



Baylor Scott & White

HEALTH

Quarterly Disclosure Report For the Three Months Ended September 30, 2021 (Unaudited)

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www.BSWHealth.com

NOTICE RELATING TO

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

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

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

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

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
TAXABLE HOSPITAL REVENUE BONDS
(BAYLOR HEALTH CARE SYSTEM PROJECT)
SERIES 2013C

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2015

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2016

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

TARRANT COUNTY CULTURAL EDUCATION
FACILITIES FINANCE CORPORATION
HOSPITAL REVENUE BONDS
(BAYLOR SCOTT & WHITE HEALTH PROJECT)
SERIES 2019E

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE COMMERCIAL PAPER NOTES
SERIES A

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2021

CUSIP No.'s

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ATTENTION

This document is marked with a dated date of September 30, 2021 and reflects information only as of that dated date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. The ongoing COVID-19 pandemic continues to affect travel, commerce, healthcare, and financial markets globally. These effects may impact BSWH to an extent that cannot currently be predicted. Accordingly, the historical information set forth in this document is not indicative of future results or performance due to these and other factors. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. We expressly disclaim any duty to provide an update of any information contained in this document.

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

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

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ORGANIZATION

BAYLOR SCOTT & WHITE HEALTH SYSTEM

Baylor Scott & White Holdings (BSW Holdings) is a Texas nonprofit corporation and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), by virtue of being an entity described in Section 501(c)(3) of the Code. BSW Holdings and its controlled affiliates (collectively, the “System” or “BSWH”) were created from the combination of two Texas health care systems, Baylor Health Care System (BHCS) and its affiliates, and Scott & White Healthcare (SWH) and its affiliates, and began operations October 1, 2013. BSW Holdings and Baylor Scott & White Health, a Texas nonprofit corporation (BSW Health), were created by BHCS and SWH in connection with their combination. BSW Holdings is the sole member of BHCS and SWH and has control and substantial reserved powers over all BHCS and SWH material affiliates. The System is not affiliated with Baylor University.

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

The System includes five foundations and one research institute: Baylor Health Care System Foundation d/b/a Baylor Scott & White Dallas Foundation, Scott & White Healthcare Foundation d/b/a Baylor Scott & White Central Texas Foundation, Irving Healthcare Foundation d/b/a Baylor Scott & White Irving Foundation, All Saints Health Foundation d/b/a Baylor Scott & White All Saints Health Foundation, Scott & White Healthcare Foundation Brenham d/b/a Baylor Scott & White Central Texas Foundation-Brenham, and Baylor Research Institute d/b/a Baylor Scott & White Research Institute.

The System also includes Baylor Quality Health Care Alliance, LLC d/b/a Baylor Scott & White Quality Alliance (BSWQA). BSWQA, an accountable care organization, functions as a clinically integrated health network of employed physicians, independent physicians, hospitals, and other providers of care focused on improving quality, managing the health of patient populations, and reducing the overall cost of care.

The System also includes Scott & White Clinic (the “Clinic”), HealthTexas Provider Network (HTPN), and other physician practices. The Clinic, a Texas nonprofit corporation, operates clinics located throughout the central Texas area, in addition to the main campus in Temple, Texas. HTPN is a Texas nonprofit corporation that owns and

operates primary care and specialty practices in the Dallas-Fort Worth metroplex and north Texas.

The System operates Scott and White Health Plan and its subsidiaries, Insurance Company of Scott and White, Scott and White Care Plans, and SHA, L.L.C. d/b/a FirstCare Health Plans and its subsidiary, Southwest Life and Health Insurance Company (collectively referred to as the “Health Plan”). The Health Plan provides health insurance benefits to approximately 375,000 members through diversified products in commercial group, individual, self-funded, Medicare Advantage, and Medicaid plans.

The System’s consolidated financial statements also include partnerships through Texas Health Ventures Group, LLC (THVG JV) with ten short-stay surgery hospitals and twenty-seven ambulatory surgery centers; BIR JV, LLP (BIR JV) with four rehabilitation hospitals, one hundred six clinics, and one transitional care facility; EBD JV, LLP (EBD JV) with eight emergency medical centers; BTDI JV, LLP (BTDI JV) with thirty-nine imaging centers; and Gateway Diagnostic JV, LLC with eleven imaging centers.

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OUR CORE



Building upon its legacy of success, BSWH introduced a new System strategy in 2018 including a revised mission, a new ambition, five strategies and four values. The purpose is to:

- Unify the organization;
- Sharpen our focus on patients and members;
- Set a clear path for success;
- Attract and retain the right talent;
- Reinforce our values-based culture; and
- Encourage personal ownership at all levels of the organization.

The System strategy includes:

Our Mission: Why we exist

- Founded as a Christian ministry of healing, BSWH promotes the well-being of all individuals, families and communities.

Our Ambition: What we aspire to be

- To be the trusted leader, educator and innovator in value-based care delivery, customer experience and affordability.

Our Values: How we behave

- We serve faithfully;
- We act honestly;
- We never settle; and
- We are in it together.

Our Strategies: Keys to achieving our Ambition

- **Health** – Provide seamless and exceptional quality care by transforming into one high-performing team;
- **Experience** – Create customers for life; driving loyalty by empowering consumers and delivering on the brand promise;
- **Affordability** – Reduce the financial burden on our customers and invest in Our Core by relentlessly driving down the total cost of care;
- **Alignment** – Ensure consistent results through a streamlined team approach and unified operating and clinical models; and
- **Growth** – Create value for those we serve through the pursuit of sustainable growth initiatives.

A visual representation called Our Core was introduced to all employees, and they were encouraged to make a personalized “Commitment” that connected their individual role to this new System strategy and the patients, members and communities served by Baylor Scott & White Health. More than 80% of employees have made or renewed their Commitment.

OBLIGATED GROUP

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

- BSW Holdings
- BSW Health
- BHCS, a Texas nonprofit corporation
- SWH, a Texas nonprofit corporation
- BUMC, a Texas nonprofit corporation
- Baylor All Saints Medical Center (BASMC), a Texas nonprofit corporation, doing business as Baylor Scott & White All Saints Medical Center – Fort Worth
- Baylor Regional Medical Center at Grapevine, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Grapevine
- Baylor Medical Center at Waxahachie, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Waxahachie
- Baylor Regional Medical Center at Plano, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Plano
- SWMH, a Texas nonprofit corporation, also doing business as Baylor Scott & White McLane Children’s Medical Center
- Clinic, a Texas nonprofit corporation
- Scott & White Hospital – Round Rock, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Round Rock and Baylor Scott & White Medical Center – Lakeway
- Scott & White Continuing Care Hospital, a Texas nonprofit corporation, doing business as Baylor Scott & White Continuing Care Hospital
- Hillcrest Baptist Medical Center, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – Hillcrest
- Baylor Medical Centers at Garland and McKinney, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – McKinney
- Scott & White Hospital – College Station, a Texas nonprofit corporation, doing business as Baylor Scott & White Medical Center – College Station






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

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

AWARDS AND DISTINCTIONS








BAYLOR SCOTT & WHITE HEALTH

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





	<p>According to U.S. News & World Report's "Best Hospitals" 2020-2021 ratings, BSWH has more award-winning hospitals and more accolades than any other not-for-profit system in Texas, for the third consecutive year. This year, sixteen facilities were recognized, which includes three national rankings and two hospitals in the Texas top ten.</p>
	<p>Newsweek named five Baylor Scott & White Hospitals to its "Best Hospitals - United States," list for 2021.</p>
	<p>Listed among the Best Work Places in Health Care & Biopharma by the Great Place to Work Institute and Fortune for the fourth year in a row.</p>
	<p>Nine hospitals earned the 2020 Press Ganey Guardian of Excellence Award, which recognizes top-performing healthcare facilities that have consistently rated in the 95th percentile or above for patient experience based on one year of data. Additionally, five hospitals earned the 2020 Pinnacle of Excellence Award, which recognizes facilities that have maintained consistently high levels of performance for multiple years.</p>
	<p>The American Nurses Credentialing Center recognizes more Baylor Scott & White hospitals for nursing excellence than any other health system in Texas, 10 hospitals and one region Magnet® designated. Additionally, five hospitals were honored with Pathways to Excellence® designation.</p>

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BAYLOR UNIVERSITY MEDICAL CENTER

