined financial statements include the accounts of BSW Holdings, BSW Health, BHCS, SWH, Baylor University Medical Center (BUMC), Scott & White Memorial Hospital (SWMH), Scott & White Health Plan (the "Health Plan"), five foundations, twenty-three community and specialty hospitals located throughout the Dallas and Fort Worth metroplex and the central Texas area, one wholly owned insurance subsidiary (Baylor Scott & White Assurance SPC (BSWA)), Baylor Quality Health Care Alliance, LLC, an accountable care organization, four physician practice organizations (HealthTexas Provider Network (HTPN), 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 four 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, 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 2019 and 2018:

THVG

BUMC has a majority ownership of 50.1% in THVG with USP North Texas, Inc. (USP), a Texas corporation and subsidiary of United Surgical Partners, Inc. (USPI) holding the remaining 49.9%. THVG had net patient care revenue included in the System's combined financial statements of approximately $1,216 million and $1,124 million for the years ended June 30, 2019 and 2018, respectively.

THVG completed the acquisition of one surgical hospital in 2018. THVG recorded goodwill and intangible assets, net of approximately $112 million, fixed assets of approximately $18 million, noncontrolling interests of approximately $91 million, and other net liabilities of approximately $39 million in 2018.

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

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

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

On December 31, 2017, BSWH and Tenet signed a definitive agreement to restructure ownership of the three remaining hospitals: Baylor Scott & White Medical Center – Centennial, Baylor Scott & White Medical Center – Lake Pointe, and Baylor Scott & White Medical Center – Sunnyvale. BSWH and Tenet owned the three hospitals through the BT East Dallas partnership since January 2016. Under the definitive agreement, BSWH acquired Tenet's interest in Baylor Scott & White Medical Center – Centennial and Baylor

Scott & White Medical Center – Lake Pointe, and took over as manager and operator effective March 1, 2018. Baylor Scott & White Medical Center – Sunnyvale became part of the existing THVG joint venture between Tenet's subsidiary USPI and BSWH, effective March 1, 2018. BSWH continues to be majority owner in the facility, while USPI took over its operation.

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 million is included in equity in earnings of unconsolidated entities in the accompanying combined statements of operations and changes in net assets.

BIR JV, LLP

BIR JV, LLP completed the acquisition of one rehabilitation hospital in 2018. BIR JV, LLP recorded goodwill and intangible assets, net and fixed assets of approximately $7 million, and other net liabilities of approximately $7 million in 2018.

FirstCare Health Plans

On January 1, 2019, the Health Plan acquired SHA, L.L.C. d/b/a FirstCare Health Plans and its subsidiary, Southwest Life & Health Insurance Company, from Covenant Health System in Lubbock, Texas and Hendrick Health System in Abilene, Texas. The Health Plan recorded goodwill and intangible assets, net of approximately $7 million, fixed assets of approximately $18 million and other net liabilities of approximately $25 million in 2019.

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.

Application of New Accounting Pronouncements

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

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

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

In May 2014, August 2015, April 2016, May 2016, December 2016, and February 2017, FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*"; ASU 2015-14, "*Revenue from Contracts with Customers*"; ASU 2016-10, "*Identifying Performance Obligations and Licensing*"; ASU 2016-12, "*Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*"; ASU 2016-20, "*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*"; and ASU 2017-05, "*Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*", respectively, which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, "*Revenue Recognition.*" These ASU's address when an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The System adopted the guidance under these ASU's, effective July 1, 2018 using the modified retrospective approach at the date of initial application. As a result of the adoption, amounts previously classified as provision for bad debts in the statement of operations are now reflected as implicit price concessions, and therefore, included as a reduction of net patient care revenue in fiscal year 2019. The patient accounts receivable allowance for uncollectible accounts was treated similarly. Other than these presentation changes, the adoption of ASC 606 did not have a material impact on the combined financial statements.

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

In 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 System applied the provisions of ASU 2015-17 in fiscal year 2019, which did not 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 System applied the provisions of ASU 2016-05 in fiscal year 2019, which did not have a material impact on the combined financial statements.

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 System applied the provisions of ASU 2016-06 in fiscal year 2019, which did not have a material impact on the combined financial statements.

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

In 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 System applied the provisions of ASU 2016-14 in fiscal year 2019, which did not have a material impact on the combined financial statements.

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

In June 2018, FASB issued ASU 2018-08, "*Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*." These amendments clarify the accounting guidance around contributions of cash and other assets made and received by not-for-profit organizations and business enterprises. The System applied the provisions of ASU 2018-08 in fiscal year 2019, which did not have a material impact on the combined financial statements.

Other Accounting Pronouncements

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

In February 2016, January 2018, July 2018, December 2018, and March 2019, FASB issued ASU 2016-02, "*Leases*"; ASU 2018-01, "*Land Easement Practical Expedient*"; ASU 2018-10, *"Codification Improvements to Topic 842, Leases"* and ASU 2018-11, *"Leases (Topic 842): Targeted Improvements."*; ASU 2018-20, "*Leases (Topic 842): Narrow-Scope Improvements for Lessors"*, and ASU 2019-01, "*Leases (Topic 842): Codification Improvements",* respectively. These ASU's require lessees to record a lease liability that represents the lessee's future lease obligation payments and a right-of-use asset that represents the lessee's right to use or control of a specified asset for the lease term. The main difference with current practice being that lessees will be required to record an asset and liability for what is now considered an operating lease. These ASU's are effective for fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities and not-for-profit entities that have issued publicly traded debt. The adoption of the standard will have a material impact on the combined balance sheets, as the System will recognize right-of-use assets between approximately $900 million and $1 billion, and a corresponding increase in total liabilities, for leases currently classified as operating. The adoption of this standard will not have a corresponding material impact on the statements of operations.

In June 2016, November 2018, April 2019, and May 2019, FASB issued ASU 2016-13, "*Financial Instruments-Credit Losses (Topic 326)*"; ASU 2018-19, *"Codification Improvements to Topic 326, Financial Instruments - Credit Losses";* ASU 2019-04, "*Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*"; and ASU 2019-05, "*Financial Instruments-Credit Losses (Topic 326)",* respectively. The current standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. These ASU's remove the requirement that a credit loss be probable of occurring for it to be recognized. Instead these ASU's require entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The provisions of these ASU's are effective for fiscal years beginning after December 15, 2020. The System is currently evaluating the impact of these ASU's.

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

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

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

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

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

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

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

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

In August 2018, FASB issued ASU 2018-14, "*Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the*

Disclosure Requirements for Defined Benefit Plans." The amendments in ASU 2018-14 remove certain requirements related to the amount and timing of plan assets expected to be returned to the employer, related party disclosures, and disclosures related to Level 3 fair value. Additionally, these amendments clarify and enhance the disclosures for projected benefit obligation and accumulated benefit obligation. The provisions of ASU 2018-14 are effective for fiscal years ending after December 15, 2020, for public business entities and December 15, 2021, for all other entities. The System is currently evaluating the impact of this ASU.

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

Cash and Cash Equivalents

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

THVG Funds Due from United Surgical Partners, Inc.

THVG participates in a shared services accounts payable program with USPI, wherein USPI has custody of substantially all of THVG's cash, paying THVG and its facilities interest income on the net balance at prevailing market rates. Amounts held by USPI on behalf of THVG totaled approximately $104 million and $118 million at June 30, 2019 and 2018, respectively. The funds due from USPI are available on demand.

Investments

The System has designated all of its investments as trading except for those investments held at HighGround Advisors (HA) for the benefit of the BHCS Foundation and the investments of All Saints Health Foundation. For all trading investments, the interest and dividends, realized gains (losses), and unrealized gains (losses) are included in gains 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 are included in gains on investments, net, unless restricted by donor. Unrealized gains (losses) on other than trading investments are included in other changes in net assets without donor restrictions, unless restricted by donor.

Interest and dividends, realized gains and unrealized gains (losses) for the years ended June 30, 2019 and 2018 consisted of the following (in millions):

	2019			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 67	$ 87	$ 70	$ 224
Changes in net assets with donor restrictions	15	13	(1)	27
	$ 82	$ 100	$ 69	$ 251

	2018			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 55	$ 91	$ 70	$ 216
Other changes in net assets without donor restrictions	-	-	(3)	(3)
Changes in net assets with donor restrictions	10	16	10	36
	$ 65	$ 107	$ 77	$ 249

Patient Accounts Receivable

Patient accounts receivables are related to providing healthcare services to patients, whose costs are primarily paid by government-related programs (i.e., Medicare and Medicaid), managed care providers, commercial insurance companies, and other payors. The System reports patient accounts receivable at amounts equal to the consideration the System expects to receive in exchange for providing healthcare services to its patients. The expected consideration is estimated using contractual provisions associated with specific payors, historical reimbursement rates, and an analysis of historical adjustments.

Receivables from government-related programs (i.e., Medicare and Medicaid) represent the only concentrated group of payors for the System's receivables, and management does not believe there are any unusual collectability risks associated with these government programs. Approximately 37% and 36% of patient accounts receivable are from government-related programs at June 30, 2019 and 2018, respectively. Commercial and managed care receivables consist of receivables from various payors involved in diverse activities and are subject to differing economic conditions.

The primary collection risk relates to uninsured patient accounts, including the patient portion of insured accounts. Implicit price concessions on these accounts are based on management's assessment of historical write-offs, cash collections, aging of the accounts, and other economic factors. Accounts are written off when collection efforts are exhausted.

Premiums Receivable and Premium Revenue

Premium revenue is recognized as income in the period that members are entitled to receive services, as specified by the provisions of the arrangement. Premiums billed or received in advance of the service period are reported as unearned premiums.

Premiums receivable also includes annual settlements under the cost contract established between the Health Plan and the Centers for Medicare & Medicaid Services (CMS). The CMS Medicare Part B (Section 1876) cost plan contract covers Medicare-covered members' medical services allowed under Medicare Part B coverage and contains provisions for risk sharing and reimbursement of allowed costs for which the Health Plan is not at risk. Final reporting of each plan year's total allowed costs is not completed until June 30 of the year following the plan year, at which time an interim settlement of costs due to/from the plan occurs. Part B cost report audits, conducted on a triennial basis, may result in further adjustments to the total allowable costs reported in the current period and may affect the reimbursement to the Health Plan. At June 30, 2019 and 2018, the settlement amounts receivable from CMS under this contract were $11 million and $24 million, respectively. Premiums receivable generally are not collateralized.

Significant concentrations of premiums receivable were 99% and 98% from local, state, and federal government-related programs at June 30, 2019 and 2018, respectively. Premium revenue from local, state, and federal agencies accounted for 77% and 68% of total premium revenue for the years ended June 30, 2019 and 2018, respectively.

Property and Equipment

Property and equipment are stated at cost on the date of purchase or fair value on the date of contribution or business acquisition. Property and equipment and related accumulated depreciation and amortization are summarized below as of June 30, 2019 and 2018 (in millions):

	Useful Life	2019	2018
Land	-	$ 288	$ 284
Building and improvements	5 - 40 Years	4,357	4,091
Major moveable equipment and other	3 - 20 Years	3,056	2,838
Construction-in-progress	-	312	316
		8,013	7,529
Accumulated depreciation		(4,123)	(3,845)
		$ 3,890	$ 3,684

Property and equipment financed under capital leases totaled approximately $398 million and $418 million at June 30, 2019 and 2018, respectively, and related accumulated amortization was approximately $153 million and $154 million at June 30, 2019 and 2018, respectively. Amortization expense is included in depreciation and amortization expense in the accompanying combined statements of operations and changes in net assets.

Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives of the property and equipment or the lease term, whichever is less. Depreciation expense was approximately $401 million and $376 million for the years ended June 30, 2019 and 2018, respectively. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized.

Goodwill and Intangible Assets

Goodwill and intangible assets recorded in connection with acquisitions completed by the System are accounted for under ASC 350, *"Intangibles - Goodwill and Other."* Goodwill consists of costs in excess of tangible and intangible net assets acquired. Intangible assets consist of management service contract rights and other intangibles.

The System amortizes definite-lived intangible assets over their respective useful lives to the estimated residual values and reviews for impairment in the same manner as long-lived assets, as discussed below. No impairments were identified in 2019 or 2018.

Goodwill and indefinite-lived intangible assets are tested for impairment annually or more frequently if changing circumstances warrant. No impairments were identified in 2019 or 2018.

At June 30, 2019 and 2018, intangible assets and goodwill consisted of the following (in millions):

	2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Definite-lived intangible assets	$ 45	$ (31)	$ 14
Indefinite-lived intangible assets	29	-	29
Total intangible assets	74	(31)	43
Goodwill	835	-	835
Total intangible assets and goodwill	$ 909	$ (31)	$ 878

	2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Definite-lived intangible assets	$ 37	$ (20)	$ 17
Indefinite-lived intangible assets	29	-	29
Total intangible assets	66	(20)	46
Goodwill	818	-	818
Total intangible assets and goodwill	$ 884	$ (20)	$ 864

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or related groups of assets, may not be recoverable from estimated future undiscounted cash flows. If circumstances suggest that the recorded amounts cannot be recovered based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value. In the event of impairment, measurement of the amount of impairment may be based on valuation models using Level 3 inputs consisting of appraisals, fair values of similar assets, or estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset.

Based on continued deterioration in financial performance, and the resulting impact on projections of future cash flows, BSWH determined impairment indicators were present in 2018. The long-lived assets that were reviewed for impairment consisted of a building, a building under capital lease, leasehold improvements, and major moveable equipment. In 2018, management determined the estimated fair value of the building under capital lease, leasehold improvements, and major moveable equipment were less than their carrying value and were impaired. Accordingly, BSWH recorded impairments of approximately $52 million for the year ended June 30, 2018, which are included in impairment losses in the accompanying combined statements of operations and changes in net assets.

Income Taxes

Due to the organizational structure, certain of the System's entities are taxable under the Internal Revenue Code and some entities are tax exempt but are required to pay income taxes for unrelated business activities. The overall impact of federal income taxes to the System's combined financial statements is not significant. In addition, certain of the System's entities file partnership income tax returns in the U.S. federal jurisdiction and franchise tax returns in the state of Texas. These entities are no longer subject to U.S. federal, state, and local income tax examinations by authorities for years prior to 2015.

The Texas franchise tax applies to certain of the System's entities. The tax is calculated on a margin base and is therefore reflected in the System's combined statements of operations and changes in net assets as income tax expense.

The System follows the provisions of ASC 740, *"Income Taxes."* As of June 30, 2019 and 2018, the System had no material gross unrecognized tax benefits.

Insurance

For 2019 and 2018, excess policies that covered claims that exceeded $10 million per incident and $50 million in the general aggregate (shared) for hospital professional liability, general liability, and HTPN professional liability were provided by BSWA. The excess liability policies are reinsured 100% by ACE American Insurance Company (Chubb) and various other reinsurers.

Reserves for Self-Insurance Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses are based upon management's estimate of the ultimate liability for outstanding losses and loss adjustment expenses determined in comparison with historical and industry loss statistics. Management uses case basis evaluations and actuarial analysis to develop their estimate. Management believes that the reserves for losses and loss adjustment expenses are adequate. However, because of the extended period of time over which losses are settled and the general uncertainty surrounding the estimates, the ultimate settlement cost of the losses and the related loss adjustment expenses could vary, and these differences could be material. The estimate is continuously reviewed and, as adjustments to the liability become necessary, they are reflected in current operations.

Liabilities for outstanding claims, including estimates for claims incurred but not reported, as well as reported claims pending settlement, are actuarially determined and discounted using an interest rate of 2.0% in both 2019 and 2018. Total undiscounted reserves for losses and loss adjustment expenses were approximately $108 million and $104 million at June 30, 2019 and 2018, respectively. Discounted reserves for losses and loss adjustment expenses, including a risk margin at an approximate seventy percent confidence level, were approximately $110 million and $106 million at June 30, 2019 and 2018, respectively.

Contributions and Gifts

When received or pledged, unrestricted gifts are reported as contributions to net assets without donor restrictions and donor-restricted items are reported as contributions to net assets with donor restrictions. Donor-restricted contributions are restricted as to use and are transferred from net assets with donor restrictions to net assets without donor restrictions when the restrictions are satisfied or, in the case of endowment funds, when related earnings are appropriated for expenditure.

Net Assets with Donor Restrictions

Net assets with donor restrictions are donor restricted as to use or time, and are transferred from net assets with donor restrictions to net assets without donor restrictions when the restrictions are satisfied. Net assets are primarily available for patient care, medical education, and research.

Net assets with donor restrictions include donor-restricted endowments in which the principal is invested in perpetuity and only the income from the investments is expended for designated purposes. Income on endowment funds restricted for specified purposes, or which is required to be invested in perpetuity, is reported in the accompanying combined statements of operations and changes in net assets as realized gains and investment income, net and unrealized (losses) gains on investments, net in changes in net assets with donor restrictions.

Revenue and Gains in Excess of Expenses and Losses

The combined statements of operations and changes in net assets include revenues and gains in excess of expenses and losses. Other changes in net assets without donor restrictions which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include unrealized losses on investments classified as other than trading securities, transactions related to noncontrolling interests, and net assets released from restrictions for capital expenditures.

Derivative Financial Instruments

ASC 815, *"Derivatives and Hedging,"* requires that all derivative financial instruments be recognized in the combined financial statements and measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are recognized periodically in nonoperating gains. The System's policy is to not hold or issue derivatives for trading purposes and to avoid derivatives with leverage features.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets, disclosure of contingent assets and liabilities as of the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain reclassifications were made to the 2018 financial statements to conform to the 2019 presentation.

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 that 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, accounts payable, accrued liabilities, and estimated third-party programs 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 and restricted long-term investments in the accompanying combined balance sheets. The investments in alternative investments are valued by management at fair value utilizing the net asset value (NAV) provided by the underlying investment companies unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties as the System does not intend to sell such investments before the expiration of the early redemption periods. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Investments valued at NAV are not leveled within the fair value hierarchy. BHCS Foundation also has other real estate and oil and gas interests which are carried at the lower of cost or market and represent Level 3 assets.

Beneficial Interests

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 interests are 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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The following tables set forth below, by level, the financial assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018 (in millions):

	June 30, 2019			
Assets:	Total	Level 1	Level 2	Level 3
Cash and cash equivalents				
Cash	$ 788	$ 788	$ -	$ -
Money market funds	25	25	-	-
Total cash and cash equivalents	813	813	-	-
Short-term investments				
Mutual funds	330	330	-	-
Fixed income securities	5	-	5	-
Other	2	2	-	-
Total short-term investments	337	332	5	-
Unrestricted long-term investments				
Cash	1	1	-	-
Certificates of deposit	1	1	-	-
Mutual funds	535	535	-	-
Equity securities	1,129	277	852	-
Fixed income securities	765	-	765	-
U.S. government securities	538	-	538	-
Mortgage-backed securities	134	-	134	-
Split-interest agreements	1	-	1	-
Cash surrender value life insurance	1	-	-	1
Common funds, held at HA				
Group investment fund	1	-	1	-
Assets held at NAV practical expedient [1]				
Hedge funds/diversifiers alternative investments	580			
Private equity alternative investments	249			
Real estate alternative investments	137			
Total unrestricted long-term investments	4,072	814	2,291	1

In the accompanying combined balance sheets, unrestricted long-term investments at June 30, 2019, includes an investment of approximately $129 million accounted for under the cost method.

	June 30, 2019			
Assets (continued):	Total	Level 1	Level 2	Level 3
Restricted long-term investments				
Cash	$ 4	$ 4	$ -	$ -
Mutual funds	89	89	-	-
Equity securities	168	42	126	-
Fixed income securities	35	-	35	-
U.S. government securities	26	-	26	-
Mortgage-backed securities	7	-	7	-
Split-interest agreements	5	-	5	-
Cash surrender value of life insurance	1	-	-	1
Common funds, held at HA				
Group investment fund	49	-	49	-
Group bond fund	3	-	3	-
Group equity fund	6	-	6	-
Other funds	1	1	-	-
Assets held at NAV practical expedient [(1)]				
Hedge funds/diversifiers alternative investments	67			
Private equity alternative investments	45			
Real estate alternative investments	12			
Total restricted long-term investments	518	136	257	1

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	June 30, 2019			
Assets (continued):	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Cash	$ 1	$ 1	$ -	$ -
Money market funds	6	6	-	-
Mutual funds	202	202	-	-
Equity securities	2	2	-	-
Fixed income securities	16	-	16	-
U.S. government securities	30	-	30	-
Mortgage-backed securities	10	-	10	-
Total assets whose use is limited	267	211	56	-
Contributions receivable, net				
Total beneficial interests in split-interest agreements	29	-	-	29
Total assets at fair value	$ 6,036	$ 2,306	$ 2,609	$ 31
Liabilities:				
Interest rate swap agreements, net of collateral	$ 274	$ -	$ 274	$ -
Total liabilities at fair value	$ 274	$ -	$ 274	$ -

(1) Hedge funds/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.

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	June 30, 2018			
Assets:	Total	Level 1	Level 2	Level 3
Cash and cash equivalents				
Cash	$ 1,214	$ 1,214	$ -	$ -
Money market funds	48	48	-	-
U.S. government securities	2	-	2	-
Total cash and cash equivalents	1,264	1,262	2	-
Short-term investments				
Mutual funds	174	174	-	-
Fixed income securities	1	-	1	-
U.S. government securities	4	-	4	-
Other	1	1	-	-
Total short-term investments	180	175	5	-
Unrestricted long-term investments				
Cash	3	3	-	-
Certificates of deposit	1	1	-	-
Mutual funds	37	37	-	-
Equity securities	1,487	327	1,160	-
Fixed income securities	221	-	221	-
U.S. government securities	306	-	306	-
Mortgage-backed securities	353	53	300	-
Split-interest agreements	1	-	1	-
Other	1	-	-	1
Assets held at NAV practical expedient (1)				
Hedge funds/diversifiers alternative investments	628			
Private equity alternative investments	214			
Real estate alternative investments	138			
Total unrestricted long-term investments	3,390	421	1,988	1

In the accompanying combined balance sheets, unrestricted long-term investments at June 30, 2018, includes an investment of approximately $129 million accounted for under the cost method.

	June 30, 2018			
Assets (continued):	Total	Level 1	Level 2	Level 3
Restricted long-term investments				
Cash	$ 8	$ 8	$ -	$ -
Mutual funds	51	51	-	-
Equity securities	196	47	149	-
Fixed income securities	14	-	14	-
U.S. government securities	22	-	22	-
Mortgage-backed securities	26	4	22	-
Split-interest agreements	5	-	5	-
Cash surrender value of life insurance	1	-	-	1
Common funds, held at HA				
Group investment fund	47	-	47	-
Group bond fund	2	-	2	-
Group equity fund	6	-	6	-
Other funds	2	2	-	-
Assets held at NAV practical expedient (1)				
Hedge funds/diversifiers alternative investments	73			
Private equity alternative investments	41			
Real estate alternative investments	12			
Total restricted long-term investments	506	112	267	1

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	June 30, 2018			
Assets (continued):	Total	Level 1	Level 2	Level 3
Assets whose use is limited				
Cash	$ 54	$ 54	$ -	$ -
Money market funds	6	6	-	-
Mutual funds	184	184	-	-
Equity securities	2	2	-	-
Fixed income securities	22	-	22	-
U.S. government securities	35	-	35	-
Total assets whose use is limited	303	246	57	-
Contributions receivable, net				
Total beneficial interests in split-interest agreements	25	-	-	25
Total assets at fair value	$ 5,668	$ 2,216	$ 2,319	$ 27
Liabilities:				
Interest rate swap agreements, net of collateral	$ 220	$ -	$ 220	$ -
Total liabilities at fair value	$ 220	$ -	$ 220	$ -

(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.

