Quarterly Disclosure Report

For the Six Months Ended December 31, 2017

(Unaudited)

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Quarterly Disclosure Report for December 31, 2017

BAYLOR SCOTT & WHITE HEALTH

NOTICE
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BAYLOR HEALTH CARE SYSTEM
TAXABLE NOTES
SERIES 2000

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

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

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

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

TARRANT COUNTY CULTURAL EDUCATION
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SERIES 2013B
7 MONTH WINDOW VRDB

TARRANT COUNTY CULTURAL EDUCATION
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TAXABLE HOSPITAL REVENUE BONDS
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SERIES 2013C

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

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

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2015

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2016

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

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE COMMERCIAL PAPER NOTES
SERIES A

Quarterly Disclosure Report for December 31, 2017

CUSIP Nos:

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87638QPN3,	87638QPQ6,	87638QPL7,	87638QPK9,	87638QPE3,	87638QPF0,	87638QGG8,
87638QPP8,	87638QGB9,	87638QGC7,	87638QGD5,	87638QGE3,	87638QGF0,	87638QGP8,
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Quarterly Disclosure Report for December 31, 2017

TABLE OF CONTENTS

ATTENTION

This document is marked with a dated date of December 31, 2017 and reflects information only as of that dated date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. We expressly disclaim any duty to provide an update of any information contained in this document.

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

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

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ORGANIZATION

Baylor Scott & White Health System

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

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

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

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

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

The System operates Scott and White Health Plan and its subsidiary, Insurance Company of Scott and White (collectively referred to as the "Health Plan" or "SWHP"), which provides health insurance benefits to approximately 239,000 members through a variety of commercial, Medicaid, Medicare, Part D, Pharmacy Benefits Management, and Administrative Services Only products and services.

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

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

<u>Obligated Group</u>

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

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

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

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

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

<u>Awards and Distinctions</u>

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

- *U.S. News & World Report* – According to U.S. News & World Report's "Best Hospitals" and "Best Hospitals for Common Care" 2016-2017 ratings, 13 Baylor Scott & White Health hospitals received recognition, the most of any health system in Texas.

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

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

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

BUMC

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

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

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

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

SWMH

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

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

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

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

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

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

BSWQA

- *NCQA ACO Accredition: Level 2* – First ACO to be NCQA accredited in North Texas and the second in the state.

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

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

SWHP

- Scott and White Health Plan was rated number 1 in Texas by NCQA for both its commercial HMO and Medicare products for the 2017 – 2018 review. The commercial HMO received a rating of 4 out of 5 in NCQA's Private Health Insurance Plan ratings, while the Medicare plan was rated 4.5 out of 5 in NCQA's Medicare Health Insurance Plan Ratings.

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

KEY OPERATING AND FINANCIAL INDICATORS

The information contained in this document represents the financial condition and results of operations of BSWH for fiscal years ending June 30, 2017 and 2016, and the six months ended December 31, 2017 and 2016.

BSWH Key Operating and Financial Indicators
($ Thousands)

	Year Ended June 30,		Six Months Ended December 31,	
	2016	**2017**	**2016**	**2017**
Total Operating Revenue	$ 8,366,215	$ 9,084,476	$ 4,489,070	$ 4,813,562
Operating Margin	5.9%	3.2%	4.7%	8.0%
Adjusted EBITDA (1)	$ 978,920	$ 888,767	$ 489,961	$ 730,496
Cash and Investments	$ 5,074,653	$ 5,268,661	$ 4,917,618	$ 5,566,737
Days in Patient Accounts Receivable (2)	40.7	38.5	42.0	39.1

(1) Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is defined as revenue in excess of expenses plus depreciation, amortization, taxes, interest, excluding unrealized gains/losses on investments, unrealized gains/losses on interest rate swaps, and loss on extinguishment of debt.
(2) Days in Patient Accounts Receivable is defined as net patient receivables divided by average daily net patient care revenue. Average daily net patient revenue is defined as net patient care revenue (less patient related bad debt) divided by the number of days in in the period.

FINANCIAL OPERATIONS SUMMARY

BSWH Summary Combined Balance Sheets
($ Thousands)

	June 30, 2016	June 30, 2017	December 31, 2016	December 31, 2017
ASSETS				
Current assets	$ 2,968,997	$ 2,840,871	$ 2,804,404	$ 3,041,856
Long-term investments	3,169,764	3,562,260	3,319,866	3,785,973
Assets whose use is limited	275,970	324,526	272,496	340,982
Property and equipement, net	3,555,627	3,525,384	3,554,126	3,577,277
Other assets	818,528	893,565	864,519	1,130,581
Total assets	$ 10,788,886	$ 11,146,606	$ 10,815,411	$ 11,876,669
LIABILITIES AND NET ASSETS				
Current liabilities	$ 1,346,930	$ 1,422,380	$ 1,218,985	$ 1,573,148
Long-term debt and capital lease obligations, less current maturities	3,219,130	3,171,837	3,179,366	3,062,642
Other long-term liabilities	721,229	670,301	644,659	674,562
Total liabilities	5,287,289	5,264,518	5,043,010	5,310,352
Noncontrolling interests - redeemable	471,566	443,128	508,516	510,049
Net assets	5,030,031	5,438,960	5,263,885	6,056,268
Total liabilities and net assets	$ 10,788,886	$ 11,146,606	$ 10,815,411	$ 11,876,669

BSWH Summary Combined Statements of Operations
($ Thousands)

	Year Ended June 30, 2016	Year Ended June 30, 2017	Six Months Ended December 31, 2016	Six Months Ended December 31, 2017
Total operating revenue	$ 8,366,215	$ 9,084,476	$ 4,489,070	$ 4,813,562
Total operating expenses	7,872,067	8,792,603	4,276,537	4,430,190
Income from operations	**494,148**	**291,873**	**212,533**	**383,372**
Non-operating (losses) gains and income tax expense	(241,066)	338,582	176,905	212,124
Excess of revenues over expenses	**$ 253,082**	**$ 630,455**	**$ 389,438**	**$ 595,496**

Quarterly Disclosure Report for December 31, 2017

BSWH Summary Financial Information

($ Thousands)

	Year Ended June 30, 2016	Year Ended June 30, 2017	Sux Months Ended December 31, 2016	Sux Months Ended December 31, 2017
CASH FLOW				
Cash flow from operating activities	$ 987,167	$ 750,189	$ 171,412	$ 542,413
Adjusted operating cash flow (1)	$ 958,074	$ 793,144	$ 458,565	$ 631,785
Adjusted EBITDA (2)	$ 978,920	$ 888,767	$ 489,961	$ 730,496
Capital expenditures for property and equipment	$ 354,855	$ 406,207	$ 172,330	$ 218,553
Total capitalization (3)	$ 7,820,986	$ 8,164,839	$ 8,013,618	$ 8,705,823
FINANCIAL RATIOS				
Operating margin	5.9%	3.2%	4.7%	8.0%
Adjusted operating cash flow as a percentage of total revenue (1)	11.5%	8.7%	10.2%	13.1%
Adjusted EBITDA margin (4)	11.7%	9.8%	10.9%	15.2%
Debt to capitalization (5)	42.4%	40.0%	40.9%	38.4%
Debt to cash flow (6)	4.1x	4.4x	3.9x	2.6x

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

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

(3) Total capitalization is defined as long-term debt (including long-term debt subject to remarketing arrangements and commercial paper) net of current maturities plus unrestricted net assets.

(4) Adjusted EBITDA margin is defined as Adjusted EBITDA divided by total operating revenue.

(5) Debt to capitalization is defined as long-term debt (including long-term debt subject to remarketing arrangements and commercial paper net of current maturities) divided by total capitalization.

(6) Debt to cash flow is defined as long-term debt (including long-term debt subject to remarketing arrangements amd commercial paper plus current maturities) divided by (excess of revenues over expenses, plus depreciation and amortization, excluding unrealized gains/losses on investments, and unrealized gains/losses on interest rate swaps divided by number of days in the period times 365).

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MANAGEMENT DISCUSSION AND ANALYSIS

Net Operating Income

The System's operating margin for the first six months of fiscal year 2018 was $383.4 million or 8.0% of total operating revenue, compared to $212.5 million or 4.7% for the first six months of fiscal year 2017. Adjusted EBITDA was $730.5 million or 15.2% of total operating revenue for the first six months of fiscal year 2018 versus $490.0 million or 10.9% for the first six months of fiscal year 2017.