	<p>Ranked by US News & World Report as the No. 2 hospital in the Dallas metro area, as well as No. 5 in Texas, and was nationally recognized for the 29th consecutive year.</p> <p>Named as one of US News & Word Report's top 50 hospitals nationally in three medical specialties: Gynecology, Gastroenterology & GI Surgery, and Orthopedics, and high performing (recognized among the top 10% in the nation) in Cancer, Neurology & Neurosurgery, Pulmonology and Urology. In common procedures and conditions, the hospital was recognized for excellence in: aortic valve surgery, back surgery/spinal fusion, colon cancer surgery, COPD (chronic obstructive pulmonary disease), diabetes, heart bypass surgery, heart failure, kidney failure, lung cancer surgery, pneumonia, and stroke.</p>
	<p>Ranked as the No. 50 hospital in the U.S. and No. 3 in Texas.</p>
	<p>Reaccredited with a Gold Seal of Approval™ by the Joint Commission for the Ventricular Assist Device Program, the nation's first such accredited program.</p> <p>BUMC has been recognized by The Joint Commission as a Comprehensive Stroke Center, the highest level of designation.</p>
	<p>Platinum Level Award for Excellence in Life Support – BUMC is one of eleven adult extracorporeal membrane oxygenation (ECMO) centers in the nation to earn this award.</p>
	<p>Recognized by the American Heart Association for the Target Stroke Honor Roll – Elite Plus and Advanced Therapy, the only comprehensive program in Texas to earn this designation this year.</p>
	<p>BUMC has been accredited as a Level IV Epilepsy Center – the highest level of designation from the National Association of Epilepsy Centers.</p>
	<p>BUMC has been recognized as a Level IV Neonatal Center – the highest level of recognition from the Texas Department of Health Services.</p>


SCOTT & WHITE MEMORIAL HOSPITAL

	<p>Ranked as the No. 6 hospital in Texas; high performing in three specialties - Gastroenterology & GI Surgery, Orthopedics, and Nephrology; high performing in seven common procedures or conditions – abdominal aortic aneurysm repair, congestive heart failure, colon cancer surgery, COPD, lung cancer surgery, hip replacement and knee replacement.</p>
	<p>100 Hospitals and Health Systems with Great Oncology Programs in U.S. for Glenda Tanner Vasicek Cancer Center.</p>
	<p>American Heart Association/American Stroke Association – Get with the Guidelines®– Stroke GOLD PLUS Target; Stroke Elite Plus Quality Achievement Award.</p> <p>Mission: Lifeline® STEMI Receiving Center – GOLD Plus Achievement Award Hospital.</p> <p>Mission: Lifeline® NSTEMI – Silver Achievement Award.</p>
	<p>The Gold Seal of Approval; Accredited Programs in Hospital, Nursing Care Center, Home Care; Advanced Certification in Stroke (Primary Stroke Center) and Ventricular Assist Device by the Joint Commission.</p>

BAYLOR SCOTT & WHITE QUALITY ALLIANCE

	<p>Named to Becker's Top 130 ACOs to Know in 2020, ranking 1st in the nation for MSSP performance with \$96 million in total savings.</p>
	<p>BSWQA Comprehensive Care Management earned the National Committee for Quality Assurance (NCQA) three-year Accreditation, effective December 21, 2020 – December 21, 2023. This Accreditation recognizes BSWQA's utilization of evidence-based best practices to ensure members have access to a qualified case management team that delivers personalized, patient-centered care plans and safe transitions of care.</p>

SCOTT AND WHITE HEALTH PLAN

	<p>Every year, Medicare evaluates plans based on a 5-star rating system. For the 2022 plan year, BSW SeniorCare Advantage HMO is rated an overall 4.5 out of 5 stars. The PPO is also rated an overall 4.5 out of 5 stars for 2022, up from 4 stars in 2021.</p>
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MEDICAL EDUCATION

In November 2020, the System entered into separate long-term affiliation agreements with Baylor College of Medicine (BCM) and Texas A&M University (TAMU). A summary of each affiliation agreement is below.

Baylor Scott & White Health and Baylor College of Medicine

The System and BCM have entered into a 20-year affiliation agreement that will initially focus on Undergraduate Medical Education (UME) through the development of a BCM Regional Campus at Baylor Scott & White Medical Center – Temple (BCM RMC-T). The first class at BCM RMC-T will begin in academic year 2023, with the campus maintaining an approximate class size of 40 students and upon full enrollment, reaching a total 160 MD students. In addition to UME, the System and BCM will explore opportunities for co-sponsored Graduate Medical Education (GME) and will conduct studies to identify mutually beneficial opportunities for collaboration in clinical and health systems science research and clinical programs.

Baylor Scott & White Health and Texas A&M University

The System and TAMU have entered into an 11-year affiliation agreement that expands upon the 40-year relationship between the two parties. In this agreement, beginning in July 2021, TAMU will decrease the number of UME students assigned to Baylor Scott & White Medical Center – Temple and will increase the number of UME students assigned to other facilities, with the most significant expansion occurring at the TAMU campus located at Baylor University Medical Center. Over a four-year period, the parties will explore the opportunity to increase the total number of TAMU UME students within the System. In addition to UME, the parties will continue their relationship for GME and will conduct studies to identify opportunities for collaboration in research and clinical programs.

Physician Medical Education

The System's education for physicians consists of Graduate Medical Education (Residents and Fellows) and Undergraduate Medical Education (Medical Students), as well as Continuing Medical Education services. The System supports GME by offering over 80 residencies and fellowship programs in Dallas, Fort Worth, Round Rock, and Temple, and as of September 30, 2021 had over 750 physicians in training. All programs are accredited by the Accreditation Council for GME, the Texas Medical Board or other appropriate accrediting agencies, and the training is recognized by the corresponding specialty boards.

The System supports UME through its affiliation with the Texas A&M College of Medicine. Over 300 second, third and fourth year medical students receive their clinical training within the System annually. Many other medical schools from around the country send their students for elective rotations to the System. Continuing Medical Education services are provided by the System for its practicing physicians, and other physicians, both regionally and nationally. These programs are accredited by the Accreditation Council for Continuing Medical Education or other appropriate accrediting agency, and support physicians by providing the most up-to-date clinical, academic, and research information so that the System's physicians remain at the forefront of quality health care. With more focus on patient safety and quality, the System has established House Staff Quality Councils that work hand in hand with other health care professionals to meet the System's needs of providing safe, quality, compassionate health care to all. Both BUMC and SWMH participate in national initiatives sponsored by the Alliance of Independent Medical Centers. The focus of such initiatives includes patient safety, transitions in care, and health care disparities.

Nursing Programs

In addition to training physicians, the System recognizes the important roles played by nurses and nurse practitioners. The System hosts nursing students to achieve their associates degree, bachelor's degree, master's degree, and doctorate degree. Nursing education is conducted through more than 30 affiliations with numerous schools of nursing throughout Texas and the entire country, including Baylor University School of Nursing, Dallas County Community College District, Texas Woman's University, Texas Christian University, University of Texas at Tyler, Texas Tech University and The University of Texas at Arlington. At times, both BHCS and SWH partnered with schools to establish joint, adjunct, or shared faculty appointments of System employees to assist in nursing instruction. The System's clinical settings provide the opportunity for nursing students to apply the didactic content learned in the classroom into the practice setting through guided preceptorships and collaboration with the school for nursing faculty. The System offers a clinical environment where skills are enhanced, inter-disciplinary practice is experienced, teamwork is observed, and quality care is provided. Collectively, the System provided over 100,000 clinical hours to the training of undergraduate and graduate nursing students during the academic year. The System's partnership with the various schools of nursing supports the continued need to produce more nursing graduates to take care of communities in the System's service areas. In total, more than 4,600 nursing students rotate through the various System campuses and affiliated nursing programs annually.

Allied Health Professional Programs

The System hosts allied health-training programs in affiliation with various universities within Texas and throughout the southwest United States. Examples of those areas of training include: allied health sciences/health administration, medical technology,

occupational and physical therapy, pharmacy, radiological technology, respiratory therapy, social work, and speech pathology. The System currently trains approximately 50 physician assistant students. The System has affiliation agreements with Baylor College of Medicine, UT Southwestern, University of North Texas and others, including 62 different allied health programs. The most popular programs are physical therapy, occupational therapy, speech pathology, social work, radiology, pharmacy, health information management, sonography, and respiratory therapy.

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KEY OPERATING AND FINANCIAL INDICATORS

The information contained in this document represents the financial condition and results of operations of BSWH for fiscal years ending June 30, 2021 and 2020, and the three months ended September 30, 2021 and 2020.

KEY OPERATING AND FINANCIAL INDICATORS (\$ in millions)					
	Year Ended June 30,		Three Months Ended September 30,		
	2020	2021	2020	2021	
OPERATING RESULTS					
Adjusted operating cash flow ⁽¹⁾	\$	1,102	\$	1,806	\$ 521 \$ 500
Adjusted EBITDA ⁽²⁾	\$	1,196	\$	1,993	\$ 545 \$ 571
Total capitalization ⁽³⁾	\$	9,523	\$	11,713	\$ 9,928 \$ 12,013
FINANCIAL RATIOS					
Operating margin		5.3%		10.8%	13.6% 11.4%
Adjusted operating cash flow as a percentage of total revenue ⁽¹⁾		10.5%		15.4%	18.3% 15.8%
Long-term debt to capitalization ⁽⁴⁾		35.3%		32.6%	33.7% 31.7%
Days in patient accounts receivable ⁽⁵⁾		34.3		37.5	33.8 38.2

(1) Adjusted operating cash flow is defined as income from operations plus depreciation and amortization plus interest expense. Adjusted operating cash flow as a percentage of total revenue is calculated by dividing the adjusted operating cash flow by total operating revenue.