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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 years ended June 30, 2019 and 2018 (in millions):

	2019		
	Split-Interest Agreements	Other	Total
Balance, beginning of period	$ 25	$ 2	$ 27
Realized gains, net	1	-	1
Unrealized gains, net	1	-	1
Purchases	2	-	2
Balance, end of period	$ 29	$ 2	$ 31

	2018		
	Split-Interest Agreements	Other	Total
Balance, beginning of period	$ 22	$ 2	$ 24
Realized losses, net	(4)	-	(4)
Purchases	7	1	8
Settlements	-	(1)	(1)
Balance, end of period	$ 25	$ 2	$ 27

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At June 30, 2019 and 2018, alternative investments recorded at NAV consisted of the following (in millions):

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Equity-linked investments [a]	$ 51	$ -	quarterly, annually	60-90 days
Event-driven investments [b]	85	-	quarterly, annually	30-90 days
Credit-linked investments [c]	85	-		
Multi-strategy investments [d]	1	-	monthly, quarterly	30-90 days
Tactical trading investments [e]	107	-	daily, monthly	2-90 days
Risk parity and global asset allocation fund [f]	318	-	monthly	5-30 days
Real estate funds - open ended [g]	57	-	quarterly	90 days
Real estate funds - close ended [h]	92	21		
Private equity funds [i]	222	158		
Private debt funds [j]	72	61		
Total	$ 1,090	$ 240		

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Equity-linked investments [a]	$ 62	$ -	quarterly, annually	60-90 days
Event-driven investments [b]	86	-	quarterly, annually	30-90 days
Credit-linked investments [c]	84	-		
Multi-strategy investments [d]	2	-	monthly, quarterly	30-90 days
Tactical trading investments [e]	247	-	daily, monthly	2-90 days
Risk parity and global asset allocation fund [f]	220	-	monthly	5-30 days
Real estate funds - open ended [g]	79	-	quarterly	90 days
Real estate funds - close ended [h]	71	34		
Private equity funds [i]	195	126		
Private debt funds [j]	60	32		
Total	$ 1,106	$ 192		

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

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

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

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

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

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

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

h) Real estate – closed end fund managers invest primarily in U.S. commercial real estate and industries related to real estate, with some having minimal exposure outside of the U.S. These partnerships are illiquid, and therefore do not have a redemption feature. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of these funds will be liquidated over the next six years with the value of those underlying assets 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) Forty-four 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.

j) Fourteen 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, distributions are received as income from the debt 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.

Long-term Debt

The System's long-term debt obligations, excluding capital leases, are reported in the accompanying combined balance sheets at carrying value which totaled approximately $3,032 million and $3,048 million at June 30, 2019 and 2018, respectively. The fair value of these obligations is estimated based primarily on quoted market prices for related bonds and is therefore classified as Level 2. The fair value of the System's long-term debt obligations, excluding capital leases, totaled approximately $3,174 million and $3,087 million at June 30, 2019 and 2018, respectively.

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4. LIQUIDITY

The System's financial assets available as of June 30, 2019 for general expenditure within one year of the balance sheet date, are comprised of the following (in millions):

Cash and cash equivalents	$	813
Short-term investments		337
THVG funds due from USPI		104
Patient accounts receivable		845
	$	2,099

As a part of the System's liquidity management plan, BSWH structures its financial assets to be available for general operating expenses, current liabilities, and other obligations as they become due. Excess daily cash requirements are invested in short-term obligations. Additionally, BSWH has access to public and private debt-markets and maintains a $400 million line of credit to cover any short-falls in liquidity**.**

5. MEDICAL CLAIMS PAYABLE

Medical claims payable represents management's estimate of the ultimate net cost of all reported and unreported medical claims and claim adjustment expenses incurred through June 30, 2019 and 2018. Reserves for unpaid medical claims are actuarially estimated using individual case-basis valuations and statistical analysis. These estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that reserves for unpaid medical claims are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in operations when determined. There were no material adjustments recorded to these estimates during the years ended June 30, 2019 and 2018.

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A rollforward of medical claims payable for the years ended June 30, 2019 and 2018, is as follows (in millions):

	2019	2018
Medical claims payable - beginning of year	$ 29	$ 37
Incurred related to:		
Current year	563	292
Prior years	(7)	(1)
	556	291
Paid related to:		
Current year	(492)	(268)
Prior years	(20)	(31)
	(512)	(299)
Medical claims payable - end of year	$ 73	$ 29

The following table provides information about incurred and paid medical claims development for the years ended June 30, 2019 and 2018 (in millions):

	2019	2018
Incurred medical claims by claim year		
2017	$ 354	$ 353
2018	284	292
2019	563	-
Total incurred medical claims	1,201	645
Paid medical claims by claim year		
2017	351	348
2018	285	268
2019	492	-
Total paid medical claims	1,128	616
Medical claims payable	$ 73	$ 29

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations as of June 30, 2019 and 2018, consist of the following:

	2019	2018
	(In millions)	
BSW Holdings -		
Series 2015 Bonds (Taxable) -		
Term Bonds, fixed interest rates ranging from 2.12% to 4.19%, payable semi-annually, principal payable November 2020, 2025 and 2045	$ 550	$ 550
Series 2015A Revenue Bonds -		
Term Bonds, fixed interest rate of 2.19%, payable semi-annually, principal payable through November 2027	167	170
Series 2015B Revenue Bonds -		
Variable interest rate payable monthly (2.43% at June 30, 2019), principal payable November 2032 through November 2050	45	45
Series 2015C Revenue Bonds -		
Variable interest rate payable monthly (2.43% at June 30, 2019), principal payable August 2030 through August 2041	86	86
Series 2016 Bonds (Taxable) -		
Term Bonds, fixed interest rates ranging from 1.95% to 3.97%, payable semi-annually, principal payable November 2021, 2026 and 2046	535	535
Series 2016A Revenue Bonds -		
Serial and Term Bonds, fixed interest rates ranging from 3.00% to 5.00%, payable semi-annually, principal payable through November 2045	360	365

	2019	2018
	(In millions)	
Series 2017A Revenue Bonds - Variable interest rate payable monthly (2.24% at June 30, 2019), principal payable August 2030 through August 2050	$ 75	$ 77
Series 2017B Revenue Bonds - Variable interest rate payable monthly (2.38% at June 30, 2019), principal payable August 2030 through August 2050	75	75
Series 2017C Revenue Bonds - Variable interest rate payable monthly (2.43% at June 30, 2019), principal payable August 2030 through August 2050	44	44
Series A Commercial Paper Notes (Taxable) - Variable interest rate (2.35% to 2.49% at June 30, 2019)	208	188
Credit Line Revolver (Taxable) - Variable interest rate payable monthly (2.75% at June 30, 2019), principal payable January 2020	79	79
BHCS -		
Series 2000 Taxable Notes (Auction Rate Securities) - Serial Notes, variable interest rate, payable monthly, principal payable November 2019 through 2025	-	20
Series 2011A Revenue Bonds - Serial Bonds, fixed interest rates ranging from 3.00% to 5.00%, payable semi-annually, principal payable through November 2030	41	42

	2019	2018
	(In millions)	
Series 2011B Revenue Bonds - Window Variable Rate Demand Bonds, variable interest rate (2.20% at June 30, 2019), payable monthly, principal payable November 2032 through 2050	$ 50	$ 50
Series 2011C Revenue Bonds - Variable Rate Demand Bonds, variable interest rate (1.95% at June 30, 2019), payable monthly, principal payable November 2032 through 2050	45	45
Series 2013A Revenue Bonds - Serial and Term Bonds, fixed interest rates ranging from 3.38% to 5.00%, payable semi-annually, principal payable November 2028 through 2043	169	169
Series 2013B Revenue Bonds - Window Variable Rate Demand Bonds, variable interest rate (2.20% at June 30, 2019), payable monthly, principal payable November 2033 through 2050	45	45
Series 2013C Revenue Bonds (Taxable) - Term Bonds, fixed interest rate of 4.45%, payable semi-annually, principal payable November 2033 through 2043	63	63
Building Lease - Crutcher Annex - Interest rate of 2.85% payable monthly, principal and interest payments through May 2025	8	9
HRT Properties of Texas, Ltd., Building Leases - Interest rate of 4.88%, payable monthly, principal and interest payments through June 2044	3	4

	2019	2018
	(In millions)	
SWH -		
Series 2013A Revenue Bonds -		
Serial and Term Bonds, fixed interest rates ranging from 4.00% to 5.00%, payable semi-annually, principal payable through August 2043	$ 169	$ 171
Series 2013C Revenue Bonds -		
Variable interest rate payable monthly (2.70% at June 30, 2019), principal payable August 2030 through August 2046	94	94
Lake Pointe Construction Loan -		
Interest rate of 4.21% payable monthly, principal and interest payable through December 2026	45	45
Baylor Medical Center at Irving - Building Lease -		
Interest rate of 3.68% payable monthly, principal and interest payments through March 2045	147	150
Baylor Medical Center at Carrollton - Building Lease -		
Interest rate of 9.50%, payable monthly, principal and interest payments through December 2033	52	53
Baylor Scott & White Sports Therapy & Research at The Star in Frisco - Building Leases -		
Interest rates ranging from 4.10% to 6.80%, payable monthly, principal and interest payments through May 2033	59	61
THVG -		
Equipment Notes Payable -		
Interest rates ranging from 2.00% to 8.00%, payable monthly, principal and interest payments through December 2023	52	55
Building Lease, Frisco Medical Center, LLP -		
Interest rate of 11.63%, payable monthly, principal and interest payments through June 2027	41	44

	2019	2018
	(In millions)	
Building Lease, Arlington Orthopedic and Spine Hospital - Interest rate of 8.61%, payable monthly, principal and interest payments through February 2030	$ 24	$ 25
Building Lease, Dallas Uptown - Interest rate of 9.43%, payable monthly, principal and interest payments through January 2031	21	21
Other THVG Leases - Interest rates ranging from 9.13% to 14.47%, payable monthly, principal and interest payments through May 2029	15	17
Other capital leases and long-term debt	50	52
	3,417	3,449
Net unamortized original issue premium/discount and bond issuance costs	50	52
Current maturities	(142)	(131)
Commercial paper	(208)	(188)
Long-term debt subject to short-term remarketing arrangements	(95)	(95)
	$ 3,022	$ 3,087

BSW Holdings

BSW Holdings and certain of its affiliates issue and secure 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, SWH, BUMC, SWMH, Baylor All Saints Medical Center, a Texas nonprofit corporation, Garland, Baylor Regional Medical Center at Grapevine, a Texas nonprofit corporation, Baylor Medical Center at Waxahachie, a Texas nonprofit corporation, Baylor Regional Medical Center at Plano, a Texas nonprofit corporation, Scott & White Hospital – College Station (College Station), a Texas nonprofit corporation, Scott & White Clinic, a Texas nonprofit corporation, Scott & White Hospital – Round Rock, a Texas nonprofit corporation, Scott & White Continuing Care Hospital, a Texas nonprofit corporation, and Hillcrest Baptist Medical Center, a Texas nonprofit corporation. BSW Holdings is currently the Combined Group Representative under the Master Indenture.