Net Operating Revenue

The combined total operating revenue increased $324.5 million or 7.2% to $4,813.6 million for the first six months of fiscal year 2018 compared to $4,489.1 million for the first six months of fiscal year 2017.

Net patient care revenue, net of patient related bad debt expense, increased $301.0 million or 7.8% to $4,140.4 million for the first six months of fiscal year 2018 compared to $3,839.4 million for the first six months of fiscal year 2017. The increase in net patient care revenue reflects higher volumes for fiscal year 2018.

Premium revenue decreased $64.6 million or -13.5% to $412.3 million for the first six months of fiscal year 2018 compared to $476.9 million for the first six months of fiscal year 2017. Premium revenue decreased for fiscal year 2018 due to the decision to exit the Individual ACA public exchange market and losing approximately 42,500 members related to this product on January 1, 2017.

Net assets released from restrictions for operations increased $1.7 million or 5.6% to $32.0 million for the first six months of fiscal year 2018 compared to $30.3 million for the first six months of fiscal year 2017.

Operating Expenses

Combined operating expenses for the first six months of fiscal year 2018 were $4,430.2 million, an increase of $153.7 million or 3.6% compared to $4,276.5 million for the first six months of fiscal year 2017.

Salaries, wages, and employee benefits increased $88.5 million or 4.1% to $2,222.2 million for the first six months of fiscal year 2018 compared to $2,133.7 million for the first six months of fiscal year 2017, representing approximately 46.2% and 47.5% of total operating revenue for the first six months of fiscal year 2018 and 2017, respectively. Salaries, wages, and employee benefits represented approximately 50.2% and 49.9% of total operating expenses for the first six months of fiscal year 2018 and 2017, respectively.

Supplies and other operating expenses increased $118.1 million or 6.9% for the first six months of fiscal year 2018 to $1,818.7 million compared to $1,700.6 million for the first six months of fiscal year 2017, and represented approximately 37.8% and 37.9% of total operating revenue for the first six months of fiscal year 2018 and 2017, respectively. Supplies and other operating expenses represented approximately 41.1% and 39.8% of total operating expenses for the first six months of fiscal year 2018 and 2017, respectively.

Medical claims decreased $44.6 million or -23.0% for the first six months of fiscal year 2018 to $149.4 million compared to $194.0 million for the first six months of fiscal year 2017. Medical claims decreased when compared to fiscal year 2017 as a result of exiting the Individual ACA public exchange market and losing approximately 42,500 members related to this product on January 1, 2017.

Depreciation and amortization decreased $2.1 million or -1.1% to $188.3 for the first six months of fiscal year 2018 compared to $190.4 million for the first six months of fiscal year 2017.

Interest expense increased $4.5 million or 8.1% to $60.1 million for the first six months of fiscal year 2018 compared to $55.6 million for the first six months of fiscal year 2017.

BSWH Operating Expenses
($ Thousands)

	Year Ended June 30,		Six Months Ended December 31,	
	2016	**2017**	**2016**	**2017**
Salaries, wages, and employee benefits	$ 4,028,300	$ 4,367,194	$ 2,133,715	$ 2,222,151
Supplies	1,442,096	1,582,408	794,887	806,004
Other operating expenses	1,636,765	1,893,278	905,723	1,012,681
Medical claims	303,670	357,860	193,963	149,376
(Gains) losses on fixed asset sales and disposals, net	(2,690)	2,649	2,217	(8,435)
Impairment losses	-	87,943	-	-
Depreciation and amortization	365,738	385,528	190,443	188,303
Interest expense	98,188	115,743	55,589	60,110
Total operating expenses	$ 7,872,067	$ 8,792,603	$ 4,276,537	$ 4,430,190

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Full-Time Equivalents

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

BSWH Employees	Obligated Affiliates	SWHP	Other Entities	Deeember 31, 2017 Total
Physician FTEs	996	-	859	1,855
Advanced practice provider FTEs	430	-	291	721
Joint venture FTEs[(1)]	-	-	6,931	6,931
Other employee FTEs	25,740	480	9,847	36,067
Total FTEs	**27,166**	**480**	**17,928**	**45,574**

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

Nonoperating Gains (Losses)

The System recorded unrestricted unrealized gains on investments of $111.8 million for the first six months of fiscal year 2018 compared to unrestricted unrealized gains on investments of $48.4 million for the first six months of fiscal year 2017. Unrestricted investment income and realized gains on investments were $73.5 million for the first six months of fiscal year 2018 compared to unrestricted investment income and realized gains on investments of $49.9 million for the first six months of fiscal year 2017, representing an increase of $23.6 million or 47.3%. The System recorded unrealized gains in its interest rate swap portfolio of $9.0 million for the first six months of fiscal year 2018 compared to unrealized gains in its interest rate swap portfolio of $108.7 million for the first six months of fiscal year 2017 due to interest rate fluctuations.

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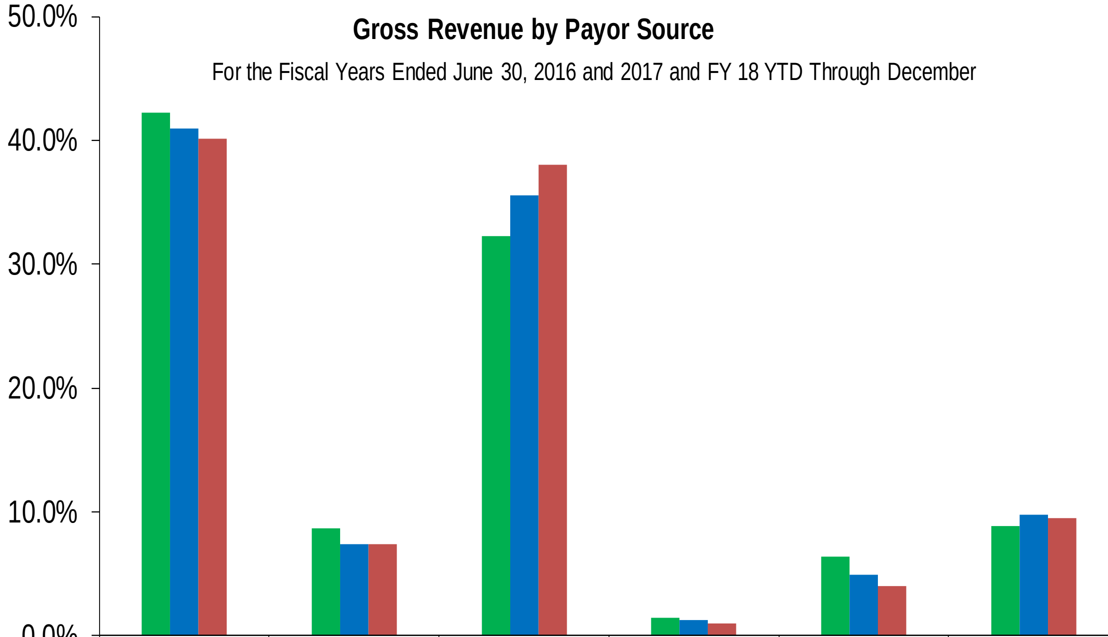
Utilization Statistics

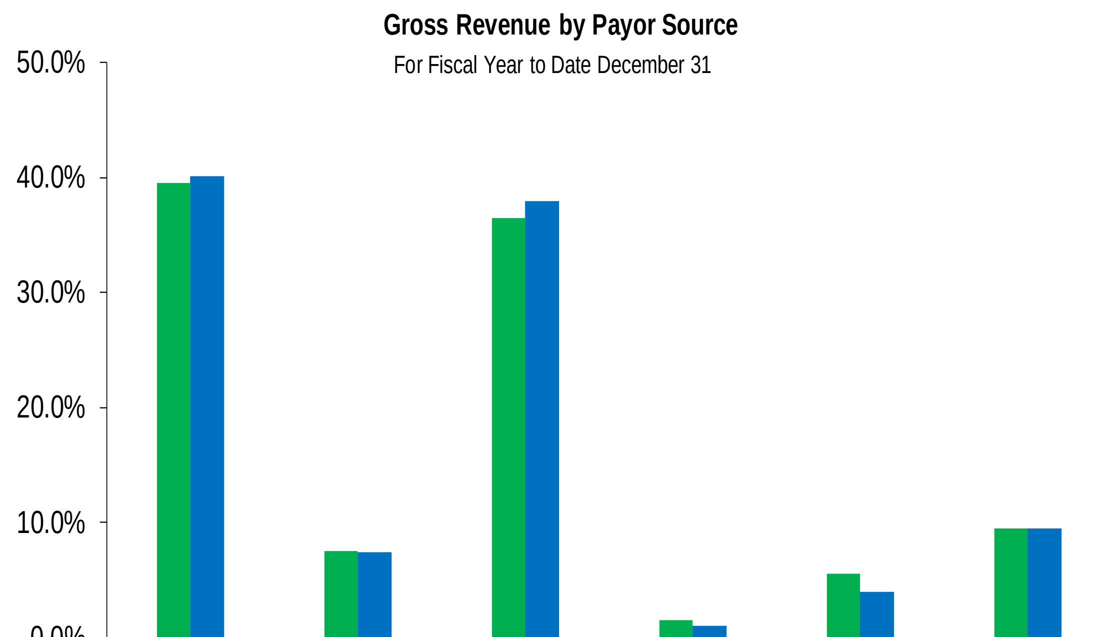
BSWH derives its patient revenue from managed care companies, Medicare, Medicaid, commercial insurers, self paying patients, and other sources.