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

(3) Total capitalization is defined as long-term debt (long-term debt less current maturities and long-term debt subject to short-term remarketing agreements) plus unrestricted net assets.

(4) Long-term debt to capitalization is defined as long-term debt (long-term debt less current maturities and long-term debt subject to short-term remarketing agreements) divided by total capitalization.

(5) Days in patient accounts receivable is defined as patient receivables divided by average daily net patient care revenue. Average daily net patient care revenue is defined as net patient care revenue divided by the number of days in the period.

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MANAGEMENT DISCUSSION AND ANALYSIS

Net Operating Income

The System's operating income for the first three months of fiscal year 2022 was \$359 million or 11.4% of total operating revenue, compared to \$388 million or 13.6% for the first three months of fiscal year 2021. Adjusted EBITDA was \$571 million or 18.1% of total operating revenue for the first three months of fiscal year 2022 compared to \$545 million or 19.2% for the first three months of fiscal year 2021.

Total Operating Revenue

The consolidated total operating revenue increased \$312 million or 11.0% to \$3,157 million for the first three months of fiscal year 2022 compared to \$2,845 million for the first three months of fiscal year 2021.

Net patient care revenue increased \$393 million or 17.8% to \$2,599 million for the first three months of fiscal year 2022 compared to \$2,206 million for the first three months of fiscal year 2021. The increase in net patient care revenue is primarily related to higher volumes and acuity, and favorable payor mix.

Premium revenue decreased \$43 million or -9.9% to \$392 million for the first three months of fiscal year 2022 compared to \$435 million for the first three months of fiscal year 2021. This decrease is primarily due to the settlement of an Affordable Care Act Risk Corridor lawsuit during the first three months of fiscal year 2021 for funding owed to the Health Plan related to losses incurred in the Individual Public Exchange market from 2014 through 2016.

Net assets released from restrictions for operations increased \$17 million or 89.5% to \$36 million for the first three months of fiscal year 2022 compared to \$19 million for the first three months of fiscal year 2021.

Total Operating Expenses

Consolidated total operating expenses for the first three months of fiscal year 2022 were \$2,798 million, an increase of \$341 million or 13.9% compared to \$2,457 million for the first three months of fiscal year 2021.

Salaries, wages, and employee benefits expense increased \$148 million or 12.1% to \$1,368 million for the first three months of fiscal year 2022 compared to \$1,220 million for the first three months of fiscal year 2021, representing 43.3% and 42.9% of total operating revenue for the first three months of fiscal years 2022 and 2021, respectively. Salaries, wages, and employee benefits expense represented 48.9% and 49.7% of total

operating expenses for the first three months of fiscal years 2022 and 2021, respectively.

Supplies and other operating expenses increased \$180 million or 19.8% for the first three months of fiscal year 2022 to \$1,088 million compared to \$908 million for the first three months of fiscal year 2021, and represented 34.5% and 31.9% of total operating revenue for the first three months of fiscal years 2022 and 2021, respectively. Supplies and other operating expenses represented 38.9% and 37.0% of total operating expenses for the first three months of fiscal years 2022 and 2021, respectively.

Medical claims increased \$5 million or 2.6% for the first three months of fiscal year 2022 to \$201 million compared to \$196 million for the first three months of fiscal year 2021. This increase is primarily due to higher Medicaid and Individual Exchange membership during fiscal year 2022, plus the impacts of pharmaceutical drug pricing trends.

Depreciation and amortization increased \$5 million or 4.7% to \$112 million for the first three months of fiscal year 2022 compared to \$107 million for the first three months of fiscal year 2021.

Interest expense increased \$3 million or 11.5% to \$29 million for the first three months of fiscal year 2022 compared to \$26 million for the first three months of fiscal year 2021.

Nonoperating (Losses) Gains

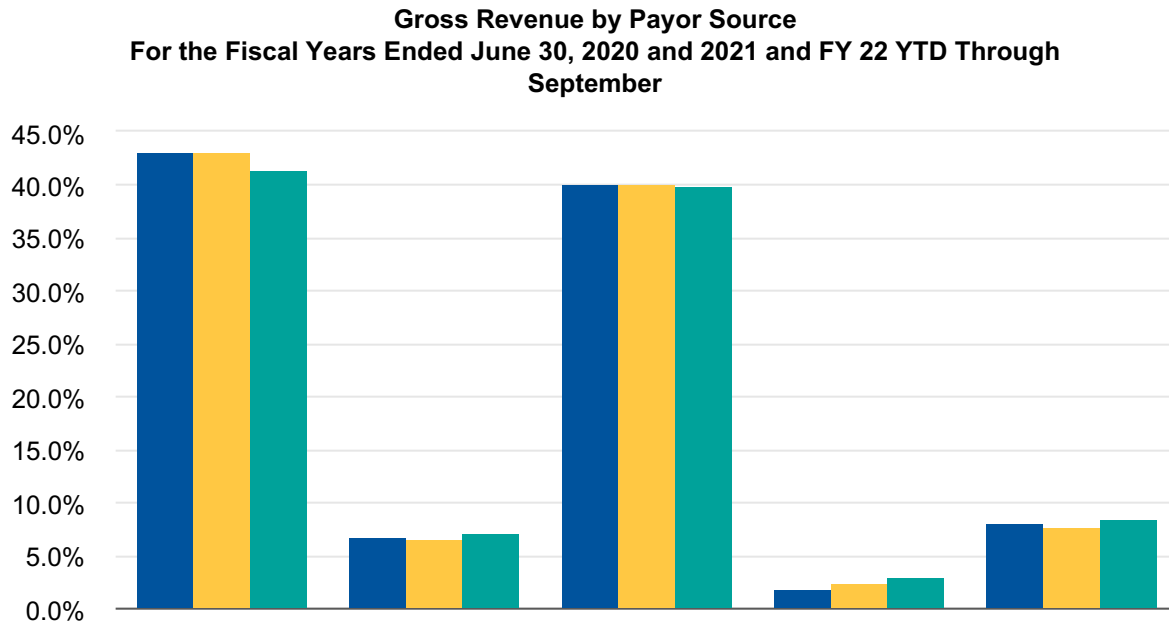
The System recorded unrestricted unrealized losses on investments of \$9 million for the first three months of fiscal year 2022 compared to unrestricted unrealized gains on investments of \$118 million for the first three months of fiscal year 2021. Unrestricted investment income and realized gains on investments were \$78 million for the first three months of fiscal year 2022 compared to unrestricted investment income and realized gains on investments of \$25 million for the first three months of fiscal year 2021, representing an increase of \$53 million or 212.0%. The System recorded unrealized gains in its interest rate swap portfolio of \$16 million for the first three months of fiscal year 2022 compared to unrealized gains of \$26 million for the first three months of fiscal year 2021 due to interest rate fluctuations.

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Utilization Statistics

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

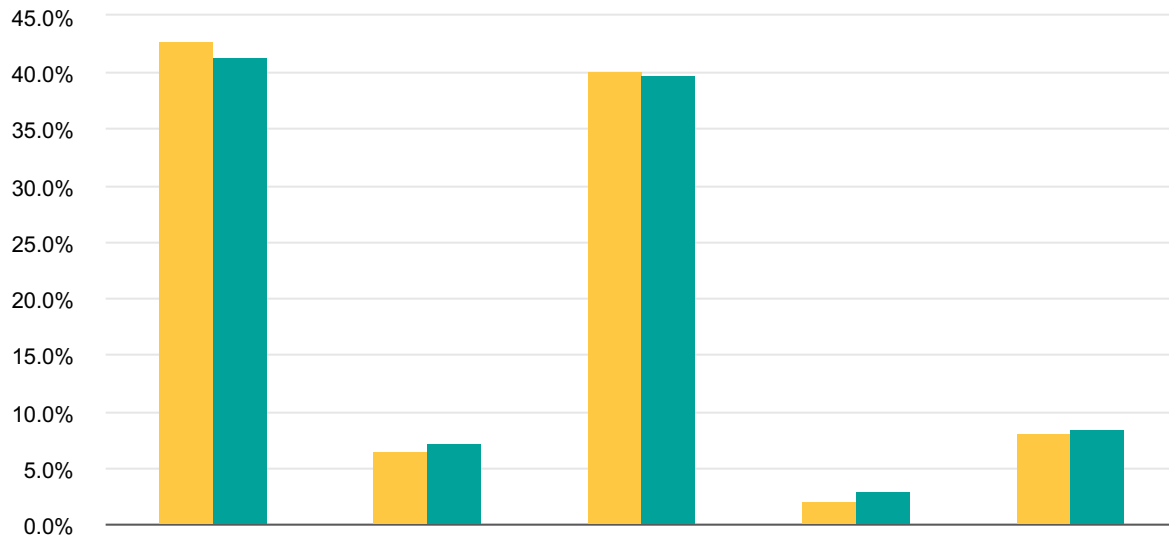
The following graph approximates the percentages of gross patient revenue by payor which includes intercompany activity related to the insured patients of the Health Plan.



