Quarterly Disclosure Report
For the Six Months Ended December 31, 2020
(Unaudited)

Contacts:	Carrol E. Aulbaugh	James E. Pool	Angela M. Hutson
	Interim Chief Financial Officer	Senior Vice President - Financial Services	Senior Vice President - Chief Accounting Officer
	Baylor Scott & White Health	Baylor Scott & White Health	Baylor Scott & White Health
	214-820-4342	214-820-2311	214-820-1432
	Carrol.Aulbaugh@BSWHealth.org	James.Pool@BSWHealth.org	Angie.Hutson@BSWHealth.org

www.BSWHealth.com

Quarterly Disclosure Report
December 31, 2020

NOTICE RELATING TO

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

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

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

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

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

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2015

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2016

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

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

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE COMMERCIAL PAPER NOTES
SERIES A

BAYLOR SCOTT & WHITE HOLDINGS
TAXABLE BONDS
SERIES 2021

CUSIP No.'s

87638QFN4,	87638QFP9,	87638QFQ7,	87638QFX2,	87638QEW5,	87638QGT0,	87638QHB8,
072863AB9,	072863AC7,	072863AD5,	072863AE3,	072863AF0,	87638QNX3,	87638QNY1,
87638QNZ8,	87638QPA1,	87638QPB9,	87638QPC7,	87638QPD5,	87638QPE3,	87638QPF0,
87638QPG8,	87638QPH6,	87638QPJ2,	87638QPK9,	87638QPL7,	87638QPM5,	87638QPN3,
87638QPQ6,	87638QPR4,	87638QPP8,	87638QPT0,	87638QPV5,	87638QFM6,	072863AG8,
072863AH6,	072863AJ2					

Commercial Paper Base CUSIP No.'s:

07287B	07287C	07287D

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

ATTENTION

This document is marked with a dated date of December 31, 2020 and reflects information only as of that dated date. Readers are cautioned not to assume that any information has been updated beyond the dated date except as to any portion of the document that expressly states that it constitutes an update concerning specific recent events occurring after the dated date of the document. The COVID-19 pandemic has adversely affected travel, commerce, and financial markets globally and the healthcare system in the United States. These effects may impact BSWH to an extent that cannot currently be predicted. Accordingly, the historical information set forth in this document is not indicative of future results or performance due to these and other factors. Any information contained in the portion of the document indicated to concern recent events speaks only as of its date. We expressly disclaim any duty to provide an update of any information contained in this document.

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

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

ORGANIZATION

BAYLOR SCOTT & WHITE HEALTH SYSTEM

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

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

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

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

The System also includes Scott & White Clinic (the "Clinic"), HealthTexas Provider Network (HTPN), Hillcrest Family Health Center (HFHC), Hillcrest Physician Services (HPS), and Century Integrated Partners, Inc. (Century). 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. HFHC and HPS operate clinics in the greater Waco area.

The System operates Scott and White Health Plan and its subsidiaries, Insurance Company of Scott and White, Scott and White Care Plans, and SHA, L.L.C. d/b/a FirstCare Health Plans and its subsidiary, Southwest Life and Health Insurance Company (collectively referred to as the “Health Plan”), which provide health insurance benefits to approximately 340,000 members through diversified products in commercial group, individual, self-funded, Medicare Advantage, and Medicaid plans.

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

OUR CORE

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

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

The System strategy includes:

Our Mission: Why we exist

- Founded as a Christian ministry of healing, Baylor Scott & White Health promotes the well-being of all individuals, families and communities.

Our Ambition: What we aspire to be

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

Our Values: How we behave

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

Our Strategies: Keys to achieving our Ambition

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

A visual representation called Our Core was introduced to all employees, and they were encouraged to make a personalized "Commitment" that connected their individual role to this new System strategy and the patients, members and communities served by Baylor Scott & White Health. As of November 2020, more than 84% of employees have made or renewed their Commitment.

OBLIGATED GROUP

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

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

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

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

AWARDS AND DISTINCTIONS

BAYLOR SCOTT & WHITE HEALTH	
The System is recognized as one of the leading healthcare delivery systems in the United States, having received the following recognitions, among others:	
	According to U.S. News & World Report's "Best Hospitals" 2020-2021 ratings, Baylor Scott & White Health has more award-winning hospitals and more accolades than any other not-for-profit system in Texas. This year, sixteen facilities were recognized, which includes three national rankings and two hospitals in the Texas top ten.
	According to Newsweek's "World's Best Hospitals 2020," four Baylor Scott & White Health hospitals received recognition.
	Listed among the Best Work Places in Health Care by Fortune and the Great Place to Work Institute for the third year in a row.
	Nine hospitals earned the Press Ganey Guardian of Excellence Award, which recognizes top-performing healthcare facilities that have consistently rated in the 95th percentile or above for patient experience based on one year of data. Additionally, six hospitals earned the Pinnacle of Excellence Award, which recognizes facilities that have maintained consistently high levels of performance for multiple years.
BAYLOR UNIVERSITY MEDICAL CENTER	
	Ranked as the No. 2 hospital in the Dallas metro area, as well as No. 4 in Texas, and was nationally recognized for the 28th consecutive year.
	Named as one of the top 50 hospitals nationally in two medical specialties: Gynecology and Gastroenterology & GI Surgery, and high performing in Cancer, Nephrology, Neurology & Neurosurgery, Orthopedics, Pulmonology and Urology.
	Ranked as the No. 50 hospital in the U.S. and No. 3 in Texas.
	Reaccredited with a Gold Seal of Approval™ by the Joint Commission for the Ventricular Assist Device Program, the nation's first such accredited program.

	Gold Level Award for Excellence in Life Support – BUMC is the first and only adult extracorporeal membrane oxygenation (ECMO) center in north Texas to earn this award.
	BUMC earned a distinguished three-star rating, denoting the highest category of quality among general thoracic surgery programs in the U.S. and Canada.
	BUMC has been accredited as a Level IV Epilepsy Center – the highest level of designation from the National Association of Epilepsy Centers.

SCOTT & WHITE MEMORIAL HOSPITAL

	Ranked as the No. 6 hospital in Texas; high performing in three specialties - Gastroenterology & GI Surgery, Orthopedics, and Nephrology; high performing in seven common procedures or conditions – abdominal aortic aneurysm repair, congestive heart failure, colon cancer surgery, COPD (chronic obstructive pulmonary disease), lung cancer surgery, hip replacement and knee replacement.
	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. Mission: Lifeline® STEMI Receiving Center – GOLD Plus Achievement Award Hospital. Mission: Lifeline® NSTEMI – Bronze Achievement Award.
	The Gold Seal of Approval; Accredited Programs in Hospital, Nursing Care Center, Home Care; Advanced Certification in Stroke (Primary Stroke Center) and Ventricular Assist Device by the Joint Commission.

BAYLOR SCOTT & WHITE QUALITY ALLIANCE	
Becker's Hospital Review	Named to Becker's Top 130 ACOs to Know in 2019, ranking 3rd in the nation for MSSP performance.
	NCQA Case Management Accreditation – The National Committee for Quality Assurance (NCQA) awarded BSWQA three-year Accreditation for its Case Management program, effective December 21, 2020 – December 21, 2023. This Accreditation verifies BSWQA's utilization of evidence-based best practices to ensure members have access to a qualified case management team that delivers personalized, patient-centered care plans and safe transitions of care.