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	Health Plan*	Self-pay / Other
FY16	42.2%	8.7%	32.3%	1.5%	6.4%	8.9%
FY17	41.0%	7.4%	35.6%	1.3%	4.9%	9.8%
FY18 YTD	40.1%	7.4%	38.0%	1.0%	4.0%	9.5%

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



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Health Plan*	Self-pay / Other
FYTD 17	39.5%	7.5%	36.5%	1.5%	5.5%	9.5%
FYTD 18	40.1%	7.4%	38.0%	1.0%	4.0%	9.5%

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

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Quarterly Disclosure Report for December 31, 2017

Operating Data - BSWH Total

	Year Ended June 30,		Six Months Ended December 31,	
	2016	2017	2016	2017
Licensed Beds	5,676	5,371	5,439	5,397
Inpatient Admissions (1)	208,789	235,112	117,200	120,057
Patient Days	1,041,162	1,127,959	564,883	548,582
Occupancy	69.3%	74.1%	67.3%	69.1%
Average Length of Stay (Days)	5.0	4.8	4.8	4.6
Average Daily Census	2,845	3,090	3,070	2,981
Discharges	208,624	235,103	117,131	120,116
Emergency Room Visits	805,270	857,198	424,745	437,262
Inpatient Surgical Cases	58,513	65,310	33,012	33,460
Outpatient Surgical Cases	197,003	191,865	99,641	102,816
Outpatient Registrations	3,596,884	3,851,015	1,901,879	1,979,688
Clinic Visits (IP & OP)	2,953,076	3,072,119	1,490,273	1,573,449
Patient Encounters	2,912,997	3,603,664	1,709,170	1,840,623
Relative Value Units (2)	13,280,343	15,563,238	7,511,178	7,985,422
Deliveries	31,368	31,781	16,688	16,624
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	60.1%	59.4%	59.4%	61.0%

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

(2) Relative value units represent amounts for BSWH.

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

Operating Data - Obligated Affiliates Subtotal

	Year Ended June 30,		Six Months Ended December 31,	
	2016	2017	2016	2017
Licensed Beds	3,707	3,413	3,474	3,411
Inpatient Admissions (1)	150,002	156,579	77,810	80,377
Patient Days	767,866	786,564	395,232	386,515
Occupancy	73.0%	73.1%	72.6%	70.1%
Average Length of Stay (Days)	5.1	5.0	5.1	4.8
Average Daily Census	2,098	2,155	2,148	2,101
Discharges	149,886	156,669	77,774	80,120
Emergency Room Visits	477,537	452,124	223,602	232,231
Inpatient Surgical Cases	37,797	39,732	19,813	19,651
Outpatient Surgical Cases	62,875	63,913	32,392	33,398
Outpatient Registrations	2,747,436	2,837,938	1,394,878	1,449,099
Clinic Visits (IP & OP)	2,650,531	2,755,984	1,336,305	1,417,323
Relative Value Units (2)	6,429,132	6,857,230	3,320,916	3,543,944
Deliveries	22,865	22,419	11,765	11,876
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	53.7%	53.8%	53.6%	55.1%

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

(2) Relative value units represent amounts for BSWH.

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

Operating Data - Non-Obligated Affiliates Subtotal

	Year Ended June 30,		Six Months Ended December 31,	
	2016	2017	2016	2017
Licensed Beds	1,969	1,958	1,965	1,986
Inpatient Admissions (1)	58,787	78,533	39,390	39,680
Patient Days	273,296	341,395	169,651	162,067
Occupancy	60.8%	76.5%	57.6%	66.8%
Average Length of Stay (Days)	4.7	4.4	4.3	4.1
Average Daily Census	747	935	922	880
Discharges	58,738	78,434	39,357	39,996
Emergency Room Visits	327,733	405,074	201,143	205,031
Inpatient Surgical Cases	20,716	25,578	13,199	13,809
Outpatient Surgical Cases	134,128	127,952	67,249	69,418
Outpatient Registrations	849,448	1,013,077	507,001	530,589
Clinic Visits (IP & OP)	302,545	316,135	153,968	156,126
Patient Encounters	2,912,997	3,603,664	1,709,170	1,840,623
Relative Value Units (2)	6,851,211	8,706,008	4,190,262	4,441,478
Deliveries	8,503	9,362	4,923	4,748
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	70.0%	66.7%	66.8%	68.6%

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

(2) Relative value units represent amounts for BSWH.

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

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Quarterly Disclosure Report for December 31, 2017

BSWH Adult and Pediatric Licensed Beds - December 31, 2017	Licensed Beds
Baylor University Medical Center	914
Scott & White Medical Center - Temple	574
Baylor Scott & White All Saints Medical Center - Fort Worth	538
Baylor Scott & White Medical Center - Grapevine	302
Baylor Scott & White Medical Center - Hillcrest	236
Baylor Scott & White Medical Center - Plano	160
Baylor Scott & White Medical Center - McKinney	143
Baylor Scott & White Medical Center - College Station	119
Baylor Scott & White Medical Center - Lakeway (2)	106
Baylor Scott & White Medical Center - Waxahachie	104
Baylor Scott & White Medical Center - Round Rock	101
Baylor Scott & White McLane Children's Medical Center (1)	64
Baylor Scott & White Continuing Care Hospital	50
Obligated Affiliates Subtotal	**3,411**
BT East Dallas JV, LLP (4 hospitals)	518
Baylor Scott & White Medical Center - Irving	293
Texas Health Ventures Group (9 hospitals)	240
Baylor Scott & White Medical Center - Carrollton	216
BIR JV, LLP (3 hospitals)	178
The Heart Hospital Baylor Plano	116
BT Garland JV, LLP (1 hospital)	113
Baylor Jack and Jane Hamilton Heart and Vascular Hospital	60
Baylor Scott & White Medical Center - Brenham	60
EBD JV, LLP (8 emergency medical centers)	64
Baylor Scott & White Medical Center - Marble Falls	46
Baylor Scott & White Medical Center - Llano	27
Baylor Scott & White Medical Center - Taylor	25
The Heart Hospital Baylor Denton	22
ESWCT, LLC (1 emergency medical center)	8
Non-Obligated Alliliates Subtotal	**1,986**
Total	**5,397**

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

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

Source: Texas Department of Health, December 19, 2017

Liquidity

Unrestricted cash and investments of $4.7 billion at December 31, 2017 increased $246.4 million as compared to unrestricted cash and investments of $4.5 billion at June 30, 2017 after capital expenditures of $218.6 million and net gains on trading investments of $187.6 million. Unrestricted days cash on hand increased to 204.7 days at December 31, 2017 from 194.2 days at June 30, 2017. Including restricted funds, days cash on hand totaled 241.5 days at December 31, 2017 compared to 228.7 days at June 30, 2017. The debt to capitalization ratio decreased to 38.4% at December 31, 2017 from 40.0% at June 30, 2017 and total assets increased 6.5% to $11.9 billion at December 31, 2017 from $11.1 billion at June 30, 2017.