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Self-pay/Other
■ FY 20	43.2%	6.8%	40.0%	1.8%	8.2%
■ FY 21	43.1%	6.6%	40.1%	2.4%	7.8%
■ FYTD 22	41.4%	7.2%	39.9%	3.0%	8.5%

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**Gross Revenue by Payor Source
For Fiscal Year to Date September 30**



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Self-pay/Other
■ FYTD 21	42.9%	6.5%	40.3%	2.1%	8.2%
■ FYTD 22	41.4%	7.2%	39.9%	3.0%	8.5%

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OPERATING DATA				
	Year Ended June 30,		Three Months Ended September 30,	
	2020	2021	2020	2021
Licensed Beds	5,063	5,060	5,063	5,060
Inpatient Admissions ⁽¹⁾	211,587	220,834	52,478	58,246
Patient Days	1,027,942	1,109,595	263,741	312,848
Average Length of Stay (Days)	4.9	5.0	5.0	5.4
Emergency Room Visits	799,698	704,881	170,078	230,069
Other Outpatient Registrations	4,408,344	5,442,303	1,212,801	1,362,438
Encounters - BSWH Clinics ⁽²⁾	7,501,941	7,811,761	1,920,668	2,139,316
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	63.2%	63.7%	63.6%	63.5%

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

(2) Encounters – BSWH Clinics combines “Clinic Visits (IP & OP) and Patient Encounters,” which were historically reported separately in relation to regional reporting practices. The combination of the two statistics aligns with the System’s current practice of reporting and tracking of statistics system wide.

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

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ADULT AND PEDIATRIC LICENSED BEDS
 September 30, 2021

Name of Hospital	Location	Licensed Beds
Baylor University Medical Center	Dallas, Texas	914
Baylor Scott & White Medical Center - Temple	Temple, Texas	576
Baylor Scott & White All Saints Medical Center - Fort Worth	Fort Worth, Texas	538
Baylor Scott & White Medical Center - Grapevine	Grapevine, Texas	302
Baylor Scott & White Medical Center - Hillcrest	Waco, Texas	260
Baylor Scott & White Medical Center - Plano	Plano, Texas	160
Baylor Scott & White Medical Center - McKinney	McKinney, Texas	143
Baylor Scott & White Medical Center - College Station	College Station, Texas	142
Baylor Scott & White Medical Center - Waxahachie	Waxahachie, Texas	129
Baylor Scott & White Medical Center - Lakeway ⁽¹⁾	Lakeway, Texas	106
Baylor Scott & White Medical Center - Round Rock	Round Rock, Texas	101
Baylor Scott & White McLane Children's Medical Center ⁽²⁾	Temple, Texas	64
Baylor Scott & White Continuing Care Hospital	Temple, Texas	48
Obligated Affiliates Subtotal		3,483
Texas Health Ventures Group (10 hospitals)	Throughout Service Area	309
Baylor Scott & White Medical Center - Irving	Irving, Texas	293
BIR JV, LLP (4 hospitals) ⁽³⁾	Throughout Service Area	223
Baylor Scott & White Medical Center - Lake Pointe	Rowlett, Texas	176
Baylor Scott & White Medical Center - Centennial	Frisco, Texas	118
Baylor Scott & White The Heart Hospital - Plano	Plano, Texas	105
EBD JV, LLP (8 emergency medical centers)	Throughout Service Area	64
Baylor Scott & White Medical Center - Brenham	Brenham, Texas	60
Baylor Scott & White Heart and Vascular Hospital - Dallas	Dallas, Texas	59
Baylor Scott & White Medical Center - Marble Falls	Marble Falls, Texas	46
Baylor Scott & White Medical Center - Pflugerville	Pflugerville, Texas	25
Baylor Scott & White Medical Center - Taylor	Taylor, Texas	25
Baylor Scott & White Medical Center - Austin	Austin, Texas	25
Baylor Scott & White The Heart Hospital - Denton	Denton, Texas	22
Baylor Scott & White Medical Center - Buda	Buda, Texas	15
Baylor Scott & White Medical Center - Cedar Park ⁽¹⁾	Cedar Park, Texas	8
Baylor Scott & White The Heart Hospital - McKinney	McKinney, Texas	4
Non-Obligated Affiliates Subtotal		1,577
Total		5,060

(1) Baylor Scott & White Medical Center - Lakeway and Baylor Scott & White Medical Center - Cedar Park are operated as part of Baylor Scott & White Medical Center - Round Rock.

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

(3) BIR JV, LLP includes 9 beds for a transitional living facility.

Source: Texas Department of Health, October 4, 2021.

Liquidity

Unrestricted cash and investments of \$8,472 million at September 30, 2021 increased \$62 million as compared to unrestricted cash and investments of \$8,410 million at June 30, 2021 after capital expenditures of \$90 million and net gains on investments of \$69 million. Unrestricted days cash on hand decreased to 290.1 days at September 30, 2021 from 306.9 days at June 30, 2021. Including restricted funds, days cash on hand totaled 322.2 days at September 30, 2021 compared to 341.3 days at June 30, 2021. Days cash on hand as of September 30, 2021, includes Medicare Advance Payment Program funds of \$569 million, \$876 million from the issuance of the BSWH Series 2021 Bonds, and \$114 million in FICA deferrals, which in the aggregate represents 53.4 days of cash. Days cash on hand as of June 30, 2021 includes Medicare Advance Payment Program funds of \$675 million, \$876 million from the issuance of the BSWH Series 2021 Bonds, and \$116 million in FICA deferrals, which in the aggregate represents 60.8 days of cash. Days cash on hand as of June 30, 2020 includes Medicare Advance Payment Program funds of \$765 million, \$400 million from drawing down the BSW Holdings' line of credit, and \$47 million in FICA deferrals, which in the aggregate represents 46.5 days of cash.

The long-term debt to capitalization ratio decreased to 31.7% at September 30, 2021 from 32.6% at June 30, 2021 and total assets increased 0.9% to \$17,654 million at September 30, 2021 from \$17,501 million at June 30, 2021.

CASH AND INVESTMENTS (\$ in millions)				
	June 30,		September 30,	
	2020	2021	2020	2021
Cash and cash equivalents ⁽¹⁾	\$ 1,965	\$ 1,424	\$ 2,356	\$ 1,582
Short-term investments ⁽²⁾	356	597	364	532
Long-term investments ⁽³⁾	4,886	7,331	5,055	7,295
Total cash and investments	7,207	9,352	7,775	9,409
Less: restricted cash and investments ⁽⁴⁾	792	942	796	937
Total unrestricted cash and investments	\$ 6,415	\$ 8,410	\$ 6,979	\$ 8,472
Average daily operating expenses (less depreciation)	\$ 26.1	\$ 27.4	\$ 25.5	\$ 29.2
Unrestricted days cash on hand ⁽⁵⁾	245.8	306.9	273.7	290.1
Days cash on hand ⁽⁶⁾	276.1	341.3	304.9	322.2

(1) Cash equivalents are composed of investments which have original maturities of three months or less.

(2) Short-term investments are assets that are convertible to cash in one year or less.

(3) Long-term investments are comprised of U.S. small, mid and large capitalization stocks, international stocks, intermediate term fixed income securities, hedge funds, real estate, and private equity.

(4) Restricted cash and investments is the sum of the restricted long-term investments, assets restricted by donors, assets held by bond trustees, and assets required to meet self-insurance obligations.

(5) Unrestricted days cash on hand is calculated as unrestricted cash and investments divided by average daily operating expenses (less depreciation).

(6) Days cash on hand includes restricted funds.

SELF LIQUIDITY REPORT (\$ in millions)	
	September 30, 2021
DAILY LIQUIDITY	
Checking and deposit accounts at P-1 rated bank	\$ 724
Short-term investment funds at P-1 rated bank	35
Subtotal Daily Liquidity (Cash & Securities)	759
\$400 Million General Purpose LOC (undrawn amount) ⁽¹⁾	400
Subtotal Daily Liquidity	1,159
WEEKLY LIQUIDITY	
Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3	1,378
Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3	1,851
Equities: Exchange Traded Equity (ownership of shares of stock)	310
Equities: Equity Funds	1,168
Subtotal Weekly Liquidity	4,707
Total Daily and Weekly Liquidity	\$ 5,866
LONGER TERM LIQUIDITY	
Funds, vehicles, investments that allow withdrawals with one month notice or longer	\$ 1,325

(1) Baylor Scott & White Holdings \$400 MM line of credit expires January 9, 2023.