SCOTT AND WHITE HEALTH PLAN	
CMS	Every year, Medicare evaluates plans based on a 5-star rating system. For the 2021 plan year, BSW SeniorCare Advantage HMO is rated an overall 4.5 out of 5 stars. The PPO is rated an overall 4 out of 5 stars for 2021, up from 3.5 stars in 2020.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

MEDICAL EDUCATION

In November 2020, System management successfully negotiated and executed separate academic affiliation definitive agreements with Baylor College of Medicine (BCM) and Texas A&M University (TAMU). A summary of each affiliation agreement is below.

Baylor Scott & White Health and Baylor College of Medicine

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

Baylor Scott & White Health and Texas A&M University

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

Physician Medical Education

The System's education for physicians consists of Graduate Medical Education (Residents and Fellows) and Undergraduate Medical Education (Medical Students), as well as Continuing Medical Education services. The System supports Graduate Medical Education by offering over 80 residencies and fellowship programs from Dallas to Round Rock and Temple, and as of December 31, 2020 had over 750 physicians in training. All programs are accredited by the Accreditation Council for Graduate Medical Education, the Texas Medical Board or other appropriate accrediting agencies, and the training is recognized by the corresponding specialty boards.

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

Nursing Programs

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

Allied Health Professional Programs

The System hosts allied health-training programs in affiliation with various universities within Texas and throughout the southwest United States. Examples of those areas of training include: allied health sciences/health administration, medical technology, occupational and physical therapy, pharmacy, radiological technology, respiratory therapy, social work, and speech pathology. The System currently trains approximately 50 physician assistant students. The System has affiliation agreements with Baylor College of Medicine, UT Southwestern, University of North Texas and others, including 62 different allied health programs. The most popular programs are physical therapy, occupational therapy, speech pathology, social work, radiology, pharmacy, health information management, sonography and respiratory therapy.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

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, 2020 and 2019, and the six months ended December 31, 2020 and 2019.

BSWH KEY OPERATING AND FINANCIAL INDICATORS ($ in millions)				
	Year Ended June 30,		Six Months Ended December 31,	
	2019	2020	2019	2020
OPERATING RESULTS				
Adjusted operating cash flow (1)	$ 1,265	$ 1,102	$ 755	$ 1,007
Adjusted EBITDA (2)	$ 1,404	$ 1,196	$ 825	$ 1,077
Total capitalization (3)	$ 9,122	$ 9,523	$ 9,441	$ 10,453
FINANCIAL RATIOS				
Operating margin	7.2%	5.3%	8.8%	12.8%
Adjusted operating cash flow as a percentage of total revenue (1)	12.6%	10.5%	13.7%	17.3%
Long-term debt to capitalization (4)	34.2%	35.3%	32.0%	31.4%
Days in patient accounts receivable (5)	36.6	34.3	38.2	34.8

(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, net of current maturities) plus unrestricted net assets.
(4) Long-term debt to capitalization is defined as long-term debt (including long-term debt subject to remarketing arrangements, net of current maturities) divided by total capitalization.
(5) 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 divided by the number of days in the period.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

MANAGEMENT DISCUSSION AND ANALYSIS

Net Operating Income

The System's operating income for the first six months of fiscal year 2021 was $742 million or 12.8% of total operating revenue, compared to $486 million or 8.8% for the first six months of fiscal year 2020. Adjusted EBITDA was $1,077 million or 18.5% of total operating revenue for the first six months of fiscal year 2021 compared to $825 million or 15.0% for the first six months of fiscal year 2020.

Total Operating Revenue

The combined total operating revenue increased $315 million or 5.7% to $5,818 million for the first six months of fiscal year 2021 compared to $5,503 million for the first six months of fiscal year 2020. Under programs included in the CARES Act, $70 million of emergency relief funds were received and recognized in other operating revenue for the first six months of fiscal year 2021.

Net patient care revenue increased $136 million or 3.0% to $4,634 million for the first six months of fiscal year 2021 compared to $4,498 million for the first six months of fiscal year 2020. The increase in net patient care revenue is primarily related to higher acuity and favorable payor mix.

Premium revenue increased $32 million or 4.3% to $783 million for the first six months of fiscal year 2021 compared to $751 million for the first six months of fiscal year 2020. This increase is primarily due to the settlement of an Affordable Care Act Risk Corridor lawsuit for funding owed to the Health Plan related to losses incurred in the Individual Public Exchange market from 2014 through 2016.

Net assets released from restrictions for operations increased $18 million or 56.3% to $50 million for the first six months of fiscal year 2021 compared to $32 million for the first six months of fiscal year 2020.

Total Operating Expenses

Combined total operating expenses for the first six months of fiscal year 2021 were $5,076 million, an increase of $59 million or 1.2% compared to $5,017 million for the first six months of fiscal year 2020.

Salaries, wages, and employee benefits expense increased $132 million or 5.4% to $2,566 million for the first six months of fiscal year 2021 compared to $2,434 million for the first six months of fiscal year 2020, representing approximately 44.1% and 44.2% of total operating revenue for the first six months of fiscal years 2021 and 2020, respectively. Salaries, wages, and employee benefits expense represented approximately 50.6% and 48.5% of total operating expenses for the first six months of fiscal years 2021 and 2020, respectively.

Supplies and other operating expenses decreased $41 million or -2.1% for the first six months of fiscal year 2021 to $1,883 million compared to $1,924 million for the first six months of fiscal year 2020, and represented approximately 32.4% and 35.0% of total operating revenue for fiscal years 2021 and 2020, respectively. Supplies and other operating expenses represented approximately 37.1% and 38.3% of total operating expenses for the first six months of fiscal years 2021 and 2020, respectively.

Medical claims decreased $28 million or -7.2% for the first six months of fiscal year 2021 to $362 million compared to $390 million for the first six months of fiscal year 2020. This decrease is primarily due to lower commercial product membership, increased medical utilization management efforts, and improved network contracting for the FirstCare health plan entities acquired in January 2019.

Depreciation and amortization increased $6 million or 2.9% to $214 million for the first six months of fiscal year 2021 compared to $208 million for the first six months of fiscal year 2020.

Interest expense decreased $10 million or -16.4% to $51 million for the first six months of fiscal year 2021 compared to $61 million for the first six months of fiscal year 2020.