BSWH Cash and Investments
($ Thousands)

	June 30,		December 31,	
	2016	**2017**	**2016**	**2017**
Cash and cash equivalents [1]	$ 1,527,749	$ 1,189,606	$ 1,146,700	$ 1,255,680
Short-term investments [2]	101,170	192,269	178,556	184,102
Long-term investments [3]	3,445,734	3,886,786	3,592,362	4,126,955
Total cash and investments	5,074,653	5,268,661	4,917,618	5,566,737
Less: restricted cash and investments [4]	731,111	795,601	732,077	847,285
Total unrestricted cash and investments	$ 4,343,542	$ 4,473,060	$ 4,185,541	$ 4,719,452
Average daily operating expenses (less depreciation and impairment losses)	$ 20,509	$ 22,792	$ 22,207	$ 23,054
Average daily operating expenses (less depreciation)	$ 20,509	$ 23,033	$ 22,207	$ 23,054
Unrestricted days cash on hand (excluding impairment losses) [5]	211.8	196.3	188.5	204.7
Unrestricted days cash on hand [6]	211.8	194.2	188.5	204.7
Days cash on hand [7]	247.4	228.7	221.4	241.5

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

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Quarterly Disclosure Report for December 31, 2017

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

		December 31, 2017
Daily Liquidity		
Money Market Funds - Aaa-rated	$	34,681
Checking and deposit accounts at P-1 rated bank		701,391
Short-term investment funds at P-1 rated bank		9,037
Subtotal Daily Liquidity (Cash & Securities)		745,109
$400 Million General Purpose LOC (undrawn amount) (1)		376,000
Subtotal Daily Liquidity	**$**	**1,121,109**
Weekly Liquidity		
Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3		274,692
Fixed Income: Publicly Traded Fixed Income Securities rate below Aa3		698,082
Fixed Income: Other Cash & Cash Equivalents		100,883
Equities: Exchange Traded Equity (ownership of shares of stock)		161,863
Equities: Equity Funds		637,347
Subtotal Weekly Liquidity		1,872,867
Total Daily and Weekly Liquidity	**$**	**2,993,976**
Longer Term Liquidity		
Funds, vehicles, investments that allow withdrawals with one month notice or longer	$	1,128,842

(1) Baylor Scott & White Holdings $400MM line of credit expires January 14, 2019.
The table above sets forth those assets that would reasonably be available to BSWH to satisfy a liquidity event. The table does not include assets held by affiliates of BSWH that would not be reasonably available to BSWH to satisfy a liquidity event, including assets held by the five foundations as described further in this report, THVG, Texas Heart Hospital of the Southwest, LLP (THHSW) and Baylor Heart and Vascular Center, LLP (BHVC), among others.

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NET ASSETS OF THE FOUNDATIONS

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

Net Assets of the Foundations
($ Thousands)

	June 30,		December 31,	
	2016	**2017**	**2016**	**2017**
Unrestricted	$ 128,727	$ 147,833	$ 129,786	$ 149,345
Temporarily restricted	254,828	269,588	255,541	288,387
Permanently restricted	258,394	260,838	259,343	273,236
Total	**$ 641,949**	**$ 678,259**	**$ 644,670**	**$ 710,968**

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Quarterly Disclosure Report for December 31, 2017

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

	June 30,		December 31,	
ASSETS	**2016**	**2017**	**2016**	**2017**
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,527,749	$ 1,189,606	$ 1,146,700	$ 1,255,680
Short-term investments	101,170	192,269	178,556	184,102
THVG funds due from United Surgical Partners, Inc.	70,264	85,888	85,792	98,938
Accounts receivables:				
Patient, net	793,910	816,598	875,925	880,785
Premium	59,871	116,182	54,444	79,040
Other	190,389	185,862	249,094	242,864
Other current assets	225,644	254,466	213,893	300,447
Total current assets	2,968,997	2,840,871	2,804,404	3,041,856
LONG-TERM INVESTMENTS:				
Unrestricted	2,714,623	3,091,185	2,860,285	3,279,670
Restricted	455,141	471,075	459,581	506,303
Total long-term investments	3,169,764	3,562,260	3,319,866	3,785,973
ASSETS WHOSE USE IS LIMITED:				
Other designated assets	83,396	165,128	89,343	175,719
Self insurance reserves	94,125	98,272	98,401	114,255
Funds held by bond trustee	98,449	61,126	84,752	51,008
Total assets whose use is limited	275,970	324,526	272,496	340,982
ASSETS HELD FOR SALE	-	16,354	-	16,324
PROPERTY AND EQUIPMENT, net	3,555,627	3,525,384	3,554,126	3,577,277
CONTRIBUTIONS RECEIVABLE, net	60,211	61,014	54,409	176,951
INTEREST IN NET ASSETS OF RELATED FOUNDATION	3,740	4,048	3,740	4,220
OTHER LONG-TERM ASSETS:				
Equity investment in unconsolidated entities	65,582	57,548	64,891	64,243
Goodwill and intangible assets, net	673,525	734,291	727,218	848,433
Other	15,470	20,310	14,261	20,410
Total other long-term assets	754,577	812,149	806,370	933,086
Total assets	$ 10,788,886	$ 11,146,606	$ 10,815,411	$ 11,876,669

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

	June 30,		December 31,	
LIABILITIES AND NET ASSETS	2016	2017	2016	2017
CURRENT LIABILITIES:				
Current maturities of long-term debt and capital lease obligations	$ 63,416	$ 126,644	$ 67,099	$ 52,754
Long-term debt subject to short-term remarketing arrangements	95,000	95,000	95,000	95,000
Commercial paper	-	-	-	187,967
Trade accounts payable	266,636	303,893	235,302	294,075
Accrued liabilities:				
Payroll related	466,195	373,398	339,375	354,460
Third-party programs	87,865	87,195	78,370	88,449
Medical claims payable	34,950	37,354	42,306	32,788
Other	332,868	398,896	361,533	467,655
Total current liabilities	1,346,930	1,422,380	1,218,985	1,573,148
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	3,219,130	3,171,837	3,179,366	3,062,642
OTHER LONG-TERM LIABILITIES:				
Self insurance and other insurance liabilities	96,549	99,208	97,542	113,993
Interest rate swap liabilities, net	357,006	265,129	275,686	260,883
Other	267,674	305,964	271,431	299,686
Total other long-term liabilities	721,229	670,301	644,659	674,562
Total liabilities	5,287,289	5,264,518	5,043,010	5,310,352
COMMITMENTS AND CONTINGENCIES				
NONCONTROLLING INTERESTS - REDEEMABLE	471,566	443,128	508,516	510,049
NET ASSETS:				
Unrestricted - attributable to BSWH	4,311,163	4,695,399	4,536,405	5,093,091
Unrestricted - noncontrolling interests - nonredeemable	195,693	202,603	202,847	267,123
Total unrestricted net assets	4,506,856	4,898,002	4,739,252	5,360,214
Temporarily restricted	261,321	276,585	261,813	419,197
Permanently restricted	261,854	264,373	262,820	276,857
Total net assets	5,030,031	5,438,960	5,263,885	6,056,268
Total liabilities and net assets	$ 10,788,886	$ 11,146,606	$ 10,815,411	$ 11,876,669

Quarterly Disclosure Report for December 31, 2017

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

	Year Ended June 30,		Six Months Ended December 31,	
	2016	2017	2016	2017
OPERATING REVENUE:				
Net patient care revenue	$ 7,907,699	$ 8,664,811	$ 4,265,960	$ 4,532,159
Less patient related bad debt expense	773,501	927,168	426,558	391,763
Net patient care revenue, net of patient related bad debt expense	7,134,198	7,737,643	3,839,402	4,140,396
Premium revenue	867,510	903,261	476,872	412,282
Other operating revenue	303,167	378,332	142,461	228,843
Net assets released from restrictions for operations	61,340	65,240	30,335	32,041
Total operating revenue	8,366,215	9,084,476	4,489,070	4,813,562
OPERATING EXPENSES:				
Salaries, wages, and employee benefits	4,028,300	4,367,194	2,133,715	2,222,151
Supplies	1,442,096	1,582,408	794,887	806,004
Other operating expenses	1,636,765	1,893,278	905,723	1,012,681
Medical claims	303,670	357,860	193,963	149,376
(Gains) losses on fixed asset sales and disposals, net	(2,690)	2,649	2,217	(8,435)
Impairment losses	-	87,943	-	-
Depreciation and amortization	365,738	385,528	190,443	188,303
Interest	98,188	115,743	55,589	60,110
Total operating expenses	7,872,067	8,792,603	4,276,537	4,430,190
Income from operations	494,148	291,873	212,533	383,372
NONOPERATING GAINS (LOSSES):				
(Losses) gains on investments, net	(7,106)	271,331	95,318	187,554
Interest rate swap activity	(167,386)	82,624	92,623	(2,962)
Contributions	1,012	779	214	99
Equity in (losses) gains of unconsolidated entities	(2,365)	(9,515)	(3,037)	36,805
Loss from extinguishment of debt	(53,253)	-	-	(721)
Other	(348)	378	346	272
Total nonoperating (losses) gains	(229,446)	345,597	185,464	221,047
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	264,702	637,470	397,997	604,419
LESS INCOME TAX EXPENSE	11,620	7,015	8,559	8,923
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	253,082	630,455	389,438	595,496