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

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CONSOLIDATED BALANCE SHEETS

BAYLOR SCOTT & WHITE HEALTH CONSOLIDATED BALANCE SHEETS (\$ in millions)				
	June 30,		September 30,	
	2020	2021	2020	2021
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,965	\$ 1,424	\$ 2,356	\$ 1,582
Short-term investments	356	597	364	532
THVG funds due from United Surgical Partners, Inc.	280	212	222	185
Accounts receivable:				
Patient	781	948	810	1,081
Premiums	118	76	100	63
Other	273	316	254	345
Other current assets	376	362	352	378
Total current assets	4,149	3,935	4,458	4,166
LONG-TERM INVESTMENTS:				
Unrestricted	4,094	6,389	4,259	6,358
Restricted	497	578	491	573
Total long-term investments	4,591	6,967	4,750	6,931
ASSETS WHOSE USE IS LIMITED:				
Other designated assets	175	232	184	232
Self insurance reserves	120	132	121	132
Total assets whose use is limited	295	364	305	364
PROPERTY AND EQUIPMENT, net	4,062	4,067	4,046	4,049
RIGHT OF USE OPERATING LEASE ASSETS, net	868	803	849	775
CONTRIBUTIONS RECEIVABLE, net	169	159	168	158
OTHER LONG-TERM ASSETS:				
Equity investment in unconsolidated entities	63	77	68	78
Goodwill and intangible assets, net	873	1,107	872	1,113
Interest in net assets of related foundation	4	5	4	5
Other	18	17	17	15
Total other long-term assets	958	1,206	961	1,211
Total assets	\$ 15,092	\$ 17,501	\$ 15,537	\$ 17,654

BAYLOR SCOTT & WHITE HEALTH CONSOLIDATED BALANCE SHEETS - CONTINUED (\$ in millions)				
	June 30,		September 30,	
	2020	2021	2020	2021
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current maturities of long-term debt and finance lease obligations	\$ 102	\$ 109	\$ 103	\$ 109
Long-term debt subject to short-term remarketing arrangements	95	95	95	95
Commercial paper	208	208	208	208
Trade accounts payable	344	446	287	356
Accrued liabilities:				
Payroll related	522	535	648	538
Third-party programs	848	726	827	618
Medical claims payable	65	67	76	75
Operating lease liabilities	155	160	149	158
Other	615	678	602	738
Total current liabilities	2,954	3,024	2,995	2,895
LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current maturities				
	3,262	3,724	3,248	3,717
OTHER LONG-TERM LIABILITIES:				
Self insurance and other insurance liabilities	119	130	120	142
Interest rate swap liabilities, net	365	290	344	269
Long-term operating lease liabilities	807	737	792	709
Other	257	330	291	327
Total other long-term liabilities	1,548	1,487	1,547	1,447
Total liabilities	7,764	8,235	7,790	8,059
COMMITMENTS AND CONTINGENCIES				
NONCONTROLLING INTERESTS - REDEEMABLE				
	482	606	469	630
NET ASSETS:				
Net assets without donor restrictions:				
Attributable to BSWH	5,840	7,557	6,288	7,858
Noncontrolling interests - nonredeemable	326	337	297	343
Total net assets without donor restrictions	6,166	7,894	6,585	8,201
Net assets with donor restrictions	680	766	693	764
Total net assets	6,846	8,660	7,278	8,965
Total liabilities and net assets	\$ 15,092	\$ 17,501	\$ 15,537	\$ 17,654

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

BAYLOR SCOTT & WHITE HEALTH CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (\$ in millions)				
	Year Ended June 30,		Three Months Ended September 30,	
	2020	2021	2020	2021
OPERATING REVENUE:				
Net patient care revenue	\$ 8,334	\$ 9,232	\$ 2,206	\$ 2,599
Premium revenue	1,483	1,526	435	392
Other operating revenue	635	819	185	130
Net assets released from restrictions for operations	77	127	19	36
Total operating revenue	10,529	11,704	2,845	3,157
OPERATING EXPENSES:				
Salaries, wages, and employee benefits	4,923	5,208	1,220	1,368
Supplies	1,701	1,876	448	519
Other operating expenses	2,069	2,087	460	569
Medical claims	735	724	196	201
(Gains) losses on fixed asset sales and disposals, net	(1)	3	—	—
Depreciation and amortization	429	437	107	112
Interest	114	108	26	29
Total operating expenses	9,970	10,443	2,457	2,798
INCOME FROM OPERATIONS	559	1,261	388	359
NONOPERATING (LOSSES) GAINS:				
Gains on investments, net	58	879	143	69
Interest rate swap activity	(151)	73	19	8
Equity in earnings of unconsolidated entities	—	19	6	1
Losses from extinguishment of debt	(3)	(21)	—	—
Total nonoperating (losses) gains	(96)	950	168	78
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	463	2,211	556	437
LESS INCOME TAX EXPENSE	10	15	4	5
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	453	2,196	552	432

BAYLOR SCOTT & WHITE HEALTH CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED (\$ in millions)				
	Year Ended June 30,		Three Months Ended September 30,	
	2020	2021	2020	2021
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Net assets released from restrictions for capital expenditures	\$ 45	\$ 13	\$ —	\$ 1
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(45)	(119)	(53)	(25)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(290)	(388)	(81)	(104)
Cumulative change in accounting principle	(2)	—	—	—
Other	—	26	1	3
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	161	1,728	419	307
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:				
Contributions	56	109	13	30
Realized gains on investments, net	20	28	4	9
Unrealized (losses) gains on investments, net	(9)	86	17	(4)
Change in value of split-interest agreements	4	3	1	—
Net assets released from restrictions for operations	(77)	(127)	(19)	(36)
Net assets released from restrictions for capital expenditures	(45)	(13)	—	(1)
Changes in net assets of related foundation	—	1	—	—
Other	4	(1)	(3)	—
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(47)	86	13	(2)
INCREASE IN NET ASSETS	114	1,814	432	305
NET ASSETS, beginning of period	6,732	6,846	6,846	8,660
NET ASSETS, end of period	\$ 6,846	\$ 8,660	\$ 7,278	\$ 8,965

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CONSOLIDATED STATEMENTS OF CASH FLOWS

BAYLOR SCOTT & WHITE HEALTH CONSOLIDATED STATEMENTS OF CASH FLOWS (\$ in millions)				
	Year Ended June 30,		Three Months Ended September 30,	
	2020	2021	2020	2021
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase in net assets	\$ 114	\$ 1,814	\$ 432	\$ 305
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Losses (gains) from extinguishment of debt	1	(15)	—	—
Unrealized losses (gains) on investments, net	67	(769)	(135)	13
Realized gains on investments, net	(54)	(136)	(14)	(64)
Unrealized losses (gains) on interest rate swap, net	129	(101)	(26)	(16)
Contributions restricted for long-term purposes	(1)	(3)	—	—
Depreciation and amortization	429	437	107	112
(Gains) losses on fixed asset sales and disposals, net	(1)	3	—	—
Equity in earnings of unconsolidated entities	—	(19)	(6)	(1)
Change in value of split-interest agreements	(4)	(3)	(1)	—
Other changes attributable to noncontrolling interests	328	507	134	129
Other	9	(29)	(2)	(2)
Cumulative change in accounting principle	2	—	—	—
Changes in operating assets and liabilities (net of acquisitions):				
Decrease (increase) in patient accounts receivable	64	(165)	(29)	(133)
(Increase) decrease in other accounts receivable	(52)	(1)	37	(16)
(Increase) decrease in other assets	(13)	22	28	(14)
Increase (decrease) in trade accounts payable and accrued liabilities	949	(2)	46	(127)
Increase in other long-term liabilities	32	114	45	18
Net cash provided by operating activities	1,999	1,654	616	204
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(597)	(343)	(91)	(90)
Cash proceeds from sales of assets	4	3	—	—
Cash paid for acquisitions, net of cash received	—	(130)	—	(4)
(Increase) decrease in THVG funds due from United Surgical Partners, Inc.	(176)	68	58	27
Decrease (increase) in trading investments	101	(1,643)	(18)	168
Net payments on interest rate swaps	(60)	(2)	(4)	(14)
Increase in assets whose use is limited	(28)	(68)	(10)	—
Net cash (used in) provided by investing activities	(756)	(2,115)	(65)	87

BAYLOR SCOTT & WHITE HEALTH
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
 (\$ in millions)