Nonoperating Gains (Losses)

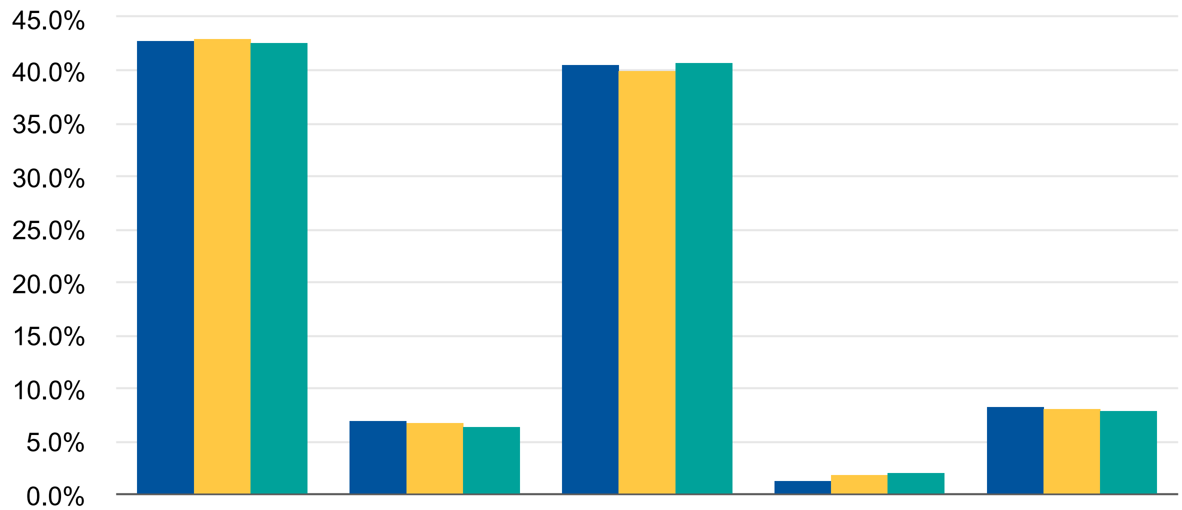
The System recorded unrestricted unrealized gains on investments of $404 million for the first six months of fiscal year 2021 compared to unrestricted unrealized gains on investments of $66 million for the first six months of fiscal year 2020. Unrestricted investment income and realized gains on investments were $76 million for the first six months of fiscal year 2021 compared to unrestricted investment income and realized gains on investments of $79 million for the first six months of fiscal year 2020, representing a decrease of $3 million or -3.8%. The System recorded unrealized gains in its interest rate swap portfolio of $61 million for the first six months of fiscal year 2021 compared to unrealized losses of $6 million for the first six months of fiscal year 2020 due to interest rate fluctuations.

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.

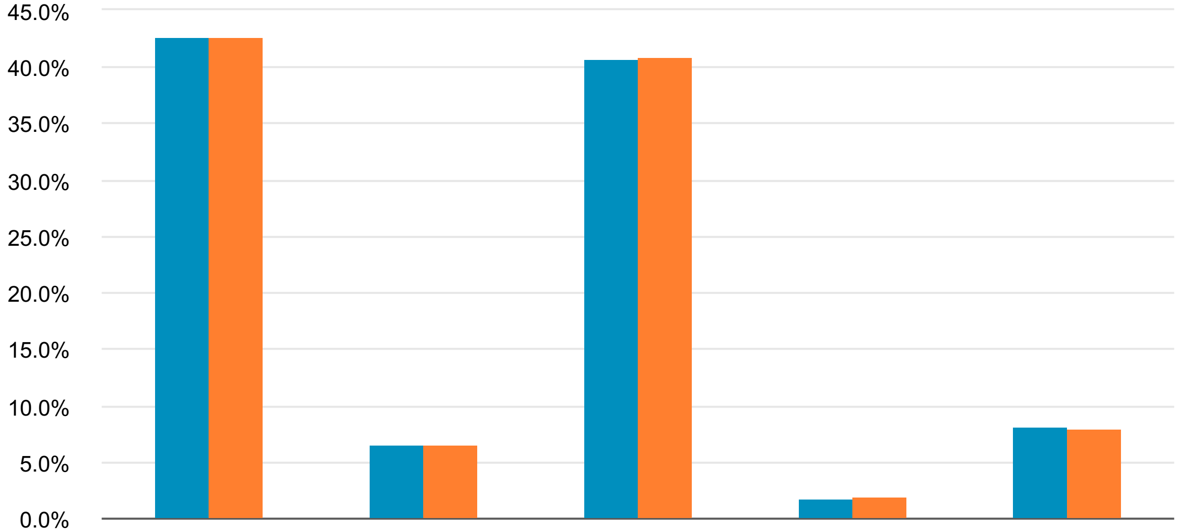
Gross Revenue by Payor Source
For the Fiscal Years Ended June 30, 2019 and 2020 and FY 21 YTD Through December



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Self-pay/Other
FY 19	42.8%	6.9%	40.6%	1.3%	8.4%
FY 20	43.2%	6.8%	40.0%	1.8%	8.2%
FYTD 21	42.7%	6.5%	40.9%	2.0%	7.9%

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

Gross Revenue by Payor Source
For Fiscal Year to Date December 31



	Medicare	Medicaid	Managed Care	Health Insurance Exchange - Marketplace	Self-pay/Other
FYTD 20	42.7%	6.6%	40.8%	1.7%	8.2%
FYTD 21	42.7%	6.5%	40.9%	2.0%	7.9%

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

OPERATING DATA - BSWH TOTAL				
	Year Ended June 30,		Six Months Ended December 31,	
	2019	2020	2019	2020
Licensed Beds	5,212	5,063	5,248	5,061
Inpatient Admissions (1)	222,131	211,587	112,655	106,824
Patient Days	1,052,336	1,027,942	536,389	548,457
Average Length of Stay (Days)	4.7	4.9	4.8	5.1
Emergency Room Visits	827,931	799,698	446,383	349,918
Other Outpatient Registrations	4,311,775	4,408,344	2,344,301	2,436,206
Clinic Visits (IP & OP) (2)	3,481,935	3,601,988	1,862,070	1,857,198
Patient Encounters (3)	3,966,655	3,899,953	2,075,041	1,906,683
Gross Outpatient Revenue as a Percent of Total Gross Patient Revenues	63.1%	63.2%	64.0%	63.5%

(1) Admissions include adult, pediatric, and special care nursery.
(2) Clinic visits include all visits at the Clinic, HFHC, and HPS.
(3) Patient encounters are for HTPN and Century.
As statistical definitions are redefined and aligned related to the merger, prior quarter statistics may be updated accordingly for comparative purposes.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