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

	Year Ended June 30, 2016	Year Ended June 30, 2017	Six Months Ended December 31, 2016	Six Months Ended December 31, 2017
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Unrealized (losses) gains on investments, net	$ (1,390)	$ (1,786)	$ 3,034	$ (2,344)
Net assets released from restrictions for capital expenditures	24,053	25,584	10,835	3,972
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(9,759)	(65,871)	(36,020)	9,146
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests- redeemable	(222,826)	(206,727)	(135,066)	(143,748)
Net assets acquired	13,001	185	-	-
Other	(16,999)	9,306	175	(310)
INCREASE IN UNRESTRICTED NET ASSETS	39,162	391,146	232,396	462,212
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	64,245	69,369	31,350	152,385
Realized gains and investment income, net	8,150	17,369	6,893	13,467
Unrealized (losses) gains on investments, net	(13,303)	18,562	4,634	12,797
Changes in value of split-interest agreements	(1,162)	386	14	297
Net assets released from restrictions for operations	(61,340)	(65,240)	(30,335)	(32,041)
Net assets released from restrictions for capital expenditures	(24,053)	(25,584)	(10,835)	(3,972)
Changes in net assets of related foundation	(297)	281	-	170
Other	(3,563)	121	(1,229)	(491)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(31,323)	15,264	492	142,612
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	22,070	918	504	11,459
Realized gains and investment income, net	409	175	36	542
Unrealized (losses) gains on investments, net	(313)	370	130	(83)
Changes in value of split-interest agreements	(1,557)	918	300	224
Changes in net assets of related foundation	2	27	-	2
Other	1,944	111	(4)	340
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	22,555	2,519	966	12,484
INCREASE IN NET ASSETS	30,394	408,929	233,854	617,308
NET ASSETS, beginning of year	4,999,637	5,030,031	5,030,031	5,438,960
NET ASSETS, end of year	$ 5,030,031	$ 5,438,960	$ 5,263,885	$ 6,056,268

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

	June 30, 2016	June 30, 2017	December 31, 2016	December 31, 2017
Cash Flows From Operating Activities:				
Increase in net assets	$ 30,394	$ 408,929	$ 233,854	$ 617,308
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Loss from extinguishment of debt	3,462	-	-	721
Unrealized losses (gains) on investments, net	75,109	(155,813)	(53,206)	(124,471)
Realized gains on investments, net	(19,634)	(105,222)	(33,073)	(54,149)
Unrealized losses (gains) on interest rate swap, net	136,936	(111,307)	(108,660)	(8,956)
Contributions restricted for long-term purposes	(22,070)	(918)	(504)	(11,459)
Patient related bad debt expense	773,501	927,168	426,558	391,763
Depreciation and amortization	365,738	385,528	190,443	188,303
Impairment losses	-	87,943	-	-
(Gains) losses on fixed asset sales and disposal, net	(2,690)	2,649	2,217	(8,435)
Equity in losses (gains) of unconsolidated entities	2,365	9,515	3,037	(36,805)
Change in value of split-interest agreements	2,719	(1,304)	(314)	(521)
Deferred rent	(3,698)	3,444	4,069	(790)
Other changes attributable to noncontrolling interests	232,585	272,598	171,086	134,602
Net assets acquired	(13,001)	(185)	-	-
Changes in operating assets and liabilities (net of acquisitions):				
Increase in net patient accounts receivable	(862,121)	(956,746)	(508,573)	(441,153)
Decrease (increase) in other accounts receivable	32,695	(43,212)	(51,434)	(19,835)
Decrease (increase) in other assets	15,608	(35,497)	16,139	(132,662)
Increase (decrease) in trade accounts payable and accrued liabilities	142,075	8,786	(133,648)	27,205
Increase in other liabilities	97,194	53,833	13,421	21,747
Net cash provided by operating activities	987,167	750,189	171,412	542,413
Cash Flows From Investing Activities:				
Purchases of property and equipment, net	(354,855)	(406,207)	(172,330)	(218,553)
Cash proceeds from sales of assets	18,397	3,088	1,708	9,782
Cash paid for acquisitions, net of cash received	(300,472)	(83,875)	(71,763)	(42,317)
Increase in THVG funds due from United Surgical Partners, Inc.	(11,388)	(15,624)	(15,528)	(13,050)
Increase in trading investments	(155,205)	(226,306)	(139,812)	(33,225)
(Payments) receipts on interest rate swap	(68,911)	(6,352)	14,438	(7,259)
(Increase) decrease in other than trading investments	(2,457)	7,279	(574)	(2,961)
(Increase) decrease in assets whose use is limited	(67,245)	(48,556)	3,474	(16,456)
Net cash used in investing activities	(942,136)	(776,553)	(380,387)	(324,039)
Cash Flows From Financing Activities:				
Principal payments on long-term debt	(1,045,817)	(75,424)	(52,906)	(421,468)
Proceeds from issuance of long-term debt	1,599,512	75,443	13,834	416,655
Distributions to noncontrolling interest owners	(287,041)	(320,346)	(143,854)	(165,944)
Purchases of noncontrolling interests	(20,323)	(18,565)	(10,082)	(19,805)
Sales of noncontrolling interests	38,436	25,956	19,800	26,730
Cash receipts for long-term purposes	13,616	2,045	1,603	11,968
Annuity payments to beneficiaries	(950)	(888)	(469)	(436)
Net cash provided by (used in) financing activities	297,433	(311,779)	(172,074)	(152,300)
Net Increase (Decrease) in Cash and Cash Equivalents	342,464	(338,143)	(381,049)	66,074
Cash and Cash Equivalents, beginning of period	1,185,285	1,527,749	1,527,749	1,189,606
Cash and Cash Equivalents, end of period	$ 1,527,749	$ 1,189,606	$ 1,146,700	$ 1,255,680

Notes to Combined Financial Statements

1. ORGANIZATION

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

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

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

THVG

BUMC has a majority ownership of 50.1% in THVG with USP North Texas, Inc. (USP), a Texas corporation and subsidiary of United Surgical Partners, Inc. (USPI) holding the remaining 49.9%. THVG had net patient care revenue included in the System's combined financial statements of approximately $578,511,000 and $511,231,000 in the first six months of fiscal years 2018 and 2017, respectively.

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

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

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

Effective January 1, 2016, two Texas limited liability partnerships were formed between the System and Healthcare Network Texas, Inc., a Delaware corporation and subsidiary of Tenet Healthcare Corporation (Tenet). BUMC has a majority ownership of 75% of BT East Dallas JV, LLP (BT East Dallas), with Tenet holding the remaining 25%. Baylor Medical Centers at Garland and McKinney (Garland), a Texas nonprofit corporation wholly owned by BHCS, has a majority ownership of 50.1% of BT Garland JV, LLP (Garland JV) with Tenet holding the remaining 49.9%. The purpose of these partnerships is to own, operate, and manage five community hospitals focused on delivering integrated, value-based care to communities in Rockwall, Collin, and Dallas counties. The System recorded goodwill and intangible assets, net, of approximately $256,957,000, fixed assets of approximately $186,930,000, redeemable noncontrolling interests of approximately $151,286,000, and other net liabilities of approximately $292,601,000 in 2016.

Effective June 9, 2017, BSW Holdings approved the proposed divestiture of Baylor Scott & White Medical Center – Garland (BSWMC – Garland), a hospital operated by BT Garland JV, LLP, and Baylor Scott & White Medical Center – White Rock (White Rock), a hospital operated by BT East Dallas JV, LLP, and classification as assets held for sale. Due to the proposed divestiture and their classification as held for sale, an impairment assessment was required for the long-lived assets of BSWMC – Garland and White Rock under the assets to be disposed of by sale model. The assessment resulted in an adjustment for impairment of approximately $70,624,000, recorded in the accompanying combined statements of operations for the year ended June 30, 2017. The remaining book value of BSWMC – Garland and White Rock is reported in assets held for sale in the accompanying combined balance sheets, as of June 30, 2017. After impairments, the remaining net book value of land, building and improvements, and major movable equipment and other was approximately $3,900,000, $5,427,000, and $7,027,000, respectively, as of June 30, 2017. The transactions are expected to close in fiscal year 2018.