	Year Ended June 30,		Three Months Ended September 30,	
	2020	2021	2020	2021
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments on long-term debt	\$ (855)	\$ (1,140)	\$ (13)	\$ (10)
Proceeds from issuance of long-term debt	1,067	1,603	—	—
Distributions to noncontrolling interests	(283)	(523)	(141)	(109)
Purchases of noncontrolling interests	(24)	(12)	(7)	(1)
Sales of noncontrolling interests	8	28	1	3
Cash receipts restricted for long-term purposes	1	1	—	—
Annuity payments to beneficiaries	(1)	(1)	—	—
Net cash used in financing activities	(87)	(44)	(160)	(117)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH				
	1,156	(505)	391	174
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	819	1,975	1,975	1,470
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$ 1,975	\$ 1,470	\$ 2,366	\$ 1,644
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:				
Cash and cash equivalents at beginning of period	\$ 813	\$ 1,965	\$ 1,965	\$ 1,424
Cash in short-term investments at beginning of period	—	—	—	32
Cash in unrestricted long-term investments at beginning of period	1	1	1	1
Cash in restricted long-term investments at beginning of period	4	8	8	11
Cash in assets whose use is limited at beginning of period	1	1	1	2
Cash and cash equivalents and restricted cash at beginning of period	<u>\$ 819</u>	<u>\$ 1,975</u>	<u>\$ 1,975</u>	<u>\$ 1,470</u>
Cash and cash equivalents at end of period	\$ 1,965	\$ 1,424	\$ 2,356	\$ 1,582
Cash in short-term investments at end of period	—	32	—	32
Cash in unrestricted long-term investments at end of period	1	1	1	2
Cash in restricted long-term investments at end of period	8	11	8	26
Cash in assets whose use is limited at end of period	1	2	1	2
Cash and cash equivalents and restricted cash at end of period	<u>\$ 1,975</u>	<u>\$ 1,470</u>	<u>\$ 2,366</u>	<u>\$ 1,644</u>

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1. ORGANIZATION

Baylor Scott & White Holdings (BSW Holdings) is a Texas nonprofit corporation and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), by virtue of being an entity described in Section 501(c)(3) of the Code. BSW Holdings and its controlled affiliates (collectively, the "System" or "BSWH") were created from the combination of two Texas health care systems, Baylor Health Care System (BHCS) and its affiliates, and Scott & White Healthcare (SWH) and its affiliates, and began operations October 1, 2013. 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 and SWH and has control and substantial reserved powers over all BHCS and SWH material affiliates. The System is not affiliated with Baylor University.

The consolidated financial statements include the accounts of BSW Holdings, BSW Health, BHCS, SWH, Baylor University Medical Center (BUMC), Scott & White Memorial Hospital (SWMH), five health plan entities (collectively referred to as the "Health Plan" or "Consolidated Health Plan"), five foundations, twenty-five community and specialty hospitals located throughout the Dallas and Fort Worth metroplex and the central Texas area, one wholly owned captive insurance subsidiary (Baylor Scott & White Assurance SPC (BSWA)), Baylor Quality Health Care Alliance, LLC, an accountable care organization, physician practices, 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 consolidated financial statements with related noncontrolling interests reported in the consolidated financial statements. These entities include five acute and specialty hospitals referenced above, along with partnerships in: Texas Health Ventures Group, LLC (THVG), providing short-stay hospital and outpatient surgery services, BIR JV, LLP, providing rehabilitation services, BTDI JV, LLP and Gateway Diagnostic JV, LLC, providing imaging services, EBD JV, LLP, providing emergency medical services, and HTPN Gastroenterology Services, LLP, providing endoscopic services. All significant intercompany accounts and transactions among entities included in the consolidated financial statements have been eliminated.

The following summarizes significant changes in the System in fiscal years 2020 - 2022:

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 consolidated financial statements of approximately \$348 million and \$319 million in the first three months of fiscal years 2022 and 2021, respectively.

THVG completed the acquisition of two ambulatory surgical centers in March 2021. In connection with these transactions, THVG acquired goodwill and intangible assets, net of approximately \$31 million, fixed assets of approximately \$2 million, noncontrolling interests of approximately \$23 million, and other net liabilities of approximately \$10 million in fiscal year 2021.

BT Garland JV, LLP

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 April 1, 2020, BT Garland JV, LLP completed the donation of the Garland hospital facilities to the U.S. Department of Veteran Affairs.

Baylor Scott & White The Heart Hospital - McKinney

In July 2019, the System opened Baylor Scott & White The Heart Hospital – McKinney, a 4-bed hospital on the McKinney campus. The hospital will provide heart and vascular care to patients in McKinney, Texas.

Baylor Scott & White Medical Center - Buda

In September 2019, the System opened Baylor Scott & White Medical Center – Buda, a 15-bed multispecialty hospital.

Baylor Scott & White Medical Center - Carrollton

In November 2019, BSWH signed a definitive agreement for the transfer of operations of Baylor Medical Center at Carrollton (Carrollton) d/b/a Baylor Scott & White Medical Center - Carrollton to Sana Healthcare Carrollton, LLC, d/b/a Carrollton Regional Medical Center. The transaction was completed on March 1, 2020.

Fiscal Year 2020 Debt Portfolio Refinancing

In December 2019, BSW Holdings issued the \$41 million Series 2019A, \$97 million Series 2019B, \$180 million Series 2019C, \$45 million Series 2019D, and \$96 million Series 2019E Revenue Bonds through the Tarrant County Cultural Education Facilities Finance Corporation (TCCEFFC) conduit issuer, with various banks. Proceeds from this issuance were used to defease \$38 million of the Baylor Health Care System Series 2011A Revenue Bonds and redeem the Scott & White Healthcare Series 2013C Revenue Bonds, the Baylor Scott & White Holdings Series 2015B and C Revenue Bonds, and the Baylor Scott & White Holdings Series 2017A, B, and C Revenue Bonds.

On January 9, 2020, BSWH terminated the \$400 million revolving line of credit, and entered into a new \$400 million revolving line of credit with an expiration date of January 2023. On April 9, 2020, BSWH drew \$400 million from the revolving line of credit, which was repaid in January 2021. As of September 30, 2021 there is \$0 drawn on this line of credit.

Additionally, on January 22, 2020, BSWH amended the credit agreement related to the Lake Pointe Construction Loan to add BHCS as a guarantor.

Baylor Scott & White Medical Center – Austin

In January 2020, the System opened Baylor Scott & White Medical Center – Austin, a 25-bed hospital. This is the System's first full-service hospital within the Austin city limits.

MEDCO Construction

On February 29, 2020, BSWH and MEDCO Construction, LLC (MEDCO) completed the sale of substantially all of the assets of MEDCO to The Christman Company, a national construction management and real estate development firm.

CARES Act

In March 2020, the global COVID-19 pandemic began to impact the operations of the System. In response to the COVID-19 pandemic, the United States government passed the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act). The System recognized approximately \$1 million, \$290 million and \$187 million of emergency relief funds, a program included in the CARES Act, in other operating revenue for the three months ended September 30, 2021, and years ended June 30, 2021 and 2020, respectively. Additionally, the System recognized \$23 million of employee retention tax credits in salaries, wages, and employee benefits for the year ended June 30, 2020. As of September 30, 2021, the System has approximately \$24 million of unrecognized emergency relief funds that is recorded in third-party program liabilities in the accompanying consolidated balance sheets.

The System also received approximately \$765 million in Medicare advance payments in April 2020 and recorded a contract liability in accordance with Accounting Standards Codification (ASC) 606, *"Revenue from Contracts with Customers"*, which is included in third-party program liabilities as of June 30, 2020. Repayment of the Medicare advance payments is phased through September 2022, when interest will begin to accrue. The System expects all funds to be repaid before any interest is incurred. Beginning in April 2021, and through September 30, 2021, the System has repaid approximately \$196 million, resulting in a remaining liability of approximately \$569 million as of September 30, 2021.

The System had deferred employer portion of Federal Insurance Contributions Act (FICA) taxes of approximately \$114 million, \$116 million and \$47 million as of September 30, 2021, June 30, 2021 and 2020, respectively. Half of the FICA deferrals will be repaid in December 2021, and the remaining half will be due in December 2022. As of September 30, 2021 the System recorded FICA deferrals of approximately \$57 million in payroll liabilities, and \$57 million in other long-term liabilities, in the accompanying consolidated balance sheets.

Risk Corridor Program

The Risk Corridor program was created as part of the Affordable Care Act to stabilize the individual product market for pricing volatility during the early years of the public health insurance exchanges from 2014 through 2016. After the program was in operation, Centers for Medicare & Medicaid Services (CMS) took the position that the Risk Corridor program was budget neutral, and would only pay Risk Corridor funding out to insurers that had losses based on collections from insurers that had excess profitability within the program, creating a shortfall for Scott and White Health Plan (SWHP) and Insurance Company of Scott and White (ICSW). SWHP and ICSW sued the United States to obtain recovery of funds believed to be owed through this program. The Supreme Court held oral arguments and ruled in favor of the insurers. In August 2020, SWHP and ICSW collected the full amount owed from this program, which resulted in an increase in net assets of approximately \$64 million.