BSWH ADULT AND PEDIATRIC LICENSED BEDS
December 31, 2020

Name of Hospital	Location	Licensed Beds
Baylor University Medical Center	Dallas, Texas	914
Baylor Scott & White Medical Center - Temple	Temple, Texas	576
Baylor Scott & White All Saints Medical Center - Fort Worth	Fort Worth, Texas	538
Baylor Scott & White Medical Center - Grapevine	Grapevine, Texas	302
Baylor Scott & White Medical Center - Hillcrest	Hillcrest, Texas	236
Baylor Scott & White Medical Center - Plano	Plano, Texas	160
Baylor Scott & White Medical Center - McKinney	McKinney, Texas	143
Baylor Scott & White Medical Center - College Station	College Station, Texas	142
Baylor Scott & White Medical Center - Waxahachie	Waxahachie, Texas	129
Baylor Scott & White Medical Center - Lakeway (1)	Lakeway, Texas	106
Baylor Scott & White Medical Center - Round Rock	Round Rock, Texas	101
Baylor Scott & White McLane Children's Medical Center (2)	Temple, Texas	64
Baylor Scott & White Continuing Care Hospital	Temple, Texas	48
Obligated Affiliates Subtotal		3,459
Texas Health Ventures Group (10 hospitals)	Throughout Service Area	309
Baylor Scott & White Medical Center - Irving	Irving, Texas	293
BIR JV, LLP (4 hospitals) (3)	Throughout Service Area	223
Baylor Scott & White Medical Center - Lake Pointe	Rowlett, Texas	176
Baylor Scott & White Medical Center - Centennial	Frisco, Texas	118
Baylor Scott & White The Heart Hospital - Plano	Plano, Texas	105
EBD JV, LLP (8 emergency medical centers)	Throughout Service Area	64
Baylor Scott & White Medical Center - Brenham	Brenham, Texas	60
Baylor Scott & White Heart and Vascular Hospital - Dallas	Dallas, Texas	59
Baylor Scott & White Medical Center - Marble Falls	Marble Falls, Texas	46
Baylor Scott & White Medical Center - Llano	Llano, Texas	25
Baylor Scott & White Medical Center - Pflugerville	Pflugerville, Texas	25
Baylor Scott & White Medical Center - Taylor	Taylor, Texas	25
Baylor Scott & White Medical Center - Austin	Austin, Texas	25
Baylor Scott & White The Heart Hospital - Denton	Denton, Texas	22
Baylor Scott & White Medical Center - Buda	Buda, Texas	15
Baylor Scott & White Medical Center - Cedar Park (1)	Cedar Park, Texas	8
Baylor Scott & White The Heart Hospital - McKinney	McKinney, Texas	4
Non-Obligated Affiliates Subtotal		1,602
Total		5,061

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

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

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

Source: Texas Department of Health, November 20, 2020.

Liquidity

Unrestricted cash and investments of $7,557 million at December 31, 2020 increased $1,142 million as compared to unrestricted cash and investments of $6,415 million at June 30, 2020 after capital expenditures of $147 million and net gains on trading investments of $480 million. Unrestricted days cash on hand increased to 286.3 days at December 31, 2020 from 245.8 days at June 30, 2020. Including restricted funds, days cash on hand totaled 318.3 days at December 31, 2020 compared to 276.1 days at June 30, 2020. The long-term debt to capitalization ratio decreased to 31.4% at December 31, 2020 from 35.3% at June 30, 2020 and total assets increased 7.5% to $16,219 million at December 31, 2020 from $15,092 million at June 30, 2020.

BSWH CASH AND INVESTMENTS
($ in millions)

	June 30, 2019	June 30, 2020	December 31, 2019	December 31, 2020
Cash and cash equivalents (1)	$ 813	$ 1,965	$ 825	$ 2,505
Short-term investments (2)	337	356	310	363
Long-term investments (3)	4,986	4,886	5,080	5,535
Total cash and investments	6,136	7,207	6,215	8,403
Less: restricted cash and investments (4)	785	792	809	846
Total unrestricted cash and investments	$ 5,351	$ 6,415	$ 5,406	$ 7,557
Average daily operating expenses (less depreciation)	$ 24.4	$ 26.1	$ 26.1	$ 26.4
Unrestricted days cash on hand (5)	219.3	245.8	207.1	286.3
Days cash on hand (6)	251.5	276.1	238.1	318.3

(1) Cash equivalents are composed of investments which have original maturities of three months or less.
(2) Short-term investments are assets that are convertible to cash in one year or less.
(3) Long-term investments are comprised of U.S. small, mid and large capitalization stocks, international stocks, intermediate term fixed income securities, hedge funds, real estate, and private equity.
(4) Restricted cash and investments is the sum of the restricted long-term investments, assets restricted by donors, assets held by bond trustees, and assets required to meet self-insurance obligations.
(5) Unrestricted days cash on hand is calculated as unrestricted cash and investments divided by average daily operating expenses (less depreciation).
(6) Days cash on hand includes restricted funds. Days cash on hand as of June 30, 2020 includes Medicare Advance Payment Program funds of $765 million, $400 million from drawing down the BSW Holdings' line of credit, and approximately $47 million in FICA deferrals, which in the aggregate represents approximately 46.5 days of cash. Days cash on hand as of December 31, 2020, includes Medicare Advance Payment Program funds of $765 million, $400 million from drawing down the BSW Holdings' line of credit, and approximately $123 million in FICA deferrals, which in the aggregate represents approximately 48.7 days of cash.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

BSWH SELF LIQUIDITY REPORT ($ in millions)	December 31, 2020
DAILY LIQUIDITY	
Checking and deposit accounts at P-1 rated bank	$ 1,719
Short-term investment funds at P-1 rated bank	21
Subtotal Daily Liquidity (Cash & Securities)	1,740
$400 Million General Purpose LOC (undrawn amount) (1)	—
Subtotal Daily Liquidity	1,740
WEEKLY LIQUIDITY	
Fixed Income: Publicly Traded Fixed Income Securities rated at least Aa3	643
Fixed Income: Publicly Traded Fixed Income Securities rated below Aa3	841
Equities: Exchange Traded Equity (ownership of shares of stock)	264
Equities: Equity Funds	856
Subtotal Weekly Liquidity	2,604
Total Daily and Weekly Liquidity	$ 4,344
LONGER TERM LIQUIDITY	
Funds, vehicles, investments that allow withdrawals with one month notice or longer	$ 1,398

(1) Baylor Scott & White Holdings $400 MM line of credit expires January 9, 2023.
The table above sets forth those assets that would reasonably be available to BSWH to satisfy a liquidity event. The table does not include assets held by affiliates of BSWH that would not be reasonably available to BSWH to satisfy a liquidity event, including assets held by the five foundations as described further in this report, THVG JV, Texas Heart Hospital of the Southwest, LLP and Baylor Heart and Vascular Center, LLP, among others.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

COMBINED BALANCE SHEETS

BAYLOR SCOTT & WHITE HEALTH
COMBINED BALANCE SHEETS
($ in millions)

	June 30, 2019	June 30, 2020	December 31, 2019	December 31, 2020
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 813	$ 1,965	$ 825	$ 2,505
Short-term investments	337	356	310	363
THVG funds due from United Surgical Partners, Inc.	104	280	118	260
Accounts receivable:				
Patient	845	781	931	878
Premiums	111	118	97	74
Other	228	273	293	289
Other current assets	355	376	326	337
Total current assets	2,793	4,149	2,900	4,706
LONG-TERM INVESTMENTS:				
Unrestricted	4,201	4,094	4,271	4,689
Restricted	518	497	518	514
Total long-term investments	4,719	4,591	4,789	5,203
ASSETS WHOSE USE IS LIMITED:				
Other designated assets	151	175	165	204
Self insurance reserves	116	120	126	128
Total assets whose use is limited	267	295	291	332
PROPERTY AND EQUIPMENT, net	3,890	4,062	4,026	4,014
RIGHT OF USE OPERATING LEASE ASSETS, net	—	868	887	824
CONTRIBUTIONS RECEIVABLE, net	203	169	169	166
OTHER LONG-TERM ASSETS:				
Equity investment in unconsolidated entities	64	63	64	70
Goodwill and intangible assets, net	878	873	876	885
Interest in net assets of related foundation	4	4	4	4
Other	17	18	18	15
Total other long-term assets	963	958	962	974
Total assets	$ 12,835	$ 15,092	$ 14,024	$ 16,219