On December 14, 2017, BSWH announced that a decision was made to close BSWMC – Garland, a 113 bed hospital. The last day of operations is currently projected for February 28, 2018. On December 22, 2017, BSWH and Tenet signed a definitive agreement for the sale of White Rock to Pipeline Health, a California-based hospital management company. The transaction is expected to be completed in the spring of 2018 after all regulatory approvals have been finalized.

On December 31, 2017, BSWH and Tenet signed a definitive agreement to restructure ownership of three North Texas hospitals: Baylor Scott & White Medical Center – Centennial, Baylor Scott & White Medical Center – Lake Pointe, and Baylor Scott & White Medical Center – Sunnyvale. BSWH and Tenet have owned the three hospitals through the BT East Dallas partnership since January 2016. Under the definitive agreement, BSWH will acquire Tenet's interest in Baylor Scott & White Medical Center – Centennial and Baylor Scott & White Medical Center – Lake Pointe, and take over as manager and operator. Baylor Scott & White Medical Center – Sunnyvale will become part of the existing THVG joint venture between Tenet's subsidiary USPI and BSWH. BSWH will continue to be majority owner in the facility, while USPI will take over its operation. These transactions are expected to be completed in the spring of 2018, pending all regulatory and customary approvals.

Blue Star Sports Medicine and Performance Facility

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

Lakeway

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

Interest Rate Swaps

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

Sale of Equity Method Investment

In July 2017, BSWH sold its equity investment in Med Fusion and ClearPoint Diagnostic Labs to Quest Diagnostics. The gain on sale of approximately $37,322,000 was recorded in nonoperating gains (losses).

Line of Credit

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

Texas Spine & Joint Hospital

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

Irving Hospital Authority Contribution to Irving

In the six months ended December 2017, Irving executed lease amendments in which the Authority agreed to fund the majority of the cost to renovate a portion of the existing leased premises from the Authority and construct a new patient tower and central utility plant under the payment terms of the existing lease agreement. Estimated completion date is mid 2020 for the renovation and new construction project. These transactions were recorded as a temporarily restricted contribution receivable of approximately $125,720,000.

Debt Portfolio Refinancing

On September 1, 2017, BSW Holdings placed its Series 2017A, 2017B, and 2017C revenue bonds (the "BSW Holdings Series 2017A, B and C") with various banks. Proceeds from the BSW Holdings Series 2017A, B and C revenue bonds were used to refinance the following revenue bonds via the TCCEFC conduit issuer: Hospital Revenue Bonds (Scott &White Healthcare Project) Series 2013B, Hospital Revenue Bonds (Baylor Health Care System Project) Series 2011F, Hospital Revenue Bonds (Baylor Health Care System Project) Series 2011G, and Hospital Revenue Refunding Bonds (Baylor Scott & White Health Project) Series 2015D with an aggregate outstanding balance of $195,700,000. A loss on extinguishment of debt of approximately $307,000 was recorded related to this transaction in September 2017.

On September 6, 2017, BSW Holdings created its Series 2017A commercial paper program (the "BSW Holdings Series 2017A CP Program"). Under the BSW Holdings Series 2017A CP

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of New Accounting Pronouncements

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

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

In April 2015, FASB issued ASU 2015-03, *"Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs."* The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The System applied the provisions of ASU 2015-03 in fiscal year 2017.

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

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

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

In 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.

Other Accounting Pronouncements

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

In February 2015, FASB issued ASU 2015-02, *"Consolidation: Amendments to the Consolidation Analysis."* The amendments in ASU 2015-02 improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The provisions of ASU 2015-02 are effective for fiscal years beginning after December 15, 2015, and interim periods within those years for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

In May 2015, FASB issued ASU 2015-09, *"Disclosures about Short-Duration Contracts."* This ASU requires insurance entities to disclose, for annual reporting periods, information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change, and the effects on the financial statements. In addition, the amendments require insurance entities to disclose, for annual and interim reporting periods, a roll-forward of the liability for unpaid claims and claim adjustment expenses. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities, and expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. The provisions of ASU 2015-09 are effective for fiscal years beginning after December 15, 2015, and interim periods thereafter for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

In July 2015, FASB issued ASU 2015-11, *"Simplifying the Measurement of Inventory."* This ASU requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments do not apply to inventory that is measured using LIFO or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. The provisions of ASU 2015-11 are effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

In September 2015, FASB issued ASU 2015-16, "*Simplifying the Accounting for Measurement-Period Adjustments.*" This ASU requires that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period and any related income effects in the reporting period in which the adjustment amounts are determined. The ASU also requires an entity to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The provisions of ASU 2015-16 are effective for fiscal years beginning after December 15, 2015, and interim periods within those years for public business entities, and December 15, 2016, and interim periods thereafter for all other entities. This ASU is not expected to have a material impact on the combined financial statements.

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

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

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

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

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

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

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

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

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

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

In January 2017, FASB issued ASU 2017-02, "*Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership* *or Similar Entity*." This ASU retains the consolidation guidance that was in Subtopic 810-20. Not-for-Profits that are general partners should continue to be presumed to control a for-profit limited partnership, regardless of the extent of their ownership interest, unless that presumption is overcome. The provisions of ASU 2017-02 are effective for fiscal years beginning after December 15, 2016, and interim periods thereafter. This ASU is not expected to have a material impact on the combined financial statements.

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

In March 2017, FASB issued ASU 2017-07, "*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*." This ASU requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The provisions of ASU 2017-07 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years for public business entities, and December 15, 2018, and interim periods thereafter for all other entities. The System is currently evaluating the impact of this ASU.

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

Cash and Cash Equivalents

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

THVG Funds Due From United Surgical Partners, Inc.

THVG participates in a shared services accounts payable program with USPI, wherein USPI has custody of substantially all of THVG's cash, paying THVG and its facilities interest income on the net balance at prevailing market rates. Amounts held by USPI on behalf of THVG totaled approximately $98,938,000 and $85,888,000, at December 31, 2017 and June 30, 2017, respectively. The funds due from USPI are available on demand.

Investments

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

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

	Six months ended December 31, 2017			
	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 28,610	$ 44,843	$ 114,101	$ 187,554
Other changes in unrestricted net assets	-	-	(2,344)	(2,344)
Changes in temporarily restricted net assets	4,703	8,764	12,797	26,264
Changes in permanently restricted net assets	-	542	(83)	459
	$ 33,313	**$ 54,149**	**$ 124,471**	**$ 211,933**

	Six months ended December 31, 2016			
	Interest and Dividends	Realized Gains	Unrealized Gains	Total
Nonoperating gains	$ 20,025	$ 29,885	$ 45,408	$ 95,318
Other changes in unrestricted net assets	-	-	3,034	3,034
Changes in temporarily restricted net assets	3,741	3,152	4,634	11,527
Changes in permanently restricted net assets	-	36	130	166
	$ 23,766	**$ 33,073**	**$ 53,206**	**$ 110,045**

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

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

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements

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

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

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

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

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

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

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

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

Alternative Investments

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

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

Beneficial Interest

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

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

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The following table below sets forth, by level, the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 (in thousands):

	BSWH December 31, 2017			
Assets:	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and Cash Equivalents				
Cash	$ 1,213,476	$ 1,213,476	$ -	$ -
Money market funds	42,204	42,204	-	-
Total Cash and Cash Equivalents	**1,255,680**	**1,255,680**	-	-
Short-Term Investments				
Mutual funds	67,413	67,413	-	-
Certificates of deposit	101,183	101,183	-	-
Fixed income securities	14,358	17	14,341	-
Other	1,148	1,052	96	-
Total Short-Term Investments	**184,102**	**169,665**	**14,437**	**-**
Unrestricted Long-Term Investments				
Cash	4,695	4,695	-	-
Mutual funds	24,301	24,301	-	-
Equity securities	1,191,422	283,910	907,512	-
Fixed income securities	428,479	26	428,453	-
U.S. government securities	226,604	-	226,604	-
Mortgage-backed securitites	369,538	69,209	300,329	-
Common funds, held at HA				
Group investment fund	615	-	615	-
Group bond fund	32	-	32	-
Group equity fund	80	-	80	-
Other funds	23	22	-	1
Other	692	-	-	692
Assets held at NAV practical expedient (1)				
Hedge fund/diversifiers alternative investments	582,679			
Private equity alternative investments	193,351			
Real estate alternative investments	127,159			
Other funds	3			
Total Unrestricted Long-Term Investments	**3,149,673**	**382,163**	**1,863,625**	**693**

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

In the accompanying combined balance sheets, unrestricted long-term investments at December 31, 2017 includes an investment of approximately $129,997,000 accounted for under the cost method.