In January 2015, BSW Holdings entered into a four-year revolving line of credit. In January 2019, the expiration of the revolving line of credit was extended to January 2020. Under this line of credit, BSW Holdings may borrow at variable rates through January 2020. The borrowing capacity under the line of credit is $400 million, of which $79 million was drawn as of June 30, 2019 and 2018.

In April and May 2015, BSW Holdings issued the $550 million Series 2015 Taxable Bonds and the $177 million Series 2015A Revenue Bonds (collectively, the “BSW Holdings Series 2015 Bonds”). Proceeds of the BSW Holdings Series 2015 Bonds were used to advance refund approximately $407 million of the outstanding principal of the SWH Series 2008A and BHCS Series 2009 Bonds and to partially advance refund the SWH Series 2010 Bonds. Upon issuance of the BSW Holdings Series 2015 Bonds, $271 million of the SWH Series 2010 bonds remained outstanding. Remaining proceeds of the BSW Holdings Series 2015 Bonds were used to fund development and construction costs of various expansion and construction projects, pay costs of issuance, and provide for any eligible corporate purpose.

In December 2015, BSW Holdings placed the $45 million Series 2015B, $86 million Series 2015C, and $44 million Series 2015D Revenue Bonds (the “BSW Holdings Series 2015B, C, and D Bonds”) with various banks. Proceeds of the BSW Holdings Series 2015B, C and D Bonds were used to refinance the following variable rate demand bonds issued via the Tarrant County Cultural Education Facilities Corporation (TCCEFC) conduit issuer: Hospital Revenue Bonds (Scott and White Memorial Hospital and Scott, Sherwood and Brindley Foundation Project) Series 2008-1, Hospital Revenue Bonds (Baylor Health Care System Project) Series 2011D, and Hospital Revenue Bonds (Baylor Health Care System Project) Series 2011E (collectively, the “Refinanced VRDBs”) with an aggregate outstanding balance of $175 million. In conjunction with redemption of the Refinanced VRDBs, three supporting direct-pay letters of credit were terminated: two with Wells Fargo Bank, N.A. and one with J.P. Morgan Bank, N.A.

In April 2016, BSW Holdings issued the $535 million Series 2016 Taxable Bonds (the "BSW Holdings Series 2016 Bonds"). Proceeds were used to pay off a $250 million bridge facility and costs of issuance. The remaining BSW Holdings Series 2016 Bonds proceeds were used for eligible corporate purposes.

Additionally, in April 2016, BSW Holdings issued the $373 million Series 2016A Revenue Bonds through TCCEFC. Proceeds from the BSW Holdings Series 2016A Bonds were used to completely advance refund $267 million of the outstanding par value of the TCCEFC Hospital Revenue Bonds (Scott & White Healthcare Project) Series 2010 Revenue Bonds plus accrued interest. In connection with the defeasance of the SWH Series 2010 Revenue Bonds, the Obligated Affiliates' revenue pledge under the Master Indenture was released as provided in such document. As a result, no collateral secures the debt and swap obligations issued by the Obligated Affiliates under the Master Indenture. The remaining BSW Holdings Series 2016A Bonds proceeds were used for various tax-exempt project expenditures and to pay costs of issuance.

In September 2017, BSW Holdings created a taxable commercial paper program ("BSW Holdings CP Program"). The BSW Holdings CP Program allows for the issuance of up to $400 million of commercial paper notes, of which an aggregate amount of $188 million was issued in September 2017. Additionally, in September 2017 BSW Holdings placed the $77 million Series 2017A, $75 million Series 2017B, and $44 million Series 2017C Revenue Bonds (collectively "BSW Holdings Series 2017A, B, and C Bonds") with various banks. Proceeds from the BSW Holdings CP Program issuance and BSW Holdings Series 2017A, B, and C Bonds were used to redeem the SWH Series 2010, BHCS Series 2011F, BHCS Series 2011G, BSW Holdings Series 2015D Bonds as well as a SWH taxable loan, a SWH tax-exempt note, and a BHCS taxable loan.

In November 2018, BSW Holdings issued additional commercial paper, increasing the amount outstanding under the BSW Holdings CP Program by $20 million to an undiscounted total of $208 million. Proceeds of the additional commercial paper issuance were used to redeem the outstanding BHCS Series 2000 Auction Rate Securities in full.

BHCS

In June 2011, BHCS issued the Series 2011A, B, C, D, E, F, and G Revenue Bonds ("BHCS Series 2011 Bonds") in the aggregate amount of $359 million through TCCEFC. Proceeds from the BHCS Series 2011 Bonds were used to repay $75 million in borrowings under the taxable revolving line of credit and refund $150 million of the Series 2006B and 2006C Revenue Bonds. The remaining BHCS Series 2011 Bonds proceeds were used for various project expenditures and to pay cost of issuance.

The BHCS Series 2011 Bonds issuance included $50 million of Window Variable Rate Demand Bonds. These bonds are subject to long-term amortization periods and may be put to BHCS at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2019 and 2018, the principal amount of such bonds has been classified as a current obligation in the accompanying combined balance sheets. Although management believes the likelihood to be remote, management has taken steps to provide various sources of liquidity in the event any bonds were to be put back to BHCS.

In April 2013, BHCS issued the Series 2013A and B Hospital Revenue Bonds and Series 2013C Taxable Hospital Revenue Bonds ("BHCS Series 2013 Bonds") through the TCCEFC in the aggregate amount of $277 million. Proceeds from the BHCS Series 2013 Bonds were used to repay $112 million in borrowings under a taxable revolving line of credit. The remaining bond proceeds were used for various project expenditures and to pay cost of issuance. The BHCS Series 2013 Bonds issuance included $45 million of Window Variable Rate Demand Bonds. These bonds are subject to long-term amortization and may be put to BHCS at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2019 and 2018, the principal amount of such bonds has been classified as a current obligation in the accompanying combined balance sheets. Although management believes the likelihood to be remote, management has taken steps to provide various sources of liquidity in the event any bonds were to be put back to BHCS.

SWH

In March 2013, SWH issued Series 2013A, B, and C Revenue Bonds ("SWH Series 2013 Bonds") with an aggregate principal of $354 million through TCCEFC. Proceeds of the SWH Series 2013 Bonds were used to refund the Hillcrest 2006A Revenue Bonds and the SWH Series 2008-2 Bonds. The remaining SWH Series 2013 Bonds proceeds were used for various project expenditures and to pay cost of issuance.

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Future maturities of long-term debt and capital lease obligations as of June 30, 2019, are shown below (in millions):

	Long-Term Debt	Capital Lease Obligations	Total
2020	$ 427	$ 44	$ 471
2021	136	44	180
2022	39	42	81
2023	36	42	78
2024	33	42	75
Thereafter	2,361	408	2,769
	3,032	622	3,654
Less imputed interest	-	237	237
	$ 3,032	$ 385	$ 3,417

7. INTEREST RATE SWAPS

Effective July 30, 2014, BSWH consolidated its separate International Swaps and Derivatives Association (ISDA) agreements with Goldman Sachs Bank USA (Goldman) and related swap portfolios at BHCS and SWH under a single BSW Holdings ISDA. Upon completion of the BSW Holdings ISDA, BHCS and SWH swaps with Goldman were novated to the new BSW Holdings ISDA in an aggregate notional amount of $250 million.

Effective August 29, 2014, SWH novated a portion (cash flows through August 15, 2022) of two swaps with JP Morgan to Wells Fargo. The residual remaining cash flows (from September 15, 2022 through August 15, 2045) remain at JP Morgan under the SWH ISDA.

Effective October 23, 2014, BHCS novated the two SWH swaps with Wells Fargo (originally novated from JP Morgan to Wells Fargo on August 29, 2014) from the SWH ISDA to the BHCS ISDA. Concurrent with this novation, the Wells Fargo collateral thresholds under the BHCS Credit Support Annex were increased to accommodate the novated 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, N.A. and two swaps previously between SWH and Deutsche Bank, N.A. such that all four swaps are now between BSW Holdings and Citibank, N.A. under the BSW Holding ISDA.

At June 30, 2019, BSW Holdings, SWH and BHCS (collectively, the "BSWH Swap Entities") had twenty interest rate swap agreements with a total notional amount of $903 million comprised of $415 million in notional fixed payer swaps held by BSW Holdings, $293 million in notional fixed payer swaps held by BHCS, and $195 million in fixed payer swaps held by SWH.

Net settlements on interest rate swap agreements totaled $18 million and $22 million for the years ended June 30, 2019 and 2018, respectively. Net settlements and the change in fair value on interest rate swap agreements are reported in interest rate swap activity in the nonoperating section of the accompanying combined statements of operations and changes in net assets. The fair value of interest rate swap agreements is reported in other long-term liabilities on the accompanying combined balance sheets. The change in the fair value of interest rate swap agreements was an unrealized loss of approximately $70 million and an unrealized gain of approximately $53 million for the fiscal years ended June 30, 2019 and 2018, respectively.

The following table summarizes the fair value of interest rate swaps by counterparty as of June 30, 2019 and 2018 (in millions):

	Notional* Amount	Fair Value 2019	Fair Value 2018
Bank of America, N.A.	$ 67	$ (28)	$ (21)
Citibank, N.A.	179	(67)	(50)
Goldman Sachs Bank, USA	236	(91)	(69)
JP Morgan	139	(45)	(33)
Wells Fargo Bank, N.A.	282	(70)	(58)
Total interest rate swap liability	903	(301)	(231)
Less interest rate swap collateral	-	27	11
Total interest rate swap liability, net	$ 903	$ (274)	$ (220)

*Notional amount is the face value of a financial instrument used in the calculation of interest.

8. NET PATIENT CARE REVENUE

Net patient care revenue generally relates to contracts with patients, in which the performance obligation is to provide healthcare services. The contractual relationship with patients typically involves a third-party payor. The System has agreements with third-party payors that provide for payments to the System at amounts different from the System's established rates, which are explicit price concessions. The transaction prices for services provided are dependent upon the terms provided by, or negotiated with, third-party payors. Payment arrangements include prospectively determined rates per case, reimbursed costs, discounted charges, and per diem payments. The System offers discounts to uninsured patients, which are also explicit price concessions. Implicit price concessions relate primarily to uninsured patients and patient copays, co-insurance, and deductibles, and are estimated using historical collection data. Net patient care revenue (exclusive of charity care - see Note 9) is recognized as performance obligations are satisfied and reported at the amounts that reflect the consideration that the System expects to be entitled in exchange for providing patient care.

Generally, performance obligations satisfied over time relate to inpatient acute care services from the time of admission to discharge. Performance obligations satisfied at a point in time relate to outpatient services at the time the services are provided. Because performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in ASC 606. Therefore, the System is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at fiscal year end. Unsatisfied or partially satisfied performance obligations primarily relate to inpatients (i.e., inhouse patients at year end) in which the patients are generally discharged within days or weeks of fiscal year end.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration, and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated in the period the related services are rendered and adjusted in future periods based on contract terms, correspondence with payors, and historical settlement activity. Estimates include an assessment to ensure that it is probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available.