BAYLOR SCOTT & WHITE HEALTH
COMBINED BALANCE SHEETS - CONTINUED
($ in millions)

	June 30, 2019	June 30, 2020	December 31, 2019	December 31, 2020
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Current maturities of long-term debt and finance lease obligations	$ 142	$ 102	$ 105	$ 114
Long-term debt subject to short-term remarketing arrangements	95	95	95	95
Commercial paper	208	208	208	253
Trade accounts payable	349	344	311	305
Accrued liabilities:				
Payroll related	454	522	409	631
Third-party programs	104	848	50	989
Medical claims payable	73	65	77	83
Operating lease liabilities	—	155	146	149
Other	479	615	587	550
Total current liabilities	1,904	2,954	1,988	3,169
LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current maturities	3,022	3,262	2,923	3,192
OTHER LONG-TERM LIABILITIES:				
Self insurance and other insurance liabilities	114	119	125	127
Interest rate swap liabilities, net	274	365	266	309
Long-term operating lease liabilities	—	807	832	766
Other	336	257	279	273
Total other long-term liabilities	724	1,548	1,502	1,475
Total liabilities	5,650	7,764	6,413	7,836
COMMITMENTS AND CONTINGENCIES				
NONCONTROLLING INTERESTS - REDEEMABLE	453	482	481	496
NET ASSETS:				
Net assets without donor restrictions:				
Attributable to BSWH	5,727	5,840	6,125	6,845
Noncontrolling interests - nonredeemable	278	326	298	321
Total net assets without donor restrictions	6,005	6,166	6,423	7,166
Net assets with donor restrictions	727	680	707	721
Total net assets	6,732	6,846	7,130	7,887
Total liabilities and net assets	$ 12,835	$ 15,092	$ 14,024	$ 16,219

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

BAYLOR SCOTT & WHITE HEALTH
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
($ in millions)

	Year Ended June 30,		Six Months Ended December 31,	
	2019	**2020**	**2019**	**2020**
OPERATING REVENUE:				
Net patient care revenue	$ 8,447	$ 8,334	$ 4,498	$ 4,634
Premium revenue	1,153	1,483	751	783
Other operating revenue	386	635	222	351
Net assets released from restrictions for operations	67	77	32	50
Total operating revenue	10,053	10,529	5,503	5,818
OPERATING EXPENSES:				
Salaries, wages, and employee benefits	4,561	4,923	2,434	2,566
Supplies	1,661	1,701	893	933
Other operating expenses	2,006	2,069	1,031	950
Medical claims	556	735	390	362
Losses (gains) on fixed asset sales and disposals, net	4	(1)	—	—
Depreciation and amortization	415	429	208	214
Interest	125	114	61	51
Total operating expenses	9,328	9,970	5,017	5,076
INCOME FROM OPERATIONS	725	559	486	742
NONOPERATING GAINS (LOSSES):				
Gains on investments, net	224	58	145	480
Interest rate swap activity	(88)	(151)	(16)	46
Equity in earnings of unconsolidated entities	3	—	1	9
Loss from extinguishment of debt	—	(3)	(3)	—
Total nonoperating gains (losses)	139	(96)	127	535
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	864	463	613	1,277
LESS INCOME TAX EXPENSE	15	10	7	9
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	849	453	606	1,268

BAYLOR SCOTT & WHITE HEALTH
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - CONTINUED
($ in millions)

	Year Ended June 30,		Six Months Ended December 31,	
	2019	**2020**	**2019**	**2020**
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Net assets released from restrictions for capital expenditures	$ 31	$ 45	$ 34	$ 2
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(92)	(45)	(39)	(73)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(274)	(290)	(182)	(197)
Net assets acquired	7	—	—	—
Cumulative change in accounting principle	—	(2)	(8)	—
Other	(10)	—	7	—
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	511	161	418	1,000
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:				
Contributions	98	56	27	41
Realized gains on investments, net	28	20	12	11
Unrealized (losses) gains on investments, net	(1)	(9)	6	43
Change in value of split-interest agreements	2	4	—	2
Net assets released from restrictions for operations	(67)	(77)	(32)	(50)
Net assets released from restrictions for capital expenditures	(31)	(45)	(34)	(2)
Other	(2)	4	1	(4)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	27	(47)	(20)	41
INCREASE IN NET ASSETS	538	114	398	1,041
NET ASSETS, beginning of period	6,194	6,732	6,732	6,846
NET ASSETS, end of period	$ 6,732	$ 6,846	$ 7,130	$ 7,887

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

COMBINED STATEMENTS OF CASH FLOWS

BAYLOR SCOTT & WHITE HEALTH
COMBINED STATEMENTS OF CASH FLOWS
($ in millions)

	Year Ended June 30, 2019	Year Ended June 30, 2020	Six Months Ended December 31, 2019	Six Months Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase in net assets	$ 538	$ 114	$ 398	$ 1,041
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Loss from extinguishment of debt	—	1	1	—
Unrealized (gains) losses on investments, net	(69)	67	(72)	(447)
Realized gains on investments, net	(100)	(54)	(45)	(46)
Unrealized losses (gains) on interest rate swap, net	70	129	6	(61)
Contributions restricted for long-term purposes	(15)	(1)	—	—
Depreciation and amortization	415	429	208	214
Losses (gains) on fixed asset sales and disposals, net	4	(1)	—	—
Equity in earnings of unconsolidated entities	(3)	—	(1)	(9)
Change in value of split-interest agreements	(2)	(4)	—	(2)
Deferred rent and other	(2)	9	6	(3)
Other changes attributable to noncontrolling interests	360	328	215	270
Cumulative change in accounting principle	—	2	8	—
Net assets acquired	(7)	—	—	—
Changes in operating assets and liabilities (net of acquisitions):				
(Increase) decrease in patient accounts receivable	(40)	64	(86)	(97)
(Increase) decrease in other accounts receivable	(19)	(52)	(51)	28
(Increase) decrease in other assets	(23)	(13)	63	49
Increase (decrease) in trade accounts payable and accrued liabilities	4	949	(25)	164
Increase in other long-term liabilities	57	32	56	33
Net cash provided by operating activities	1,168	1,999	681	1,134
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(590)	(597)	(355)	(147)
Cash proceeds from sales of assets	6	4	—	2
Cash paid for acquisitions, net of cash received	(31)	—	—	(14)
Decrease (increase) in THVG funds due from United Surgical Partners, Inc.	14	(176)	(14)	20
(Increase) decrease in trading investments	(656)	101	65	(122)
Net payments on interest rate swaps	(34)	(60)	(24)	(9)
Decrease in other than trading investments	—	—	10	—
Increase in assets whose use is limited	(16)	(28)	(23)	(37)
Net cash used in investing activities	(1,307)	(756)	(341)	(307)