Notes to Combined Financial Statements - continued

	December 31, 2017			
Assets (continued):	**Total**	**Level 1**	**Level 2**	**Level 3**
Restricted Long-Term Investments				
Cash	$ 8,042	$ 8,042	$ -	$ -
Mutual funds	50,342	50,342	-	-
Equity securities	182,230	44,929	137,301	-
Fixed income securities	32,128	78	32,050	-
U.S. government securities	17,930	-	17,930	-
Mortgage-backed securitites	28,495	5,350	23,145	-
Split-interest agreements	7,385	-	7,385	-
Real estate	1,094	-	-	1,094
Cash surrender value life insurance	1,262	-	-	1,262
Other	311	1	-	310
Common funds, held at HA				
Group investment fund	46,112	-	46,112	-
Group bond fund	2,431	-	2,431	-
Group equity fund	6,014	-	6,014	-
Other funds	1,697	1,640	-	57
Assets held at NAV practical expedient (1)				
Hedge fund/diversifiers alternative investments	69,640			
Private equity alternative investments	38,766			
Real estate alternative investments	12,161			
Other funds	263			
Total Restricted Long-Term Investments	**506,303**	**110,382**	**272,368**	**2,723**
Assets Whose Use is Limited				
Cash	91,640	91,640	-	-
Money market funds	13,619	13,619	-	-
Mutual funds	171,767	171,767	-	-
Equity securities	1,703	1,703	-	-
Fixed income securities	26,388	-	26,388	-
U.S. government securities	35,701	-	35,701	-
Other	164	-	164	-
Total Assets Whose Use is Limited	**340,982**	**278,729**	**62,253**	-
Contributions Receivable, net				
Beneficial interest in split-interest agreements	21,800	-	-	21,800
Total Assets at Fair Value	**$ 5,458,540**	**$ 2,196,619**	**$ 2,212,683**	**$ 25,216**
Liabilities:				
Interest rate swap agreements, net of collateral	260,883	-	260,883	-
Total Liabilities at Fair Value	**$ 260,883**	**$ -**	**$ 260,883**	**$ -**

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

The following table is a roll forward of the combined balance sheet amounts for financial instruments classified by the System within Level 3 of the valuation hierarchy defined above for the six months ended December 31, 2017 (in thousands):

	December 31, 2017			
	Split-Interest Agreements	Common Investment Funds	Other	Total
Balance, beginning of period	$ 21,596	$ 55	$ 2,330	$ 23,981
Realized (losses), net	170	-	-	170
Unrealized gains, net	34	3	272	309
Purchases	-	-	756	756
Settlements	-	-	-	-
Balance, end of period	$ 21,800	$ 58	$ 3,358	$ 25,216

At December 31, 2017, alternative investments recorded at NAV consisted of the following (in thousands):

	December 31, 2017			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency if Currently Eligible**	**Redemption Notice Period**
Equity-linked investments [a]	$ 76,118	$ -	quarterly, annually	60-90 days
Event-driven investments [b]	65,058	-	quarterly, annually	30-90 days
Credit-linked investments [c]	81,377	-		
Multi-strategy investments [d]	3,242	-	monthly, quarterly	30-90 days
Tactical trading investments [e]	201,912	-	daily, monthly	2-90 days
Risk parity and global asset allocation fund[f]	224,612	-	monthly	5-30 days
Real estate funds - open ended [g]	74,871	-	quarterly	90 days
Real estate funds - closed ended [h]	64,449	27,299		
Oil and gas funds [i]	266	-		
Private equity funds [j]	174,705	125,382		
Private debt funds [k]	57,412	20,397		
Non-agency asset backed security [l]	-	-		
Total	$ 1,024,022	$ 173,078		

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

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

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

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

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

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

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

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

i) Oil and gas fund managers invested in mineral properties located in Texas and Wyoming. The fund in this category is closed to new investors, is illiquid and redemption is subject to fund management approval. Royalty income is distributed quarterly subject to fund management approval ($0.50 per unit per quarter in 2017 and $0.75 per unit per quarter in 2016). Distributions from the fund will be received as the underlying investments are depleted. The fair value of the mineral properties have been estimated by multiplying the most recent twelve months of royalty income, excluding lease bonus income, times a factor of five. The fund's management used a multiple of five for the valuation based on current industry methodology, recent market transactions, and the fund's extensive experience in mineral properties.

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

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

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

4. ENDOWMENTS

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

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

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

Endowment Return Objectives and Risk Parameters

The System follows an investment policy that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against various indices, based on the endowment's target allocation applied to the appropriate individual benchmarks. To achieve its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The System targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Relationship of Endowment Spending Practices to Investment Objectives

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

5. RETIREMENT BENEFITS

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

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

6. CONTINGENCIES

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

7. SUBSEQUENT EVENTS

The System has performed an evaluation of material subsequent events and transactions from December 31, 2017 through February 14, 2018, which is the date the financial statements were issued.

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Quarterly Disclosure Report for December 31, 2017

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets
December 31, 2017
($ Thousands)

ASSETS	Obigated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
CURRENT ASSETS:					
Cash and cash equivalents	$ 703,329	$ 116,908	$ 435,443	$ -	$ 1,255,680
Short-term investments	165,200	300	18,602	-	184,102
THVG funds due from United Surgical Partners, Inc.	-	-	98,938	-	98,938
Accounts receivable:					
Patient, net	493,169	-	421,644	(34,028)	880,785
Premium	-	79,040	-	-	79,040
Affiliates, net	101,665	-	-	(101,665)	-
Other	91,212	27,542	131,702	(7,592)	242,864
Other current assets	193,125	5,777	101,525	20	300,447
Total current assets	1,747,700	229,567	1,207,854	(143,265)	3,041,856
LONG-TERM INVESTMENTS:					
Unrestricted	2,743,377	54,464	481,829	-	3,279,670
Restricted	2,839	-	503,464	-	506,303
Total long-term investments	2,746,216	54,464	985,293	-	3,785,973
ASSETS WHOSE USE IS LIMITED:					
Other designated assets	119,016	2,200	54,503	-	175,719
Self insurance reserves	-	-	114,255	-	114,255
Funds held by bond trustee	51,008	-	-	-	51,008
Total assets whose use is limited	170,024	2,200	168,758	-	340,982
ASSETS HELD FOR SALE	-	-	16,324	-	16,324
PROPERTY AND EQUIPMENT, net	2,625,424	15,660	1,116,574	(180,381)	3,577,277
CONTRIBUTIONS RECEIVABLE, net	-	-	177,009	(58)	176,951
DUE FROM AFFILIATES	208,078	-	2,826	(210,904)	-
INTEREST IN NET ASSETS OF RELATED FOUNDATIONS	489,225	-	99,333	(584,338)	4,220
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES	1,671,777	-	-	(1,671,777)	-
OTHER LONG-TERM ASSETS:					
Equity investment in unconsolidated entities	40,913	185	23,145	-	64,243
Goodwill and intangible assets, net	77,167	-	773,712	(2,446)	848,433
Other	8,787	1,442	17,173	(6,992)	20,410
Total other long-term assets	126,867	1,627	814,030	(9,438)	933,086
Total assets	$ 9,785,311	$ 303,518	$ 4,588,001	$ (2,800,161)	$ 11,876,669

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

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

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Balance Sheets - continued
December 31, 2017
($ Thousands)