Federal regulations require submission of annual cost reports covering medical costs and expenses associated with services provided to program beneficiaries. Medicare and Medicaid cost report settlements are estimated in the period services are provided to beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change by a material amount, as interpretations are clarified and cost reports are settled. These initial estimates are revised as needed until the final cost report is settled. Net patient care revenue from the Medicare and Medicaid programs increased approximately $16 million and $33 million for the years ended June 30, 2019 and 2018, respectively, due to changes in previously estimated amounts due to Medicare and Medicaid, as a result of changes in regulations, and final settlement of numerous cost reports.

Net patient care revenue from the Medicare and Medicaid programs accounted for approximately 38% and 36% of total net patient care revenue for the years ended June 30, 2019 and 2018, respectively. Net patient care revenue from managed care contracts accounted for approximately 60% and 61% of total net patient care revenue for the years ended June 30, 2019 and 2018, respectively. Net patient care revenue from other payors accounted for approximately 2% and 3% of total net patient care revenue for the years ended June 30, 2019 and 2018, respectively.

The estimated amount of net patient care revenue, net of all price concessions for the year ended June 30, 2019, disaggregated by major service line, is as follows (in millions):

	2019
Inpatient	$ 3,252
Outpatient	5,195
Total	$ 8,447

Baylor

Charity Care Access

BSWH hospitals in North Texas have voluntarily participated in non-profit, indigent care corporations (established by the BSWH hospitals and other private hospitals) in order to improve access to and the quality of health care for indigent patients in the community. These non-profit, indigent care corporations arranged for the provision of health care services to indigent patients in the hospitals' respective communities under various services agreements, with the compensation methodology set in advance, and such total compensation being consistent with fair market value and commercially reasonable for the services performed as determined by an independent expert analysis. For the years ended June 30, 2019 and 2018, BSWH hospitals provided approximately $0 and $15 million, respectively, to the Dallas County Indigent Care Corporation (DCICC) and $0 and $2 million, respectively, to the Tarrant County Indigent Care Corporation (TCICC) for professional health care and related services furnished to and for the benefit of indigent patients receiving services under the various services agreements, which amounts are recorded as other operating expenses in the combined statements of operations and changes in net assets. Effective September 30, 2017, these DCICC and TCICC services agreements expired or were effectively terminated. On June 1, 2018, DCICC began providing limited dialysis and related services for indigent patients in the community through two other contracts that support unmet community needs.

Section 1115 Waiver Program

In December 2011, the Centers for Medicare & Medicaid Services (CMS) approved the Texas Health and Human Services Commission's (THHSC) request for a Section 1115 waiver (Waiver Program) replacing Upper Payment Limit funding with new supplemental payment methodology, coupled with allowing managed care expansion to additional areas of the State. CMS initially approved the Waiver Program for the time period December 12, 2011, through September 30, 2016. In May 2016, CMS approved an extension of the Waiver Program for an additional fifteen months through December 2017. In December 2017, CMS granted a renewal of the Waiver Program covering the period of October 1, 2017 through September 30, 2022. The current Waiver Program is entitled the "Texas Healthcare Transformation and Quality Improvement Program." The Waiver Program provides for two pools of Medicaid supplemental funding – an uncompensated care (UC) pool and a delivery system reform incentive pool (DSRIP). UC pool payments are intended to improve access to and the quality of health care for patients as served under a Regional Healthcare Partnership (RHP). DSRIP pool payments are incentive payments to hospitals and other providers that develop programs or strategies (approved by CMS) to enhance access to health care and to improve the quality of care, the cost-effectiveness of care provided, and the health of the patients and families served. A provider's eligibility to receive UC pool payments and/or DSRIP pool payments requires participation in a RHP and affiliation with a local governmental entity.

During the years ended June 30, 2019 and 2018, certain BSWH hospitals (legacy Baylor Health Care System (BHCS) hospitals except as otherwise noted herein) participated in the Waiver Program.

During the years ended June 30, 2019 and 2018, BHCS (on behalf of Baylor University Medical Center, Baylor Medical Center at Irving d/b/a Baylor Scott & White Medical Center – Irving, and Baylor Scott & White Medical Center – Carrollton), Baylor Heart and Vascular Center, LLP d/b/a Baylor Jack and Jane Hamilton Heart and Vascular Hospital, BT Garland JV, LLP d/b/a Baylor Scott & White Medical Center – Garland (on February 28, 2018, this hospital ceased operations and permanently closed), BT East Dallas JV, LLP d/b/a Baylor Scott & White Medical Center – White Rock, and Texas Regional Medical Center, LLC d/b/a Baylor Scott & White Medical Center – Sunnyvale were parties to the Amended and Restated Dallas and Neighboring Counties Indigent Care Affiliation Agreement with the Dallas County Hospital District d/b/a Parkland Health & Hospital System (Dallas Affiliation Agreement) and participated in RHP Nine and the Waiver Program.

During the years ended June 30, 2019 and 2018, Baylor Scott & White All Saints Medical Center – Fort Worth and Baylor Regional Medical Center at Grapevine d/b/a Baylor Scott & White Medical Center – Grapevine were parties to the Tarrant County Regional Healthcare Partnership Affiliation Agreement with the Tarrant County Hospital District d/b/a JPS Health Network (Tarrant Affiliation Agreement) and participated in RHP Ten and the Waiver Program.

As recipients of Waiver Program payments, these BSWH hospitals are subject to extensive federal and state laws, regulations, conditions of participation, and certification requirements.

For the years ended June 30, 2019 and 2018, as a result of their participation in the Waiver Program, these BSWH hospitals (as parties to the Dallas Affiliation Agreement and Tarrant Affiliation Agreement) achieved required metrics, recorded as other receivables in the accompanying combined balance sheets, and received Waiver Program payments (DSRIP payments and UC funds) totaling approximately $136 million and $137 million, respectively, which amounts are Medicaid supplemental payments and recognized as net patient care revenue in the combined statements of operations and changes in net assets.

BSWH hospitals in North Texas incurred expenditures of approximately $13 million and $15 million for the years ended June 30, 2019 and 2018, respectively, in the operation and maintenance of the hospital's DSRIP projects approved under the 1115 Waiver Program, which are recorded as other operating expenses in the combined statements of operations and changes in net assets.

In a September 30, 2014, letter to THHSC, CMS announced that it was deferring the federal share (Federal Financial Participation (FFP)) of Waiver Program UC payments to private hospitals in certain counties, including those that were parties to the Dallas Affiliation Agreement and the Tarrant Affiliation Agreement. The initial total amount of the deferral was $74,891,536 in FFP for Waiver Program UC payments made during the third quarter of federal fiscal year 2014 to private hospitals in Dallas, Tarrant, and Nueces Counties ($47,403,926 of which was attributable to private hospitals in Dallas and Tarrant Counties). Medicaid supplemental payments to certain BSWH hospitals were subject to the deferral. CMS indicated that it would review various funding arrangements under the Waiver Program to ensure that the arrangements complied with applicable federal requirements. CMS ultimately released this deferral, which allowed for the continuation of UC payments subject to CMS's continuing review.

In a letter dated September 1, 2016, to THHSC, CMS announced that it was disallowing $26,844,551 in FFP as reported on the CMS-64 quarter ending December 31, 2015. The disallowance amount was based on the projected value of purported in-kind donations to the Dallas County Hospital District and the Tarrant County Hospital District by DCICC and TCICC respectively, not-for-profit corporations funded by private hospitals that were parties to the Dallas Affiliation Agreement during the fourth quarter of 2015 and private hospitals that were parties to the Tarrant Affiliation Agreement during the fourth quarter of 2015. CMS alleges that these Medicaid payments failed to comply with the federal provider-related donation requirements. The services agreements that were the subject of the disallowance expired or were effectively terminated on September 30, 2017. BSWH hospitals and affiliated hospitals subject to the disallowance are: (i) BHCS (on behalf of Baylor University Medical Center, Baylor Medical Center at Irving (now Baylor Medical Center at Irving d/b/a Baylor Scott & White Medical Center – Irving), Baylor Medical Center at Carrollton (now Baylor Scott & White Medical Center – Carrollton), and Baylor Medical Centers at Garland and McKinney d/b/a Baylor Medical Center at Garland) (effective January 1, 2016, this hospital was replaced by BT Garland JV, LLP d/b/a Baylor Scott & White Medical Center – Garland; on February 28, 2018, this hospital ceased operations and permanently closed); (ii) Baylor Heart and Vascular Center, LLP d/b/a Baylor Jack and Jane Hamilton Heart and Vascular Hospital; (iii) Baylor All Saints Medical Center (now Baylor Scott & White All Saints Medical Center – Fort Worth); (iv) Baylor Regional Medical Center at Grapevine (now Baylor Regional Medical Center at Grapevine d/b/a Baylor Scott & White Medical Center – Grapevine); and (v) and Baylor Medical Center at Waxahachie (now Baylor Scott & White Medical Center – Waxahachie). THHSC requested reconsideration of the disallowance, which request was denied. THHSC then appealed the disallowance to the Department of Health and Human Services' Departmental Appeals Board – Appellate Division (DAB or Board). BHCS (on behalf of the BSWH hospitals participating in the Dallas and Tarrant County Affiliations) and certain other private hospital systems are intervenors in the DAB litigation and requested the Board to reverse CMS's disallowance. On August 7, 2018, the DAB upheld CMS's disallowance. THHSC and the intervenor hospitals, including BHCS, then filed with the Board a joint motion for reconsideration and reversal of the DAB decision, which motion the DAB denied in an October 2, 2019 ruling. THHSC has 60 days from the date of this ruling to obtain judicial review of the DAB decision by filing an action in federal district court. If THHSC obtains judicial review of the DAB decision, BHCS can seek permission to participate as an intervenor in the federal court litigation. In the meantime, CMS issued a formal negative grant award, seeking recoupment from THHSC as a result of the disallowance. THHSC, in turn, requested that the private hospitals remit payment to satisfy CMS's demand. BHCS returned its share of the recouped funding - $17,274,788 - the other private hospitals did so as well for a total of $43,541,974 returned to CMS.

At this time, management cannot predict whether THHSC will obtain judicial review of the DAB decision in federal district court, the ultimate outcome of the dispute, or its possible financial impact on BSWH hospitals.

The Texas Legislature approved legislation effective in May 2017, amending the Texas Health & Safety Code to enable the Dallas County Hospital District to create and operate a Local Provider Participation Fund program (LPPF) that would require mandatory payments by all hospitals in the county based upon net patient revenue and the option of using the mandatory payment revenue as the non-federal share of supplemental Medicaid payments. The Dallas County Hospital District's board of managers subsequently authorized creation of a LPPF in Dallas County and chose to utilize mandatory payment revenue as the non-federal share of Medicare payments under the Waiver Program. BSWH hospitals that are parties to the Dallas Affiliation Agreement are eligible to receive supplemental payments funded through the LPPF program. Effective July 20, 2017, BSWH (on behalf of Baylor Medical Center at Waxahachie d/b/a Baylor Scott & White Medical Center -Waxahachie, Baylor Medical Centers at Garland and McKinney d/b/a Baylor Scott & White Medical Center – McKinney, and Baylor Regional Medical Center at Plano d/b/a Baylor Scott & White Medical Center – Plano), BT East Dallas JV, LLP, d/b/a Baylor Scott & White Medical Center – Centennial, and Lake Pointe Operating Company, LLC, d/b/a Baylor Scott & White Medical Center – Lake Pointe entered into an Indigent Care Affiliation Agreement with the Dallas County Hospital District for purposes of participating in the LPPF program in Dallas County and being eligible to receive Medicaid supplemental payments. Also effective July 20, 2017, Texas Heart Hospital of the Southwest, L.L.P., d/b/a The Heart Hospital Baylor Plano and THHBP Management Company, L.L.C., d/b/a The Heart Hospital Baylor Denton entered into an Indigent Care Affiliation Agreement with the Dallas County Hospital District for purposes of participating in the LPPF program in Dallas County and being eligible to receive Medicaid supplemental payments.