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

	Year Ended June 30,		Six Months Ended December 31,	
	2019	**2020**	**2019**	**2020**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments on long-term debt	$ (178)	$ (855)	$ (599)	$ (141)
Proceeds from issuance of long-term debt	140	1,067	460	110
Distributions to noncontrolling interests	(320)	(283)	(190)	(255)
Purchases of noncontrolling interests	(24)	(24)	(4)	(9)
Sales of noncontrolling interests	9	8	7	8
Cash receipts restricted for long-term purposes	3	1	—	—
Annuity payments to beneficiaries	(1)	(1)	—	—
Net cash used in financing activities	(371)	(87)	(326)	(287)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(510)	1,156	14	540
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	1,329	819	819	1,975
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of period	$ 819	$ 1,975	$ 833	$ 2,515
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:				
Cash and cash equivalents at beginning of year	$ 1,264	$ 813	$ 813	$ 1,965
Cash in unrestricted long-term investments at beginning of year	3	1	1	1
Cash in restricted long-term investments at beginning of year	8	4	4	8
Cash in assets whose use is limited at beginning of year	54	1	1	1
Cash and cash equivalents and restricted cash at beginning of year	$ 1,329	$ 819	$ 819	$ 1,975
Cash and cash equivalents at end of year	$ 813	$ 1,965	$ 825	$ 2,505
Cash in unrestricted long-term investments at end of year	1	1	1	1
Cash in restricted long-term investments at end of year	4	8	5	8
Cash in assets whose use is limited at end of year	1	1	2	1
Cash and cash equivalents and restricted cash at end of year	$ 819	$ 1,975	$ 833	$ 2,515

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

1. ORGANIZATION

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

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

The following summarizes significant changes in the System in fiscal years 2019 - 2021:

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 $692 million and $689 million in the first six months of fiscal years 2021 and 2020, respectively.

BT Garland JV, LLP

On December 14, 2017, BSWH announced that a decision was made to close Baylor Scott & White Medical Center – Garland, a 113-bed hospital. The last day of operations was February 28, 2018. On April 1, 2020, BT Garland JV, LLP completed the donation of the Garland Hospital facilities to the U.S. Department of Veteran Affairs.

Baylor Scott & White Medical Center - Pflugerville

In December 2018, the System opened Baylor Scott & White Medical Center – Pflugerville, a 25-bed multispecialty hospital.

FirstCare Health Plans

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

Baylor Scott & White The Heart Hospital - McKinney

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

Baylor Scott & White Medical Center - Buda

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

Baylor Scott & White Medical Center - Carrollton

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

Fiscal Year 2020 Debt Portfolio Refinancing

In December 2019, BSW Holdings issued the $41 million Series 2019A, $97 million Series 2019B, $180 million Series 2019C, $45 million Series 2019D, and $96 million Series 2019E Revenue Bonds through the Tarrant County Cultural Education Facilities

Corporation conduit issuer, with various banks. Proceeds from this issuance were used to defease $38 million of the Baylor Health Care System Series 2011A Revenue Bonds and redeem the Scott & White Healthcare Series 2013C Revenue Bonds, the Baylor Scott & White Holdings Series 2015B and C Revenue Bonds, and the Baylor Scott & White Holdings Series 2017A, B, and C Revenue Bonds.

On January 9, 2020, BSWH terminated the $400 million revolving line of credit, and entered into a new $400 million revolving line of credit with an expiration date of January 2023. On April 9, 2020, BSWH drew $400 million from the revolving line of credit. On April 9, 2020, BSWH drew $400 million from the revolving line of credit.

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

Baylor Scott & White Medical Center – Austin

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

MEDCO Construction

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

CARES Act

In March 2020, the global COVID-19 pandemic began to impact the operations of the System. In response to the COVID-19 pandemic, the United States government passed the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act). Under programs included in the CARES Act, the System received approximately $454 million between April and December 2020. BSWH has recognized approximately $187 million and $70 million of emergency relief funds in other operating revenue in fiscal year 2020 and the first six months of fiscal year 2021, respectively. In September 2020, October 2020, and January 2021 the Department of Health and Human Services (HHS) issued updated reporting requirements significantly changing the previous guidance regarding utilization of the funds granted from the Provider Relief Funds under the CARES Act and other legislation. BSWH is continuing to monitor the reporting requirements as they evolve.

The System also recorded approximately $23 million of employee retention tax credits in salaries, wages, and employee benefits in fiscal year 2020. The System also received approximately $765 million in Medicare advance payments in April 2020 and recorded a contract liability in accordance with Accounting Standards Codification (ASC) 606, "*Revenue Recognition*", which is included in third-party program liabilities. Repayment of the advance payments begin one year after payment was issued to the System. The System deferred approximately $47 million and $77 million of the employer portion of FICA taxes, in fiscal year 2020 and the first six months of fiscal year 2021, respectively, which will be paid over a two year period with one half due in December 2021 and the other half due in December 2022.

Risk Corridor Program

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Application of New Accounting Pronouncements

In May 2014, August 2015, April 2016, May 2016, December 2016, and February 2017, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers (Topic 606)*"; ASU 2015-14, "*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*"; ASU 2016-10, "*Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*"; ASU 2016-12, "*Revenue from Contracts with Customers (Topic 606): 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, "*Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*", respectively, which supersedes the revenue recognition requirements in ASC 605, "*Revenue Recognition.*" These ASU's address when an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The System adopted the guidance under these ASU's, effective July 1, 2018 using the modified retrospective approach at the date of initial application. As a result of the adoption, amounts previously classified as provision for bad debts in the statements of operations are now reflected as implicit price concessions, and therefore, included as a reduction of net patient care revenue. The patient accounts receivable allowance for uncollectible accounts was treated similarly. Other than these presentation changes, the adoption of ASC 606 did not have a material impact on the combined financial statements.

In November 2015, FASB issued ASU 2015-17*, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes."* This ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The System applied the provisions of ASU 2015-17 in fiscal year 2019, which did not have a material impact on the combined financial statements..

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

In February 2016, January 2018, July 2018, December 2018, and March 2019, FASB issued ASU 2016-02, *"Leases (Topic 842)"*; ASU 2018-01, *"Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842"*; ASU 2018-10, *"Codification Improvements to Topic 842, Leases"* and ASU 2018-11, *"Leases (Topic 842): Targeted Improvements";* ASU 2018-20, *"Leases (Topic 842): Narrow-Scope Improvements for Lessors";* and ASU 2019-01, *"Leases (Topic 842): Codification Improvements"*, respectively. These ASU's require lessees to record a lease liability that represents the lessee's future lease obligation payments and a right-of-use asset that represents the lessee's right to use or control of a specified asset for the lease term. The main difference with previous practice being that lessees are now required to record an asset and liability for what was considered an operating lease under ASC 840, "*Leases*". The System adopted the guidance under these ASU's, effective July 1, 2019 using the effective date method, a practical expedient allowing application of the guidance for the adoption date forward without adjusting comparative periods. The System also elected to apply the practical expedient to not use hindsight to determine the lease term and assess impairment of right of use assets. As a result of the adoption, the System recognized right of use assets of approximately $943 million and operating lease liabilities of approximately $1,028 million. The System also elected not to assess whether land easements entered into prior to the adoption date, that were not previously accounted for as a lease, should be reported as such under ASC 842. The adoption of this standard did not have a corresponding material impact on the combined statements of operations. The System elected the three packaged transitional practical expedients under ASC 842-10-65-1(f), to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The System also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components for all classes of underlying assets.