Baylor Scott & White Medical Center - Llano

On December 31, 2020, BSWH signed a definitive agreement to transition operations of Baylor Scott & White Medical Center - Llano, a 25-bed hospital, to Texas-based Mid Coast Health System. This agreement was effective January 1, 2021.

Fiscal Year 2021 Debt Portfolio Refinancing

On January 21, 2021, BSW Holdings issued its \$1,300 million Taxable Bonds, Series 2021 (the "BSW Holdings Series 2021 Bonds"). Proceeds of the BSW Holdings Series 2021 Bonds were used to refund all of the TCCEFFC Hospital Revenue Bond (Baylor Health Care System Project) Series 2013A and the TCCEFFC Hospital Revenue Bond (Scott & White Healthcare Project) Series 2013A, with an aggregate balance of approximately \$332 million. Remaining proceeds were used to refinance \$400 million outstanding under the BSW Holdings revolving line of credit agreement, refinance \$45 million of commercial paper under the BSW Holdings commercial paper program, fund development and construction costs of various expansion and construction projects, pay costs of issuance, and provide for any other eligible corporate purpose.

Gateway Diagnostic JV, LLC

On June 1, 2021, Gateway Diagnostic JV, LLC (Gateway), a Delaware Limited Liability Company was formed between BUMC and US Outpatient Imaging Specialists, Inc., a wholly owned subsidiary of US Radiology Specialists Holdings, LLC (USRS). BUMC has a majority ownership of 51% of Gateway, with USRS holding the remaining 49%. The purpose of this partnership is to own, operate, and manage independent diagnostic testing facilities, providing imaging services to patients in North Texas. In connection with this transaction, Gateway acquired fixed assets of approximately \$14 million, goodwill and intangible assets, net of approximately \$191 million, noncontrolling interests of approximately \$101 million, and other net liabilities of approximately \$104 million in 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the System have been prepared in conformity with generally accepted accounting principles in the United States (GAAP). The following is a summary of the significant accounting and reporting policies used in preparing the financial statements, as well as a summary of updates to the ASC issued by the Financial Accounting Standards Board (FASB) in the form of Accounting Standards Updates (ASU) that are applicable to BSWH.

Application of New Accounting Pronouncements

In January 2016, FASB issued ASU 2016-01, *“Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.”* This ASU primarily affects the accounting for equity investments, financial liabilities under fair value options, and the presentation and disclosure requirements for financial instruments. The System applied the provisions of ASU 2016-01 in fiscal year 2020, which did not have a material impact on the consolidated statements of operations.

In February 2016, January 2018, July 2018, December 2018, and March 2019, FASB issued ASU 2016-02, *“Leases (Topic 842)”*; ASU 2018-01, *“Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842”*; 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 a specified asset for the lease term. The main difference with previous practice being that lessees are now required to record an asset and liability for what was considered an operating lease under ASC 840, *“Leases.”* The System adopted the guidance under these ASU's, effective July 1, 2019 using the effective date method, a practical expedient allowing application of the guidance for the adoption date forward without adjusting comparative periods. The System also elected

to apply the practical expedient to not use hindsight to determine the lease term and assess impairment of right of use assets. As a result of the adoption, the System recognized right of use assets of approximately \$943 million and operating lease liabilities of approximately \$1,028 million. The System also elected not to assess whether land easements entered into prior to the adoption date, that were not previously accounted for as a lease, should be reported as such under ASC 842. The adoption of this standard did not have a corresponding material impact on the consolidated statements of operations. The System elected the three packaged transitional practical expedients under ASC 842-10-65-1(f), to not reassess at adoption (i) expired or existing contracts for whether they are, or contain, a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The System also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components for all classes of underlying assets.

In August 2016, FASB issued ASU 2016-15, *“Statement of Cash Flows (Topic 230): 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 System applied the provisions of ASU 2016-15 in fiscal year 2020, which did not have a material impact on the consolidated financial statements.

In October 2016, FASB issued ASU 2016-16, *“Income Taxes (Topic 740): 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 System applied the provisions of ASU 2016-16 in fiscal year 2020, which did not have a material impact on the consolidated financial statements.

In November 2016, FASB issued ASU 2016-18, *“Statement of Cash Flows (Topic 230): Restricted Cash.”* 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 System applied the provisions of ASU 2016-18 in fiscal year 2020, which had an immaterial impact on the cash used in investing activities in the consolidated statements of cash flows.

In January 2017, FASB issued ASU 2017-01, *“Business Combinations (Topic 805): 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 System applied the provisions of ASU 2017-01 in fiscal year 2020, which did not have a material impact on the consolidated financial statements.

In March 2017, FASB issued ASU 2017-07, *“Compensation - Retirement Benefits (Topic 715): 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 statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. The System applied the provisions of ASU 2017-07 in fiscal year 2020, which did not have a material impact on the consolidated financial statements.

In March 2017, FASB issued ASU 2017-08, *“Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): 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 System applied the provisions of ASU 2017-08 in fiscal year 2021, which did not have a material impact on the consolidated financial statements.

In August 2018, FASB issued ASU 2018-13, *“Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.”* The amendments in ASU 2018-13 remove certain disclosure requirements related to transfers between fair value levels, the valuation of Level 3 assets and liabilities, as well as the changes in unrealized gains and losses included in earnings for Level 3. Additionally, these amendments modify certain disclosure requirements related to transfers, purchases, and issuances in and out of Level 3 for nonpublic entities. The System applied the provisions of ASU 2018-13 in fiscal year 2021, which did not have a material impact on the consolidated financial statements.

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 System applied the provisions of ASU 2018-15 in fiscal year 2021, which did not have a material impact on the consolidated financial statements.

Other Accounting Pronouncements

In June 2016, November 2018, April 2019, May 2019, and November 2019, FASB issued ASU 2016-13, *“Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”*; 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"; ASU 2019-05, *"Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief"*; and ASU 2019-10, *"Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,"* 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, 2022. The System is currently evaluating the impact of these ASU's.

In January 2017, and November 2019, FASB issued ASU 2017-04, *"Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"*; and ASU 2019-10, *"Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,"* respectively. These ASU's eliminate 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 these ASU's are effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities, and December 15, 2022, and interim periods within those years for all other entities. The System is currently evaluating the impact of these ASU's.

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 September 2020, FASB issued ASU 2020-07, *"Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets."* This ASU requires a not-for-profit entity to present contributed non-financial assets as a separate line item in the statement of operations and changes in net assets apart from contributed cash and other financial assets, and disclose whether the assets were monetized or utilized during the reporting period. The provisions of ASU 2020-07 are effective for fiscal years beginning after June 15, 2021 and interim periods

thereafter. The System is currently evaluating the impact of this ASU and believes it will not have a material impact on the consolidated financial statements.

3. CASH AND INVESTMENTS

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 issued 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 \$185 million and \$212 million at September 30, 2021 and June 30, 2021, respectively. The funds due from USPI are available on demand.

Short-Term and Long-Term Investments

Short-term investments and long-term investments primarily consist of investments such as domestic equities, U.S. treasuries, exchange-traded mutual funds, and agency securities.

BSWH's alternative investments consist of private equity investments, real estate investments, oil and gas interests, and hedge funds and are included in unrestricted and restricted long-term investments in the accompanying consolidated balance sheets.

Beneficial Interest

The System records charitable remainder trusts, where it is not the trustee, at the net present value of the projected cash flows. When a third-party serves as trustee, the beneficial interests are required to be measured at fair value on a recurring basis. These trusts are reported in contributions receivable, net, in the accompanying consolidated balance sheets..

Investment Earnings

For all investments, interest and dividends, realized gains, and unrealized gains (losses) are included in gains on investments, net, in the accompanying consolidated statements of operations and changes in net assets, unless restricted by donor.

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

Three Months Ended September 30, 2021				
	Interest and Dividends	Realized Gains	Unrealized Losses	Total
Nonoperating gains (losses)	\$ 18	\$ 60	\$ (9)	\$ 69
Changes in net assets with donor restrictions	5	4	(4)	5
	<u>\$ 23</u>	<u>\$ 64</u>	<u>\$ (13)</u>	<u>\$ 74</u>
Three Months Ended September 30, 2020				
	Interest and Dividends	Realized Gains	Unrealized Gains	Total
Nonoperating gains	\$ 12	\$ 13	\$ 118	\$ 143
Changes in net assets with donor restrictions	3	1	17	21
	<u>\$ 15</u>	<u>\$ 14</u>	<u>\$ 135</u>	<u>\$ 164</u>
Year Ended June 30, 2021				
	Interest and Dividends	Realized Gains	Unrealized Gains	Total
Nonoperating gains	\$ 71	\$ 125	\$ 683	\$ 879
Changes in net assets with donor restrictions	17	11	86	114
	<u>\$ 88</u>	<u>\$ 136</u>	<u>\$ 769</u>	<u>\$ 993</u>
Year Ended June 30, 2020				
	Interest and Dividends	Realized Gains	Unrealized Losses	Total
Nonoperating gains (losses)	\$ 66	\$ 50	\$ (58)	\$ 58
Changes in net assets with donor restrictions	16	4	(9)	11
	<u>\$ 82</u>	<u>\$ 54</u>	<u>\$ (67)</u>	<u>\$ 69</u>

4. RETIREMENT BENEFITS

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

The System has two frozen defined benefit plans. One of the plans is subject to ERISA and is being funded in accordance with regulatory requirements.