The Texas Legislature approved legislation effective in June 2017, amending the Texas Health & Safety Code to enable the Tarrant County Hospital District to create and operate a health care provider participation program that would require mandatory payments by all hospitals in the county based upon net patient revenue and the option of using the mandatory payment revenue as the non-federal share of Medicaid payments. The Tarrant County Hospital District's board of managers subsequently authorized creation of a LPPF in Tarrant County and chose to utilize mandatory payment revenue as the non-federal share of Medicare payments under the Waiver Program. BSWH hospitals that are parties to the Tarrant County Affiliation Agreement are eligible to receive supplemental payments funded through the LPPF program.

BSWH hospitals in North Texas incurred expenditures of approximately $55 million and $34 million for the years ended June 30, 2019 and 2018, respectively, through the hospital's participation in the various LPPF programs discussed above.

Scott & White

Section 1115 Waiver Program

During the years ended June 30, 2019 and 2018, certain BSWH hospitals (from the legacy Scott & White Healthcare) participated in the Waiver Program.

Scott & White Memorial Hospital is a party to an Indigent Care Affiliation agreement with Bell County and under this agreement participates in RHP Eight and the Waiver Program.

Hillcrest Baptist Medical Center, Scott & White Hospital - Round Rock, Scott & White Hospital – Taylor, Scott & White Hospital – Marble Falls and Baylor Medical Center at Waxahachie are parties to the Indigent Care Affiliation Agreements with McLennan County and under these agreements participate in RHP Sixteen and the Waiver Program.

Scott & White Hospital - Round Rock, Scott & White Hospital – Taylor, Scott & White Hospital – Llano and Scott & White Hospital – Marble Falls are parties to Indigent Care Affiliation Agreements with Williamson County and under these agreements participate in RHP Eight and the Waiver Program.

Scott & White Hospital Brenham is a party to an Indigent Care Affiliation Agreement with Washington County and under this agreement participates in RHP Seventeen and the Waiver Program.

Scott & White Hospital - Llano is a party to an Indigent Care Affiliation Agreement with Llano and under this agreement participates in RHP Eight and the Waiver Program.

Scott & White Memorial Hospital, Scott & White College Station, and Hillcrest Baptist Medical Center participate in LPPF programs in Bell, Brazos, and McLennan Counties respectively pursuant to legislation enacted into law by the Texas Legislature. The bills amended the Texas Health & Safety Code to create health care provider participation programs that would require mandatory payments by all hospitals in the counties based upon net revenue and the option of using the mandatory payment revenue as the non-federal share of Medicaid payments. Bell, Brazos and McLennan Counties authorized creation of LPPF programs in the respective counties and chose to utilize mandatory payment revenue as the non-federal share of Medicaid payments. Scott & White Memorial Hospital, Scott & White College Station, and Hillcrest Baptist Medical Center are eligible to receive Medicaid payments as a result of their participation in these LPPF programs. Baylor Medical Center at Waxahachie d/b/a Baylor Scott & White Medical Center -Waxahachie, Scott & White

Hospital - Round Rock, Scott & White Hospital - Marble Falls, Scott & White Hospital – Taylor, and Scott & White Hospital - Llano are also affiliated with Brazos and McLennan Counties and are eligible to receive Medicaid payments under the McLennan County LPPF program.

BSWH hospitals in Central Texas incurred expenditures of approximately $64 million and $48 million for the years ended June 30, 2019 and 2018, respectively, through the hospital's participation in the various LPPF programs discussed above.

As recipients of Waiver Program payments, these BSWH hospitals are subject to extensive federal and state laws, regulations, conditions of participation, and certification requirements.

BSWH hospitals in Central Texas incurred expenditures of approximately $2 million and $4 million for the years ended June 30, 2019 and 2018, respectively, in the operation and maintenance of the hospital's DSRIP projects approved under the 1115 Waiver Program, which are recorded as other operating expenses in the combined statements of operations and changes in net assets.

For the years ended June 30, 2019 and 2018, BSWH hospitals in Central Texas achieved required metrics, recorded as other receivables in the accompanying combined balance sheets, and received Waiver Program payments totaling approximately $108 million and $134 million, respectively, which amounts are Medicaid supplement payments and recognized as net patient care revenue in the combined statements of operations and changes in net assets.

Charity Care Access

BSWH hospitals in Central Texas also voluntarily participate in nonprofit, indigent care corporations (established by the Scott & White hospitals and other private hospitals) in order to improve access to and the quality of health care for indigent patients. These nonprofit, indigent care corporations arrange for the provision of health care services to indigent patients under certain services agreements, with the compensation methodology set in advance, and such total compensation being consistent with fair market value and commercially reasonable for the services performed. The total expenditures related to these programs were approximately $6 million and $6 million for the years ended June 30, 2019 and 2018, respectively, and are included in other operating expenses in the combined statements of operations and changes in net assets.

In a September 2014, letter to THHSC, CMS announced that it was deferring the FFP of Waiver Program UC payments to hospitals in certain counties. While Scott & White Hospital - Llano and Scott & White Hospital - Round Rock were included in CMS' original deferral list of private hospitals, subsequently THHSC reported that these hospitals were erroneously included and were removed from the deferral list. CMS reserved the right to include other hospitals in the deferral process. CMS indicated that it would review various funding arrangements under the Waiver Program to ensure that the arrangements complied with applicable federal requirements. CMS ultimately released this deferral, which allowed for the continuation of UC payments, subject to CMS's continuing review.

In a letter dated September 1, 2016, to THHSC, CMS announced that it was disallowing $26,844,551 in FFP as reported on the CMS-64 quarter ending December 31, 2015. The disallowance amount was based on the projected value of purported in-kind donations to the Dallas County Hospital District and the Tarrant County Hospital District by DCICC and TCICC respectively, not-for-profit corporations funded by private hospitals that were parties to the Dallas Affiliation Agreement during the fourth quarter of 2015 and private hospitals that were parties to the Tarrant Affiliation Agreement during the fourth quarter of 2015. CMS alleges that these Medicaid payments failed to comply with the federal provider-related donation requirements. THHSC requested reconsideration of the disallowance, which request was denied. THHSC then appealed the disallowance to the DAB. BHCS (on behalf of the BSWH hospitals who were parties to the Dallas Affiliation Agreement and the Tarrant Affiliation Agreement) and certain other private hospital systems are intervenors in the DAB litigation and requested the Board to reverse CMS's disallowance. On August 7, 2018, the Board upheld CMS's disallowance. THHSC and the intervenor hospitals, including BHCS, then filed with the DAB a joint motion for reconsideration and reversal of the Board decision, which motion the DAB denied in an October 2, 2019 ruling. THHSC has 60 days to obtain judicial review of the Board's decision by filing an action in federal district court. If THHSC obtains judicial review of the DAB decision, BHCS can seek permission to participate as an intervenor in the federal court litigation.

At this time, management cannot predict whether THHSC will obtain judicial review of the DAB decision in federal district court, the ultimate outcome of the dispute, or its possible financial impact on BSWH hospitals in Central Texas.

9. CHARITY CARE

BSWH provides care to patients who lack financial resources and are deemed medically or financially indigent. Because BSWH does not pursue collection of amounts determined to qualify as charity care, these amounts have been removed from net patient care revenue. The estimated direct and indirect cost of providing these services, calculated using the ratio of patient care cost to charges, was approximately $310 million and $370 million for the years ended June 30, 2019 and 2018, respectively. The ratio of cost to charges is an estimate calculated based on total expenses, less non-patient care activities and other community benefit expenses, divided by gross patient care charges. In addition, BSWH provides services through government-sponsored indigent health care programs to other indigent patients.

BSWH also commits time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are entered into with the understanding that they will not be self-supporting or financially viable. The expenditures for medical research activities and direct medical education are reported in Note 11.

10. RETIREMENT BENEFITS

ASC 715, *"Compensation - Retirement Benefits,"* requires the System to recognize the unfunded status (i.e., the difference between the fair value of plan assets and the benefit obligation) of its defined benefit pension and other postretirement benefit plans in the accompanying combined balance sheets with a corresponding adjustment to net assets without donor restrictions. The net unrecognized actuarial losses and unrecognized prior service benefits are recognized as a component of future net periodic cost pursuant to the System's policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods are not recognized as net periodic pension cost in the same periods and are recognized as other changes in net assets without donor restrictions. Those amounts are recognized as a component of net periodic cost.

The System provides 401(k) defined contribution plans for eligible employees. Employees are eligible to contribute to the plans immediately with no minimum service or age requirement. The System's contributions to the 401(k) plans totaled approximately $110 million and $100 million for the years ended June 30, 2019 and 2018, respectively, and are included in salaries, wages, and employee benefits in the accompanying combined statements of operations and changes in net assets.

BHCS and six of its affiliated hospitals provided a defined benefit plan, the Baylor Health Care System Retirement Security Plan (the "BEST Plan"), for employees, which was discontinued on January 1, 1984. All BEST Plan assets were invested in cash and cash equivalents at June 30, 2019 and 2018.

The following table sets forth the benefit obligations, plan assets, and funded status of the BEST Plan as of June 30, 2019 and 2018 (in millions):

	2019	2018
Fair value of plan assets	$ 2	$ 1
Benefit obligation	(18)	(19)
Unfunded benefit obligation	$ (16)	$ (18)

All Saints Health System provided a defined benefit plan, the All Saints Health System Pension Plan (the "All Saints Plan"), for employees of All Saints, which was frozen to future benefit accruals as of January 1, 2002, with the All Saints Health System purchase by BHCS. Effective December 31, 2016, the All Saints Plan was merged into the Texas Hospital Association Retirement Plan for King's Daughters (the "King's Daughters Plan").

King's Daughters Hospital provided a defined benefit plan, the King's Daughters Plan, for employees of King's Daughters Hospital, which was frozen to future benefit accruals as of March 31, 2009, with the King's Daughters Hospital purchase by Scott & White. Effective March 31, 2017, the King's Daughters Plan was merged into the Texas Hospital Association Defined Benefit Retirement Plan for Scott & White Hospital-Brenham (the "Brenham Plan").

Scott & White Hospital-Brenham provided a defined benefit plan, the Brenham Plan, for employees of Scott & White Hospital-Brenham, which was frozen to future benefit accruals as of June 30, 2010, with the Brenham Hospital purchase by Scott & White. Effective March 31, 2017, the Brenham Plan was renamed the Baylor Scott & White Health Consolidated Frozen Benefit Plan (the "BSWH Plan").

The following table sets forth the benefit obligations, plan assets, and funded status of the BSWH Plan as of June 30, 2019 and 2018 (in millions):

	2019	2018
Fair value of plan assets	$ 72	$ 72
Benefit obligation	(94)	(87)
Unfunded benefit obligation	$ (22)	$ (15)

Certain Scott & White employees participate in Scott & White's medical postretirement benefit plan. This plan provides medical and dental benefits to retirees who meet specific eligibility requirements upon retirement. The plan is unfunded and requires covered retirees to contribute a portion of the cost of benefits, based on age at retirement and years of service.

Scott & White uses an incremental cost approach in estimating the annual accrued cost related to the postretirement benefit plan, which is based on estimates by independent actuaries. Such an approach is considered appropriate, since substantially all of the health care benefits are provided by Scott & White to retirees, using the Health Plan to manage the care provided.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Scott & White has not made the determination that the prescription drug benefit provided by its medical postretirement benefit plan is actuarially equivalent to the benefit provided by Medicare Part D. Therefore, the measures of the accumulated benefit obligation or net periodic benefit cost do not reflect any amounts associated with the federal subsidy.