In March 2016, FASB issued ASU 2016-05, *"Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships."* This ASU clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. The System applied the provisions of ASU 2016-05 in fiscal year 2019, which did not have a material impact on the combined financial statements.

In March 2016, FASB issued ASU 2016-06, *"Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments."* This ASU clarifies what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. The System applied the provisions of ASU 2016-06 in fiscal year 2019, which did not have a material impact on the combined financial statements.

In August 2016, FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities."* This ASU requires not-for-profit entities to report two classes of net assets, as well as enhances disclosures on board designated funds, liquidity, and functional expenses. The System applied the provisions of ASU 2016-14 in fiscal year 2019, which did not have a material impact on the combined financial statements.

In August 2016, FASB issued ASU 2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments."* This ASU provides cash flow statement classification guidance related to debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions made from equity method investees, separately identifiable cash flows, and application of the predominance principle. The System applied the provisions of ASU 2016-15 in fiscal year 2020, which did not have a material impact on the combined financial statements.

In October 2016, FASB issued ASU 2016-16, "*Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.*" This ASU requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The System applied the provisions of ASU 2016-16 in fiscal year 2020, which did not have a material impact on the combined financial statements.

In November 2016, FASB issued ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash.*" This ASU requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The System applied the provisions of ASU 2016-18 in fiscal year 2020, which had an immaterial impact on the cash used in investing activities in the combined statements of cash flows.

In January 2017, FASB issued ASU 2017-01, "*Business Combinations (Topic 805): Clarifying the Definition of a Business*." By clarifying the definition of a business, the amendments of this ASU affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The System applied the provisions of ASU 2017-01 in fiscal year 2020, which did not have a material impact on the combined financial statements.

In March 2017, FASB issued ASU 2017-07, "*Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*." This ASU requires that an employer report the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The System applied the provisions of ASU 2017-07 in fiscal year 2020, which did not have a material impact on the combined financial statements.

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

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

Other Accounting Pronouncements

In June 2016, November 2018, April 2019, May 2019, and November 2019, FASB issued ASU 2016-13, "*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*"; ASU 2018-19, *"Codification Improvements to Topic 326, Financial Instruments - Credit Losses";* ASU 2019-04, "*Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*"; ASU 2019-05, "*Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief"; and* ASU 2019-10*, "Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,"* respectively. The current standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. These ASU's remove the requirement that a credit loss be probable of occurring for it to be recognized. Instead these ASU's require entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The provisions of these ASU's are effective for fiscal years beginning after December 15, 2022. The System is currently evaluating the impact of these ASU's.

In January 2017, and November 2019, FASB issued ASU 2017-04, "*Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*"; and ASU 2019-10, *"Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,"* respectively. 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, 2022, 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 2017-08, "*Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*." This ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. However, the amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The provisions of ASU 2017-08 are effective for fiscal years beginning after December 15, 2018, and interim periods within those years for public business entities, and December 15, 2019, and interim periods thereafter for all other entities. The System is currently evaluating the impact of this ASU.

In August 2018, FASB issued ASU 2018-14, "*Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*." The amendments in ASU 2018-14 remove certain requirements related to the amount and timing of plan assets expected to be returned to the employer, related party disclosures, and disclosures related to Level 3 fair value. Additionally, these amendments clarify and enhance the disclosures for projected benefit obligation and accumulated benefit obligation. The provisions of ASU 2018-14 are effective for fiscal years ending after December 15, 2020, for public business entities and December 15, 2021, for all other entities. The System is currently evaluating the impact of this ASU.

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

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

3. INVESTMENTS

Cash and Cash Equivalents

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

THVG Funds Due From United Surgical Partners, Inc.

THVG participates in a shared services accounts payable program with USPI, wherein USPI has custody of substantially all of THVG's cash, paying THVG and its facilities interest income on the net balance at prevailing market rates. Amounts held by USPI on behalf of THVG totaled approximately $260 million and $280 million at December 31, 2020 and June 30, 2020, respectively. The funds due from USPI are available on demand.

Short-Term and Long-Term Investments

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

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

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. When a third-party serves as trustee, the beneficial interests are required to be measured on a recurring basis. These trusts are reported in contributions receivable, net, in the accompanying combined balance sheets.

Investment Earnings

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

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

Six Months Ended December 31, 2020	Interest and Dividends	Realized Gains	Unrealized Gains	Total
Nonoperating gains	$ 34	$ 42	$ 404	$ 480
Changes in net assets with donor restrictions	7	4	43	54
	$ 41	$ 46	$ 447	$ 534

Six Months Ended December 31, 2019	Interest and Dividends	Realized Gains	Unrealized Gains	Total
Nonoperating gains	$ 39	$ 40	$ 66	$ 145
Changes in net assets with donor restrictions	7	5	6	18
	$ 46	$ 45	$ 72	$ 163

Year Ended June 30, 2020	Interest and Dividends	Realized Gains	Unrealized Losses	Total
Nonoperating gains (losses)	$ 66	$ 50	$ (58)	$ 58
Changes in net assets with donor restrictions	16	4	(9)	11
	$ 82	$ 54	$ (67)	$ 69

Year Ended June 30, 2019	Interest and Dividends	Realized Gains	Unrealized Gains (Losses)	Total
Nonoperating gains	$ 67	$ 87	$ 70	$ 224
Changes in net assets with donor restrictions	15	13	(1)	27
	$ 82	$ 100	$ 69	$ 251

4. RETIREMENT BENEFITS

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

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

5. ENDOWMENTS

The System's endowments consist of donor-restricted and board-designated endowment funds for a variety of purposes. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. The System has interpreted the State of Texas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulation to the contrary. As a result of this interpretation, the System classifies as donor-restricted endowments, (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not subject to explicit donor stipulations, is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

Endowment Return Objectives and Risk Parameters

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

Relationship of Endowment Spending Practices to Investment Objectives

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

6. CONTINGENCIES

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

7. SUBSEQUENT EVENTS

Baylor Scott & White Medical Center - Llano

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

Fiscal Year 2021 Debt Portfolio Refinancing

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

The System has performed an evaluation of material subsequent events and transactions from December 31, 2020 through February 24, 2021.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

BAYLOR SCOTT & WHITE HEALTH
SUPPLEMENTARY COMBINING FINANCIAL INFORMATION OF THE OBLIGATED AFFILIATES AND BSWH
COMBINING BALANCE SHEETS
DECEMBER 31, 2020
($ in millions)