5. 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 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.

6. CONTINGENCIES

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, physician ownership and self-referral, and Medicare and Medicaid fraud and abuse. 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.

7. SUBSEQUENT EVENTS**BSW Holdings Series 2019A Conversion**

On October 28, 2021, upon approval from TCCEFFC, BSWH converted the BSW Holdings Series 2019A from taxable bonds to tax-exempt bonds. This transaction did not have a material impact.

The System has performed an evaluation of material subsequent events and transactions from September 30, 2021 through November 12, 2021.

BAYLOR SCOTT & WHITE HEALTH SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION OF THE OBLIGATED AFFILIATES AND BSWH CONSOLIDATING BALANCE SHEETS SEPTEMBER 30, 2021 (\$ in millions)					
	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 930	\$ 325	\$ 327	\$ —	\$ 1,582
Short-term investments	370	26	136	—	532
THVG funds due from United Surgical Partners, Inc.	—	—	185	—	185
Accounts receivable:					
Patient	687	—	462	(68)	1,081
Premiums	—	63	—	—	63
Affiliates, net	87	—	—	(87)	—
Other	129	85	135	(4)	345
Other current assets	253	12	113	—	378
Total current assets	2,456	511	1,358	(159)	4,166
LONG-TERM INVESTMENTS:					
Unrestricted	5,969	277	112	—	6,358
Restricted	3	—	570	—	573
Total long-term investments	5,972	277	682	—	6,931
ASSETS WHOSE USE IS LIMITED:					
Other designated assets	219	2	11	—	232
Self insurance reserves	—	—	132	—	132
Total assets whose use is limited	219	2	143	—	364
PROPERTY AND EQUIPMENT, net	2,918	25	1,118	(12)	4,049
RIGHT OF USE OPERATING LEASE ASSETS, net ⁽¹⁾	312	—	726	(263)	775
CONTRIBUTIONS RECEIVABLE, net	1	—	157	—	158
DUE FROM AFFILIATES	—	—	575	(575)	—
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES	2,425	—	—	(2,425)	—
OTHER LONG-TERM ASSETS:					
Equity investment in unconsolidated entities	57	—	21	—	78
Goodwill and intangible assets, net	87	5	1,023	(2)	1,113
Interest in net assets of related foundations	482	—	123	(600)	5
Other	9	2	6	(2)	15
Total other long-term assets	635	7	1,173	(604)	1,211
Total assets	\$ 14,938	\$ 822	\$ 5,932	\$ (4,038)	\$ 17,654

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

† Consolidated Health Plan includes Scott and White Health Plan, Insurance Company of Scott and White, Scott and White Care Plans, SHA L.L.C., and Southwest Life & Health Insurance Company.

(1) Consolidating balance sheets exclude intercompany operating leases which eliminate at the System level.

BAYLOR SCOTT & WHITE HEALTH SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION OF THE OBLIGATED AFFILIATES AND BSWH CONSOLIDATING BALANCE SHEETS - CONTINUED SEPTEMBER 30, 2021 (\$ in millions)					
	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Current maturities of long-term debt and finance lease obligations	\$ 74	\$ —	\$ 35	\$ —	\$ 109
Long-term debt subject to short-term remarketing arrangements	95	—	—	—	95
Commercial paper	208	—	—	—	208
Accounts payable:					
Trade accounts payable	223	11	122	—	356
Affiliates, net	—	42	43	(85)	—
Accrued liabilities:					
Payroll related	433	—	105	—	538
Third-party programs	374	2	222	20	618
Medical claims payable	—	164	—	(89)	75
Operating lease liabilities ⁽¹⁾	59	—	121	(22)	158
Other	392	158	196	(8)	738
Total current liabilities	1,858	377	844	(184)	2,895
LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current maturities	3,393	—	324	—	3,717
OTHER LONG-TERM LIABILITIES:					
Self insurance and other insurance liabilities	1	—	141	—	142
Interest rate swap liabilities, net	269	—	—	—	269
Long-term operating lease liabilities ⁽¹⁾	289	—	666	(246)	709
Other	262	20	50	(5)	327
Total other long-term liabilities	821	20	857	(251)	1,447
DUE TO AFFILIATES	315	—	254	(569)	—
Total liabilities	6,387	397	2,279	(1,004)	8,059
COMMITMENTS AND CONTINGENCIES					
NONCONTROLLING INTERESTS - REDEEMABLE	—	—	365	265	630
NET ASSETS:					
Net assets without donor restrictions:					
Attributable to BSWH	8,021	425	2,345	(2,933)	7,858
Noncontrolling interests - nonredeemable	41	—	64	238	343
Total net assets without donor restrictions	8,062	425	2,409	(2,695)	8,201
Net assets with donor restrictions	489	—	879	(604)	764
Total net assets	8,551	425	3,288	(3,299)	8,965
Total liabilities and net assets	\$ 14,938	\$ 822	\$ 5,932	\$ (4,038)	\$ 17,654

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

† Consolidated Health Plan includes Scott and White Health Plan, Insurance Company of Scott and White, Scott and White Care Plans, SHA L.L.C., and Southwest Life & Health Insurance Company.

(1) Consolidating balance sheets exclude intercompany operating leases which eliminate at the System level.

BAYLOR SCOTT & WHITE HEALTH SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION OF THE OBLIGATED AFFILIATES AND BSWH CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 (\$ in millions)					
	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
OPERATING REVENUE:					
Net patient care revenue	\$ 1,536	\$ —	\$ 1,205	\$ (142)	\$ 2,599
Premium revenue	—	392	—	—	392
Other operating revenue	141	7	183	(201)	130
Net assets released from restrictions for operations	14	—	23	(1)	36
Total operating revenue	1,691	399	1,411	(344)	3,157
OPERATING EXPENSES:					
Salaries, wages, and employee benefits	839	16	519	(6)	1,368
Supplies	257	—	262	—	519
Other operating expenses	385	31	347	(194)	569
Medical claims	—	350	—	(149)	201
Depreciation and amortization	74	1	37	—	112
Interest	24	—	8	(3)	29
Total operating expenses	1,579	398	1,173	(352)	2,798
INCOME FROM OPERATIONS	112	1	238	8	359
NONOPERATING GAINS (LOSSES):					
Gains (losses) on investments, net	62	—	10	(3)	69
Interest rate swap activity	8	—	—	—	8
Contributions	5	—	—	(5)	—
Equity in earnings of unconsolidated entities	1	—	—	—	1
Other	78	—	3	(81)	—
Total nonoperating gains (losses)	154	—	13	(89)	78
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE TAXES	266	1	251	(81)	437
LESS INCOME TAX EXPENSE	—	—	5	—	5
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	266	1	246	(81)	432

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

† Consolidated Health Plan includes Scott and White Health Plan, Insurance Company of Scott and White, Scott and White Care Plans, SHA L.L.C., and Southwest Life & Health Insurance Company.

BAYLOR SCOTT & WHITE HEALTH SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION OF THE OBLIGATED AFFILIATES AND BSWH CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 (\$ in millions)					
	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:					
Net assets released from restrictions for capital expenditures	\$ —	\$ —	\$ 1	\$ —	\$ 1
Other changes in net assets attributable to noncontrolling interests - nonredeemable	—	—	(100)	75	(25)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	—	—	(72)	(32)	(104)
Transfers between entities under common control	50	—	(53)	3	—
Other	—	—	3	—	3
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	316	1	25	(35)	307
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:					
Contributions	14	—	19	(3)	30
Realized gains on investments, net	—	—	9	—	9
Unrealized losses on investments, net	—	—	(4)	—	(4)
Net assets released from restrictions for operations	(14)	—	(23)	1	(36)
Net assets released from restrictions for capital expenditures	—	—	(1)	—	(1)
DECREASE IN NET ASSETS WITH DONOR RESTRICTIONS	—	—	—	(2)	(2)
INCREASE (DECREASE) IN NET ASSETS	316	1	25	(37)	305
NET ASSETS, beginning of period	8,235	424	3,263	(3,262)	8,660
NET ASSETS, end of period	<u>\$ 8,551</u>	<u>\$ 425</u>	<u>\$ 3,288</u>	<u>\$ (3,299)</u>	<u>\$ 8,965</u>

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

† Consolidated Health Plan includes Scott and White Health Plan, Insurance Company of Scott and White, Scott and White Care Plans, SHA L.L.C., and Southwest Life & Health Insurance Company.