The following table sets forth a reconciliation of benefit obligations, plan assets, and balance sheet position for the postretirement benefit obligation as of June 30, 2019 and 2018 (in millions):

	2019	2018
Fair value of plan assets	$ -	$ -
Benefit obligation	(25)	(19)
Unfunded benefit obligation	$ (25)	$ (19)

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11. FUNCTIONAL EXPENSES

The System provides general health care services to residents within its geographic area. The combined financial statements report expenses that can be attributable to more than one function. These expenses require an allocation, on a reasonable basis, that is consistently applied. The System allocates expenses by function based on the nature of each business units' operations. Expenses related to providing these services are as follows for the years ended June 30, 2019 and 2018 (in millions):

	Patient Care	Education and Research	Health Plan and Other [1]	General and Administrative	Total
2019					
Salaries, wages, and employee benefits	$ 3,859	$ 109	$ 92	$ 501	$ 4,561
Supplies	1,429	4	127	101	1,661
Other operating expenses	1,283	58	123	542	2,006
Medical claims	-	-	556	-	556
Tangible and intangible asset related expenses	205	-	2	212	419
Interest	97	-	3	25	125
Total	$ 6,873	$ 171	$ 903	$ 1,381	$ 9,328
2018	$ 6,501	$ 178	$ 761	$ 1,454	$ 8,894

[1] Other includes expenses related to the System's construction activities and professional office building management.

12. NONCONTROLLING INTERESTS

The System controls, and therefore consolidates, certain investees of its subsidiaries. The System regularly engages in the purchase and sale of noncontrolling interests in these investees that do not result in a change of control. These transactions are accounted for as equity transactions as they are undertaken among the System, its consolidated subsidiaries, and noncontrolling interests, and their cash flow effect is classified within financing activities. The System reflects noncontrolling interests in subsidiaries as either noncontrolling interests - redeemable in the mezzanine section of the accompanying combined balance sheets, or noncontrolling interests - nonredeemable in net assets in the accompanying combined balance sheets, according to ASC 810.

The activity for net assets without donor restrictions presented as attributable to BSWH and noncontrolling interests - nonredeemable for the years ended June 30, 2019 and 2018 is summarized below (in millions):

	Attributable to BSWH	Noncontrolling Interest-Nonredeemable	Total Net Assets Without Donor Restrictions
Balance, as of June 30, 2017	$ 4,695	$ 203	$ 4,898
Revenue and gains in excess of expenses and losses	755	85	840
Unrealized losses on investments, net	(3)	-	(3)
Net assets released from restrictions for capital expenditures	12	-	12
Distributions to noncontrolling interests	-	(71)	(71)
Purchases of noncontrolling interests	-	(14)	(14)
Sales of noncontrolling interests	-	28	28
Other changes in controlling and noncontrolling interests	(1)	10	9
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(255)	-	(255)
Noncontrolling interests of acquired entities	-	41	41
Other	9	-	9
Change in net assets without donor restrictions	517	79	596
Balance, as of June 30, 2018	$ 5,212	$ 282	$ 5,494
Revenue and gains in excess of expenses and losses	761	88	849
Net assets released from restrictions for capital expenditures	31	-	31
Distributions to noncontrolling interests	-	(77)	(77)
Purchases of noncontrolling interests	-	(11)	(11)
Sales of noncontrolling interests	-	2	2
Other changes in noncontrolling interests	-	(6)	(6)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(274)	-	(274)
Net assets acquired	7	-	7
Other	(10)	-	(10)
Change in net assets without donor restrictions	515	(4)	511
Balance, as of June 30, 2019	$ 5,727	$ 278	$ 6,005

The activity for noncontrolling interests - redeemable for the years ended June 30, 2019 and 2018 is summarized below (in millions):

Balance, as of June 30, 2017	$	443
Net income attributable to noncontrolling interests - redeemable		255
Distributions to noncontrolling interests		(365)
Purchases of noncontrolling interests		(21)
Sales of noncontrolling interests		67
Noncontrolling interests of acquired entities		51
Other changes		(5)
Balance, as of June 30, 2018	$	425
Net income attributable to noncontrolling interests - redeemable		274
Distributions to noncontrolling interests		(243)
Purchases of noncontrolling interests		(11)
Sales of noncontrolling interests		6
Noncontrolling interests of acquired entities		3
Other changes		(1)
Balance, as of June 30, 2019	$	453

13. 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 requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulation to the contrary. As a result of this interpretation, the System classifies as donor-restricted endowments, (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted 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 subject to explicit donor stipulations, is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with

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

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

Endowment fund composition by type of fund as of June 30, 2019 and 2018, is as follows (in millions):

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ 1	$ 381	$ 382
Board-designated endowment funds	48	-	48
Total endowment funds	$ 49	$ 381	$ 430

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ 1	$ 380	$ 381
Board-designated endowment funds	67	-	67
Total endowment funds	$ 68	$ 380	$ 448

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Changes in endowment funds for the years ended June 30, 2019 and 2018 are as follows (in millions):

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, as of June 30, 2018	$ 68	$ 380	$ 448
Investment return	3	11	14
Gifts	-	3	3
Appropriation of endowment assets for expenditure	(22)	(14)	(36)
Other	-	1	1
Endowment funds, as of June 30, 2019	$ 49	$ 381	$ 430

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, as of June 30, 2017	$ 63	$ 351	$ 414
Investment return	6	31	37
Gifts	-	11	11
Appropriation of endowment assets for expenditure	(1)	(13)	(14)
Endowment funds, as of June 30, 2018	$ 68	$ 380	$ 448

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by State of Texas UPMIFA as of June 30, 2019 and 2018 is as follows (in millions):

	2019	2018
Education	$ 51	$ 51
Patient care	134	130
Research	74	74
General operations	2	2
Total	$ 261	$ 257

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. Deficiencies of this nature existed in 2019 and 2018 and were less than $1 million in total. These deficits resulted from unfavorable market fluctuations and authorized appropriation that was deemed prudent.

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 endowments 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.

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14. COMMITMENTS AND CONTINGENCIES

BSWH

The System leases various equipment and property under operating leases. These payments are due monthly through March 2033. Future minimum lease commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows as of June 30, 2019 (in millions):

2020	$	169
2021		152
2022		140
2023		124
2024		109
Thereafter		463
	$	1,157

The System has incurred rental expense for both cancelable and noncancelable equipment and space leases totaling approximately $216 million and $220 million for the years ended June 30, 2019 and 2018, respectively. Rental expense is included in other operating expenses in the accompanying combined statements of operations and changes in net assets.

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. The System has government activity and litigation 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.

Irving

The Irving Hospital Authority (the “Authority”) entered into a Master Agreement (the “Master Agreement”) with Baylor Medical Center at Irving (Irving) and BHCS, and a Lease Agreement (the “Lease Agreement”) with Irving.

Under the terms of the Lease Agreement, Irving agreed to manage and lease substantially all properties of the Authority over an initial lease term of twenty years, beginning August 1, 1995, with an option to renew the lease for two additional ten year terms. An Amended and Restated Lease Agreement (the "Amended Lease Agreement") was entered into by the Authority and Irving effective April 1, 2010, to extend the lease thirty-five years through March 31, 2045, and to supersede nearly all the obligations of the original Master Agreement and Lease Agreement.

The Amended Lease Agreement is accounted for as a capital lease with (a) fixed rent payments of approximately $9 million per year, as adjusted by a September 24, 2010 amendment to the Amended Lease Agreement, plus (b) a contingent rent payment equal to 20.0% of the excess operating cash flow derived from the prior fiscal year's operations, as defined in the Amended Lease Agreement. Irving accrued approximately $1 million and $3 million at June 30, 2019 and 2018, respectively, for the contingent rent payment due to the Authority within five business days following the issuance of Irving's audited statements of operations and changes in net assets.

BHCS signed a Limited Joinder to evidence its agreement with the BHCS obligations included in the Amended Lease Agreement and to covenant that BHCS will pay the rent and the early termination fee/liquidated damages if Irving fails to pay those obligations. During the initial six year term, ending April 2016, of the Revised Lease Agreement, Irving paid BHCS a management fee, based on a percentage of the excess operating cash flow, as defined in the Revised Lease Agreement. BHCS continues to be required to contribute $100,000 per year to Irving, to be matched by the Irving Healthcare Foundation, for community health projects, which are mutually agreed upon by BHCS and Irving. BHCS contributed $100,000 directly to Irving in 2019 and 2018. At the end of the lease term, the leased facilities will be surrendered to the Authority. At June 30, 2019 and 2018, no liability under the Revised Lease Agreement was recorded as no amount can be reasonably estimated.

In August and November of 2017, Irving executed lease amendments in which the Authority agreed to renovate, equip, and expand the properties leased from the Authority. The projects include renovation of portions of the existing hospital building, replacement of an existing central utility plant, construction of a new six-story tower, and the purchase of related furnishings and medical equipment. The projects will be completed in phases, with estimated completion of the entire project in mid 2020. Accordingly, in 2018, Irving recorded a donor restricted contribution of approximately $123 million, net of discount, for building renovations, furnishings, and medical equipment, and a receipt of a right to use the new tower and central utility plant for the remainder of the lease term under the existing lease agreement. The contribution receivable is reflected in the accompanying combined balance sheets and the donor restricted contribution is reflected in the changes in net assets with donor restrictions in the accompanying combined statements of operations and changes in net assets.

15. AFFILIATION AGREEMENTS

On February 1, 2007, BHCS entered into a five year affiliation agreement (that automatically renews for additional five year terms) with 99-bed Decatur Hospital Authority d/b/a Wise Health System, located in Decatur, Texas (approximately 40 miles northwest of Fort Worth). Under the affiliation agreement, BHCS makes available certain services which include advisory services, physician recruitment, and access to continuing education programs. Purchasing and purchased services organization sponsorship are also available for an additional fee, in addition to advisory services that exceed the time and resource requirements outlined in the affiliation agreement. Wise Health System is not owned or controlled by any member of the System.

On October 1, 2008, BHCS entered into a five year affiliation agreement (that automatically renews for additional five year terms) with Glen Rose Medical Foundation d/b/a Glen Rose Medical Center, a 16-bed hospital located in Glen Rose, Texas (approximately 54 miles southwest of Fort Worth). As of March 24, 2010, the agreement was assigned to Somervell County Hospital Authority, which assumed operation of the hospital. Under the affiliation agreement, BHCS makes available certain services which include advisory services, physician recruitment, and access to continuing education programs. Purchasing and purchased services organization sponsorship are also available for an additional fee, in addition to advisory services that exceed the time and resource requirements outlined in the affiliation agreement. Glen Rose Medical Center is not owned or controlled by any member of the System.

On January 1, 2009, BHCS entered into a five year affiliation agreement (that automatically renews for additional five year terms) with Hunt Memorial Hospital District (HMHD), which operates Hunt Medical Center at Greenville located approximately 45 miles northeast of Dallas and is a 201-bed acute care hospital. Under the affiliation agreement, both organizations remain independent, but BHCS provides certain services for a fee including advisory services, physician recruitment, and access to continuing education programs. HMHD is not owned or controlled by any member of the System. The affiliation agreement with HMHD was discontinued, effective December 31, 2018.