	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 1,892	$ 233	$ 380	$ —	$ 2,505
Short-term investments	179	41	143	—	363
THVG funds due from United Surgical Partners, Inc.	—	—	260	—	260
Accounts receivable:					
Patient	535	—	389	(46)	878
Premiums	—	74	—	—	74
Affiliates, net	22	—	8	(30)	—
Other	110	50	136	(7)	289
Other current assets	235	5	97	—	337
Total current assets	2,973	403	1,413	(83)	4,706
LONG-TERM INVESTMENTS:					
Unrestricted	4,328	272	89	—	4,689
Restricted	2	—	512	—	514
Total long-term investments	4,330	272	601	—	5,203
ASSETS WHOSE USE IS LIMITED:					
Other designated assets	193	2	9	—	204
Self insurance reserves	—	—	128	—	128
Total assets whose use is limited	193	2	137	—	332
PROPERTY AND EQUIPMENT, net	2,915	27	1,086	(14)	4,014
RIGHT OF USE OPERATING LEASE ASSETS, net (1)	336	—	738	(250)	824
CONTRIBUTIONS RECEIVABLE, net	2	—	164	—	166
DUE FROM AFFILIATES	—	—	478	(478)	—
INVESTMENTS IN SUBSIDIARIES AND AFFILIATES	2,233	—	—	(2,233)	—
OTHER LONG-TERM ASSETS:					
Equity investment in unconsolidated entities	49	—	21	—	70
Goodwill and intangible assets, net	86	5	796	(2)	885
Interest in net assets of related foundations	427	—	107	(530)	4
Other	10	2	12	(9)	15
Total other long-term assets	572	7	936	(541)	974
Total assets	$ 13,554	$ 711	$ 5,553	$ (3,599)	$ 16,219

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

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

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

BAYLOR SCOTT & WHITE HEALTH
SUPPLEMENTARY COMBINING FINANCIAL INFORMATION OF THE OBLIGATED AFFILIATES AND BSWH
COMBINING BALANCE SHEETS - CONTINUED
DECEMBER 31, 2020
($ in millions)

	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Current maturities of long-term debt and finance lease obligations	$ 75	$ —	$ 39	$ —	$ 114
Long-term debt subject to short-term remarketing arrangements	95	—	—	—	95
Commercial paper	253	—	—	—	253
Accounts payable:					
Trade accounts payable	202	7	93	3	305
Affiliates, net	—	30	—	(30)	—
Accrued liabilities:					
Payroll related	503	2	126	—	631
Third-party programs	606	4	351	28	989
Medical claims payable	—	158	—	(75)	83
Operating lease liabilities (1)	59	—	109	(19)	149
Other	324	79	166	(19)	550
Total current liabilities	2,117	280	884	(112)	3,169
LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current maturities	2,845	—	347	—	3,192
OTHER LONG-TERM LIABILITIES:					
Self insurance and other insurance liabilities	(1)	—	128	—	127
Interest rate swap liabilities, net	309	—	—	—	309
Long-term operating lease liabilities (1)	313	—	687	(234)	766
Other	209	5	60	(1)	273
Total other long-term liabilities	830	5	875	(235)	1,475
DUE TO AFFILIATES	215	—	261	(476)	—
Total liabilities	6,007	285	2,367	(823)	7,836
COMMITMENTS AND CONTINGENCIES					
NONCONTROLLING INTERESTS - REDEEMABLE	—	—	366	130	496
NET ASSETS:					
Net assets without donor restrictions:					
Attributable to BSWH	7,079	426	1,955	(2,615)	6,845
Noncontrolling interests - nonredeemable	33	—	47	241	321
Total net assets without donor restrictions	7,112	426	2,002	(2,374)	7,166
Net assets with donor restrictions	435	—	818	(532)	721
Total net assets	7,547	426	2,820	(2,906)	7,887
Total liabilities and net assets	$ 13,554	$ 711	$ 5,553	$ (3,599)	$ 16,219

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

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

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

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, 2020
($ in millions)

	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
OPERATING REVENUE:					
Net patient care revenue	$ 2,742	$ —	$ 2,140	$ (248)	$ 4,634
Premium revenue	—	783	—	—	783
Other operating revenue	316	11	370	(346)	351
Net assets released from restrictions for operations	10	—	45	(5)	50
Total operating revenue	3,068	794	2,555	(599)	5,818
OPERATING EXPENSES:					
Salaries, wages, and employee benefits	1,594	37	948	(13)	2,566
Supplies	468	—	465	—	933
Other operating expenses	610	43	630	(333)	950
Medical claims	—	627	—	(265)	362
Depreciation and amortization	138	2	74	—	214
Interest	40	—	16	(5)	51
Total operating expenses	2,850	709	2,133	(616)	5,076
INCOME FROM OPERATIONS	218	85	422	17	742
NONOPERATING GAINS (LOSSES):					
Gains (losses) on investments, net	395	14	76	(5)	480
Interest rate swap activity	46	—	—	—	46
Contributions	12	—	—	(12)	—
Equity in earnings of unconsolidated entities	7	—	2	—	9
Other	138	—	7	(145)	—
Total nonoperating gains (losses)	598	14	85	(162)	535
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE TAXES	816	99	507	(145)	1,277
LESS INCOME TAX EXPENSE	—	—	9	—	9
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	816	99	498	(145)	1,268

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

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, 2020
($ in millions)

	Obligated Affiliates *	Consolidated Health Plan†	Other System Entities	Reclassifications and Eliminations	Total
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:					
Net assets released from restrictions for capital expenditures	$ —	$ —	$ 2	$ —	$ 2
Other changes in net assets attributable to noncontrolling interests - nonredeemable	—	—	(250)	177	(73)
Revenue and gains in deficit of expenses and losses attributable to noncontrolling interests - redeemable	—	—	(148)	(49)	(197)
Transfers between entities under common control	26	—	(29)	3	—
Other	—	—	—	—	—
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	842	99	73	(14)	1,000
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:					
Contributions	11	—	37	(7)	41
Realized gains on investments, net	—	—	11	—	11
Unrealized gains on investments, net	—	—	43	—	43
Change in value of split-interest agreements	—	—	2	—	2
Net assets released from restrictions for operations	(10)	—	(45)	5	(50)
Net assets released from restrictions for capital expenditures	—	—	(2)	—	(2)
Other	—	—	(4)	—	(4)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	1	—	42	(2)	41
INCREASE (DECREASE) IN NET ASSETS	843	99	115	(16)	1,041
NET ASSETS, beginning of period	6,704	327	2,705	(2,890)	6,846
NET ASSETS, end of period	$ 7,547	$ 426	$ 2,820	$ (2,906)	$ 7,887

*Obligated Affiliates combines Baylor Health Care System; Baylor University Medical Center; Baylor All Saints Medical Center; Baylor Medical Center at Waxahachie; Baylor Regional Medical Center at Grapevine; Baylor Medical Center at Plano; Scott & White Healthcare; Scott & White Memorial Hospital (inclusive of McLane Children's Hospital Scott & White); Scott & White Clinic; Scott & White Hospital - Round Rock; Scott & White Continuing Care Hospital; Hillcrest Baptist Medical Center; Baylor Scott & White Holdings; Baylor Scott & White Health; Baylor Medical Centers at Garland and McKinney; and Scott & White Hospital - College Station.
† Consolidated Health Plan includes Scott and White Health Plan, Insurance Company of Scott and White, Scott and White Care Plans, SHA L.L.C., and Southwest Life and Health Insurance Company.