LIABILITIES AND NET ASSETS	Obligated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
CURRENT LIABILITIES:					
Current maturities of long-term debt and capital lease obligations	$ 13,258	$ -	$ 39,496	$ -	$ 52,754
Long-term debt subject to short-term remarketing arrangements	95,000	-	-	-	95,000
Commercial paper	187,967	-	-	-	187,967
Accounts payable:					
Trade accounts payable	117,520	6,583	180,821	(10,849)	294,075
Affiliates, net	-	10,587	94,333	(104,920)	-
Accrued liabilities:					
Payroll related	297,003	258	57,531	(332)	354,460
Third-party programs	43,965	4,089	11,489	28,906	88,449
Medical claims payable	-	95,389	-	(62,601)	32,788
Other	246,926	63,208	175,425	(17,904)	467,655
Total current liabilities	1,001,639	180,114	559,095	(167,700)	1,573,148
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities	2,632,159	-	430,483	-	3,062,642
OTHER LONG-TERM LIABILITIES:					
Self insurance and other insurance liabilities	(225)	-	114,218	-	113,993
Interest rate swap liabilities, net	260,883	-	-	-	260,883
Other	177,131	6,905	121,799	(6,149)	299,686
Total other long-term liabilities	437,789	6,905	236,017	(6,149)	674,562
DUE TO AFFILIATES	-	-	307,506	(307,506)	-
Total liabilities	4,071,587	187,019	1,533,101	(481,355)	5,310,352
COMMITMENTS AND CONTINGENCIES					
NONCONTROLLING INTERESTS - REDEEMABLE	-	-	233,384	276,665	510,049
NET ASSETS:					
Unrestricted - attributable to BSWH	5,209,187	116,499	1,967,390	(2,199,985)	5,093,091
Unrestricted - noncontrolling interests - nonredeemable	17,104	-	68,020	181,999	267,123
Total unrestricted net assets	5,226,291	116,499	2,035,410	(2,017,986)	5,360,214
Temporarily restricted	296,225	-	460,208	(337,236)	419,197
Permanently restricted	191,208	-	325,898	(240,249)	276,857
Total net assets	5,713,724	116,499	2,821,516	(2,595,471)	6,056,268
Total liabilities and net assets	$ 9,785,311	$ 303,518	$ 4,588,001	$ (2,800,161)	$ 11,876,669

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

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

Quarterly Disclosure Report for December 31, 2017

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Statements of Operations and Changes in Net Assets
For the Six Months Ended December 31, 2017
($ Thousands)

	Obligated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
OPERATING REVENUE:					
Net patient care revenue	$ 2,511,764	$ -	$ 2,231,237	$ (210,842)	$ 4,532,159
Less patient related bad debt expense	156,296	-	235,467	-	391,763
Net patient care revenue, less patient related bad debt expense	2,355,468	-	1,995,770	(210,842)	4,140,396
Premium revenue	-	412,481	-	(199)	412,282
Other operating revenue	216,854	7,154	357,957	(353,122)	228,843
Net assets released from restrictions for operations	4,474	-	33,049	(5,482)	32,041
Total operating revenue	2,576,796	419,635	2,386,776	(569,645)	4,813,562
OPERATING EXPENSES:					
Salaries, wages, and employee benefits	1,315,510	21,858	909,569	(24,786)	2,222,151
Supplies	391,673	78	414,253	-	806,004
Other operating expenses	560,165	35,769	749,156	(332,409)	1,012,681
Medical claims	-	367,100	-	(217,724)	149,376
Gains on fixed asset sales and disposals,net	(6,006)	-	(2,429)	-	(8,435)
Depreciation and amortization	126,958	255	64,026	(2,936)	188,303
Interest	45,670	1,236	19,822	(6,618)	60,110
Total operating expenses	2,433,970	426,296	2,154,397	(584,473)	4,430,190
Income (loss) from operations	142,826	(6,661)	232,379	14,828	383,372
NONOPERATING GAINS (LOSSES):					
Gains (losses) on investments, net	152,939	2,280	36,548	(4,213)	187,554
Interest rate swap activity	(2,962)	-	-	-	(2,962)
Contributions	8,127	-	1,141	(9,169)	99
Equity in (losses) gains of unconsolidated entities	(397)	-	37,202	-	36,805
Loss from extinguishment of debt	(721)	-	-	-	(721)
Other	97,267	-	7,631	(104,626)	272
Total nonoperating gains (losses)	254,253	2,280	82,522	(118,008)	221,047
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE TAXES	397,079	(4,381)	314,901	(103,180)	604,419
LESS INCOME TAX EXPENSE (BENEFIT)	172	(513)	9,264	-	8,923
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	396,907	(3,868)	305,637	(103,180)	595,496

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

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

Baylor Scott & White Health
Supplementary Combining Financial Information of the Obligated Affiliates and BSWH
Combining Statements of Operations and Changes in Net Assets - continued
For the Six Months Ended December 31, 2017
($ Thousands)

	Obligated Affiliates *	Consolidated SWHP†	Other System Entities	Reclassifications and Eliminations	Total Financials
OTHER CHANGES IN UNRESTRICTED NET ASSETS:					
Unrealized losses on investments, net	$ -	$ -	$ (2,344)	$ -	$ (2,344)
Net assets released from restrictions for capital expenditures	-	-	3,972	-	3,972
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(3,513)	-	(90,623)	103,282	9,146
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	-	-	(95,270)	(48,478)	(143,748)
Transfers between entities under common control	19,302	-	(10,423)	(8,879)	-
Other	1	-	(311)	-	(310)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	412,697	(3,868)	110,638	(57,255)	462,212
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:					
Contributions	4,879	-	152,988	(5,482)	152,385
Realized investment income	-	-	13,467	-	13,467
Unrealized gains on investments	-	-	12,797	-	12,797
Change in value of split-interest agreements	13	-	284	-	297
Net assets released from restrictions for operations	(4,474)	-	(33,049)	5,482	(32,041)
Net assets released from restrictions for capital expenditures	-	-	(3,972)	-	(3,972)
Changes in net assets of related foundations	170	-	-	-	170
Other	-	-	(491)	-	(491)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	588	-	142,024	-	142,612
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:					
Contributions	-	-	11,459	-	11,459
Realized investment income	-	-	542	-	542
Unrealized losses on investments	-	-	(83)	-	(83)
Change in value of split-interest agreements	84	-	140	-	224
Changes in net assets of related foundations	2	-	-	-	2
Other	-	-	340	-	340
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	86	-	12,398	-	12,484
INCREASE (DECREASE) IN NET ASSETS	413,371	(3,868)	265,060	(57,255)	617,308
NET ASSETS, beginning of period	5,300,353	120,367	2,556,456	(2,538,216)	5,438,960
NET ASSETS, end of period	$ 5,713,724	$ 116,499	$ 2,821,516	$ (2,595,471)	$ 6,056,268

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

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

Baylor Scott & White Health
Obligated Affiliates - Combined Statement of Cash Flows
For the Six Months Ended December 31, 2017
($ Thousands)

Cash Flows from Operating Activities:	
Increase in net assets	$ 413,371
Adjustments to reconcile increase in net assets	
to net cash provided by operating activities:	
Loss on extinguishment of debt	721
Unrealized gains on investments, net	(91,579)
Realized gains on sales of investments, net	(34,753)
Gains on interest rate swap, net	(8,956)
Patient related bad debt expense	156,296
Depreciation and amortization	126,958
Gains on fixed asset sales and disposals, net	(6,006)
Change in value of split-interest agreements	(97)
Transfers between entities under common control	(19,302)
Other changes attributable to noncontrolling interests	3,513
Changes in operating assets and liabilities (net of acquisitions):	
Increase in net patient accounts receivable	(182,531)
Increase in other accounts receivable	(34,281)
Increase in other assets	(46,578)
Increase in due from affiliates, net	(62,058)
Increase in trade accounts payable and accrued liabilities	1,617
Increase in other liabilities	22,760
Net cash provided by operating activities	239,095
Cash Flows from Investing Activities:	
Purchases of property and equipment, net	(165,508)
Cash proceeds from sales of assets	6,024
Increase in investments, net	(40,013)
Net payments on interest rate swap	(7,259)
Increase in investments of subsidiaries	(58,676)
Increase in assets whose use is limited	(1,040)
Net cash used in investing activities	(266,472)
Cash Flows from Financing Activities:	
Principal payments on long-term debt	(398,362)
Proceeds from issuance of long-term debt	407,378
Transfers between entities under common control	19,302
Purchases of noncontrolling interests	(3,513)
Net cash provided by financing activities	24,805
Net Decrease in Cash and Cash Equivalents	(2,572)
Cash and Cash Equivalents, beginning of period	705,901
Cash and Cash Equivalents, end of period	$ 703,329