On December 17, 2013, BHCS entered into a five year affiliation agreement (that automatically renews for additional five year terms) with Essent PRMC LP d/b/a Paris Regional Medical Center (PRMC). PRMC is a 360-bed hospital located in Paris, Texas (approximately 105 miles northeast of Dallas). In March 2016, Apollo Global Management, LLC became the capital partner for a new entity, Regional Care Capella Health Partners (RCCH) which operates PRMC. Under the affiliation agreement, both organizations remain independent, but BHCS provides certain services for a fee including advisory services, physician recruitment, and access to continuing education programs. PRMC is not owned or controlled by any member of the System. The affiliation agreement with PRMC was discontinued, effective November 23, 2018.

On August 11, 2016, BSWH entered into a five year affiliation agreement (that automatically renews for additional five year terms) with Fairfield Hospital District. The hospital is operating as Freestone Medical Center under a management agreement with Community Hospital Corporation in Plano. Freestone Medical Center is a 25-bed hospital located in Fairfield, Texas (approximately 90 miles southeast of Dallas). The hospital also operates a rural health care clinic staffed by primary care physicians and advanced practice providers. Under the affiliation agreement, both organizations remain independent, but BSWH provides certain services for a fee including advisory services, physician recruitment/alignment, and access to continuing education programs. Freestone Medical Center is not owned or controlled by any member of the System.

16. SUBSEQUENT EVENTS

The System has performed an evaluation of subsequent events through November 1, 2019, which is the date the financial statements were issued.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Supplementary Unaudited Information

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OTHER COMMUNITY BENEFITS - UNAUDITED

Nonprofit hospitals are required to report community benefits under the requirements of Texas Health and Safety Code Chapter 311. For Texas state law purposes, unaudited community benefits include the unreimbursed cost of charity care; the unreimbursed cost of government-sponsored indigent health care (i.e., Medicaid); the unreimbursed cost of government-sponsored health care (i.e., Medicare), medical education, and other community benefits and services. The amount of community benefits reportable for Texas state law purposes by all BSWH nonprofit hospitals totaled approximately $885 million and $954 million for the years ended June 30, 2019 and 2018, respectively.

Report of Independent Auditors

To the Board of Trustees of
Baylor Scott & White Holdings:

We have audited the combined financial statements of Baylor Scott & White Holdings and its controlled affiliates as of June 30, 2019 and for the year then ended and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual companies and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual companies.

PricewaterhouseCoopers LLP

November 1, 2019

PricewaterhouseCoopers LLP, 2121 N. Pearl Street, Suite 2000, Dallas, TX 75201-2997
T: (214) 999 1400, F: (214) 754 7991, www.pwc.com/us

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Combining Balance Sheets
(Note A)
June 30, 2019
(In millions)

ASSETS	Obligated Affiliates	Consolidated Health Plan	Other System Entities	Reclassifications & Eliminations	Total Financials
CURRENT ASSETS:					
Cash and cash equivalents	$ 385	$ 82	$ 345	$ 1	$ 813
Short-term investments	167	93	77	-	337
THVG funds due from United Surgical Partners, Inc.	-	-	104	-	104
Accounts receivable:					
Patient	519	-	368	(42)	845
Premiums	-	111	-	-	111
Affiliates, net	98	-	-	(98)	-
Other	90	57	84	(3)	228
Other current assets	238	11	108	(2)	355
Total current assets	1,497	354	1,086	(144)	2,793
LONG-TERM INVESTMENTS:					
Unrestricted	3,549	159	494	(1)	4,201
Restricted	2	-	516	-	518
Total long-term investments	3,551	159	1,010	(1)	4,719
ASSETS WHOSE USE IS LIMITED:					
Other designated assets	140	2	9	-	151
Self insurance reserves	-	-	116	-	116
Total assets whose use is limited	140	2	125	-	267
PROPERTY AND EQUIPMENT, net	2,746	31	1,150	(37)	3,890
CONTRIBUTIONS RECEIVABLE, net	3	-	200	-	203
DUE FROM AFFILIATES	249	-	26	(275)	-
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES	2,028	-	-	(2,028)	-
OTHER LONG-TERM ASSETS:					
Equity investment in unconsolidated entities	42	-	22	-	64
Goodwill and intangible assets, net	89	6	785	(2)	878
Interest in net assets of related foundations	511	-	132	(639)	4
Other	9	2	12	(6)	17
Total other long-term assets	651	8	951	(647)	963
Total assets	$ 10,865	$ 554	$ 4,548	$ (3,132)	$ 12,835

Note (A): The supplemental combining financial information of the Obligated Affiliates and the BSWH System includes Obligated Affiliates, Consolidated Health Plan, Other System Entities, and Reclassifications and Eliminations. It has been prepared in a manner consistent with generally accepted accounting principles and is presented only for purposes of additional analysis and not as a presentation of financial position and results of operations of each component of the combined group. The supplemental combining financial information was derived from the accounting records used to prepare the combined financial statements. All material combining entries and intracompany/intercompany eliminations have been properly recorded. The accompanying notes are an integral part of the accompanying supplemental combining financial information.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Combining Balance Sheets - continued
(Note A)
June 30, 2019
(In millions)

LIABILITIES AND NET ASSETS	Obligated Affiliates	Consolidated Health Plan	Other System Entities	Reclassifications & Eliminations	Total Financials
CURRENT LIABILITIES:					
Current maturities of long-term debt and capital lease obligations	$ 100	$ -	$ 42	$ -	$ 142
Long-term debt subject to short-term remarketing arrangements	95	-	-	-	95
Commercial paper	208	-	-	-	208
Accounts payable:					
Trade accounts payable	164	11	177	(3)	349
Affiliates, net	-	26	72	(98)	-
Accrued liabilities:					
Payroll related	363	1	90	-	454
Third-party programs	46	14	16	28	104
Medical claims payable	-	143	-	(70)	73
Other	276	94	122	(13)	479
Total current liabilities	1,252	289	519	(156)	1,904
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	2,585	-	437	-	3,022
OTHER LONG-TERM LIABILITIES:					
Self insurance and other insurance liabilities	1	-	113	-	114
Interest rate swap liabilities, net	274	-	-	-	274
Other	199	26	117	(6)	336
Total other long-term liabilities	474	26	230	(6)	724
DUE TO AFFILIATES	-	-	296	(296)	-
Total liabilities	4,311	315	1,482	(458)	5,650
COMMITMENTS AND CONTINGENCIES					
NONCONTROLLING INTERESTS - REDEEMABLE	-	-	316	137	453
NET ASSETS:					
Net assets without donor restrictions:					
Attributable to BSWH	6,031	239	1,850	(2,393)	5,727
Noncontrolling interests-nonredeemable	28	-	41	209	278
Total net assets without donor restrictions	6,059	239	1,891	(2,184)	6,005
Net assets with donor restrictions	495	-	859	(627)	727
Total net assets	6,554	239	2,750	(2,811)	6,732
Total liabilities and net assets	$ 10,865	$ 554	$ 4,548	$ (3,132)	$ 12,835

Note (A): The supplemental combining financial information of the Obligated Affiliates and the BSWH System includes Obligated Affiliates, Consolidated Health Plan, Other System Entities, and Reclassifications and Eliminations. It has been prepared in a manner consistent with generally accepted accounting principles and is presented only for purposes of additional analysis and not as a presentation of financial position and results of operations of each component of the combined group. The supplemental combining financial information was derived from the accounting records used to prepare the combined financial statements. All material combining entries and intracompany/intercompany eliminations have been properly recorded. The accompanying notes are an integral part of the accompanying supplemental combining financial information.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Combining Statements of Operations and Changes in Net Assets
(Note A)
For the Year Ended June 30, 2019
(In millions)

	Obligated Affiliates	Consolidated Health Plan	Other System Entities	Reclassifications & Eliminations	Total Financials
OPERATING REVENUE:					
Net patient care revenue	$ 4,954	$ -	$ 3,932	$ (439)	$ 8,447
Premium revenue	-	1,153	-	-	1,153
Other operating revenue	436	19	592	(661)	386
Net assets released from restrictions for operations	9	-	77	(19)	67
Total operating revenue	5,399	1,172	4,601	(1,119)	10,053
OPERATING EXPENSES:					
Salaries, wages, and employee benefits	2,733	59	1,817	(48)	4,561
Supplies	810	-	851	-	1,661
Other operating expenses	1,221	93	1,367	(675)	2,006
Medical claims	-	1,004	-	(448)	556
(Gains) losses on fixed asset sales and disposals, net	(1)	-	5	-	4
Depreciation and amortization	268	3	150	(6)	415
Interest	96	2	44	(17)	125
Total operating expenses	5,127	1,161	4,234	(1,194)	9,328
INCOME FROM OPERATIONS	272	11	367	75	725
NONOPERATING GAINS (LOSSES):					
Gains (losses) on investments, net	177	13	45	(11)	224
Interest rate swap activity	(88)	-	-	-	(88)
Contributions	64	-	2	(66)	-
Equity in earnings of unconsolidated entities	3	-	-	-	3
Other	194	-	13	(207)	-
Total nonoperating gains (losses)	350	13	60	(284)	139
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE INCOME TAXES	622	24	427	(209)	864
LESS INCOME TAX EXPENSE	1	-	14	-	15
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	621	24	413	(209)	849

Note (A): The supplemental combining financial information of the Obligated Affiliates and the BSWH System includes Obligated Affiliates, Consolidated Health Plan, Other System Entities, and Reclassifications and Eliminations. It has been prepared in a manner consistent with generally accepted accounting principles and is presented only for purposes of additional analysis and not as a presentation of financial position and results of operations of each component of the combined group. The supplemental combining financial information was derived from the accounting records used to prepare the combined financial statements. All material combining entries and intracompany/intercompany eliminations have been properly recorded. The accompanying notes are an integral part of the accompanying supplemental combining financial information.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Combining Statements of Operations and Changes in Net Assets - continued
(Note A)
For the Year Ended June 30, 2019
(In millions)

	Obligated Affiliates	Consolidated Health Plan	Other System Entities	Reclassifications & Eliminations	Total Financials
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:					
Net assets released from restrictions for capital expenditures	$ -	$ -	$ 31	$ -	$ 31
Other changes in net assets attributable to noncontrolling interests-nonredeemable	(1)	-	(327)	236	(92)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	-	-	(201)	(73)	(274)
Transfers between entities under common control	(19)	89	3	(73)	-
Net assets acquired	-	-	7	-	7
Other	(9)	-	5	(6)	(10)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	592	113	(69)	(125)	511
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:					
Contributions	5	-	115	(22)	98
Realized gains and investment income, net	-	-	28	-	28
Unrealized losses on investments, net	-	-	(1)	-	(1)
Change in value of split-interest agreements	-	-	2	-	2
Net assets released from restrictions for operations	(9)	-	(77)	19	(67)
Net assets released from restrictions for capital expenditures	-	-	(31)	-	(31)
Change in net assets of related foundations	(47)	-	26	21	-
Other	-	-	(2)	-	(2)
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(51)	-	60	18	27
INCREASE (DECREASE) IN NET ASSETS	541	113	(9)	(107)	538
NET ASSETS, beginning of period	6,013	126	2,759	(2,704)	6,194
NET ASSETS, end of period	$ 6,554	$ 239	$ 2,750	$ (2,811)	$ 6,732

Note (A): The supplemental combining financial information of the Obligated Affiliates and the BSWH System includes Obligated Affiliates, Consolidated Health Plan, Other System Entities, and Reclassifications and Eliminations. It has been prepared in a manner consistent with generally accepted accounting principles and is presented only for purposes of additional analysis and not as a presentation of financial position and results of operations of each component of the combined group. The supplemental combining financial information was derived from the accounting records used to prepare the combined financial statements. All material combining entries and intracompany/intercompany eliminations have been properly recorded. The accompanying notes are an integral part of the accompanying supplemental combining financial information.