Baylor Scott & White HEALTH

Uniform Guidance

Supplemental Financial and Compliance Report

Year Ended June 30, 2022

pwc

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Report on Federal Awards in Accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
Supplemental Financial and Compliance Report
For the Year Ended June 30, 2022
Primary EIN #46-3130985

BAYLOR SCOTT & WHITE
AND ITS CONTROLLED AFFILIATES

Report on Federal Awards in Accordance with the Uniform Guidance
Supplemental Financial and Compliance Report

For the Year Ended June 30, 2022

CONTENTS

Report of Independent Auditors

To the Board of Trustees of Baylor Scott & White Holdings

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Baylor Scott & White Holdings and its controlled affiliates (the "Company"), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2022 and 2021, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are issued.

PricewaterhouseCoopers LLP, 2121 North Pearl Street, Suite 2000 Dallas, TX 75201
T: 214 999 1400, www.pwc.com/us

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2022 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2022 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2022. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Dallas, Texas
October 28, 2022

BAYLOR SCOTT & WHITE HOLDINGS AND ITS CONTROLLED AFFILIATES

CONSOLIDATED BALANCE SHEETS - JUNE 30, 2022 and 2021
(In millions)

ASSETS	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,624	$ 1,424
Short-term investments	386	597
THVG funds due from United Surgical Partners, Inc.	118	212
Accounts receivable:		
Patient	1,138	948
Premiums	68	76
Other	368	316
Other current assets	381	362
Total current assets	4,083	3,935
LONG-TERM INVESTMENTS:		
Unrestricted	5,600	6,389
Restricted	522	578
Total long-term investments	6,122	6,967
ASSETS WHOSE USE IS LIMITED:		
Other designated assets	220	232
Self insurance reserves	143	132
Total assets whose use is limited	363	364
PROPERTY AND EQUIPMENT, net	4,061	4,067
RIGHT OF USE OPERATING LEASE ASSETS, net	732	803
CONTRIBUTIONS RECEIVABLE, net	152	159
OTHER LONG-TERM ASSETS:		
Equity investment in unconsolidated entities	66	77
Goodwill and intangible assets, net	1,115	1,107
Interest in net assets of related foundation	5	5
Other	240	17
Total other long-term assets	1,426	1,206
Total assets	$ 16,939	$ 17,501

LIABILITIES AND NET ASSETS	2022	2021
CURRENT LIABILITIES:		
Current maturities of long-term debt and finance lease obligations	$ 66	$ 109
Long-term debt subject to short-term remarketing arrangements	95	95
Commercial paper	208	208
Trade accounts payable	438	446
Accrued liabilities:		
Payroll related	585	535
Third-party programs	171	726
Medical claims payable	91	67
Operating lease liabilities	159	160
Other	810	678
Total current liabilities	2,623	3,024
LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current maturities	3,703	3,724
OTHER LONG-TERM LIABILITIES:		
Self insurance and other insurance liabilities	143	130
Interest rate swap liabilities, net	178	290
Long-term operating lease liabilities	662	737
Other	226	330
Total other long-term liabilities	1,209	1,487
Total liabilities	7,535	8,235
COMMITMENTS AND CONTINGENCIES		
NONCONTROLLING INTERESTS – REDEEMABLE	649	606
NET ASSETS:		
Net assets without donor restrictions:		
Attributable to BSWH	7,724	7,557
Noncontrolling interests-nonredeemable	334	337
Total net assets without donor restrictions	8,058	7,894
Net assets with donor restrictions	697	766
Total net assets	8,755	8,660
Total liabilities and net assets	$ 16,939	$ 17,501

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

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

(In millions)

	2022	2021
OPERATING REVENUE:		
Net patient care revenue	$ 10,300	$ 9,232
Premium revenue	1,682	1,526
Other operating revenue	601	819
Net assets released from restrictions for operations	135	127
Total operating revenue	12,718	11,704
OPERATING EXPENSES:		
Salaries, wages, and employee benefits	5,826	5,208
Supplies	2,032	1,876
Other operating expenses	2,395	2,087
Medical claims	956	724
(Gains) losses on fixed asset sales and disposals, net	(1)	3
Depreciation and amortization	457	437
Interest	115	108
Total operating expenses	11,780	10,443
INCOME FROM OPERATIONS	938	1,261
NONOPERATING (LOSSES) GAINS:		
(Losses) gains on investments, net	(385)	879
Interest rate swap activity	115	73
Equity in earnings of unconsolidated entities	—	19
Losses from extinguishment of debt	—	(21)
Total nonoperating (losses) gains	(270)	950
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	668	2,211
LESS INCOME TAX EXPENSE	15	15
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	653	2,196

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS -continued

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

(In millions)

	2022	2021
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Net assets released from restrictions for capital expenditures	$ 6	$ 13
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(111)	(119)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(390)	(388)
Other	6	26
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	164	1,728
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions of cash and other financial assets	64	57
Contributions of nonfinancial assets	58	52
Realized gains on investments, net	54	28
Unrealized (losses) gains on investments, net	(95)	86
Change in value of split-interest agreements	(6)	3
Net assets released from restrictions for operations	(135)	(127)
Net assets released from restrictions for capital expenditures	(6)	(13)
Changes in net assets of related foundation	—	1
Other	(3)	(1)
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(69)	86
INCREASE IN NET ASSETS	95	1,814
NET ASSETS, beginning of year	8,660	6,846
NET ASSETS, end of year	$ 8,755	$ 8,660

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

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021
(In millions)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 95	$ 1,814
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Gains from extinguishment of debt	—	(15)
Unrealized losses (gains) on investments, net	1,082	(769)
Realized gains on investments, net	(554)	(136)
Unrealized gains on interest rate swap, net	(142)	(101)
Contributions restricted for long-term purposes	(2)	(3)
Depreciation and amortization	457	437
(Gains) losses on fixed asset sales and disposals, net	(1)	3
Equity in earnings of unconsolidated entities	—	(19)
Change in value of split-interest agreements	6	(3)
Other	(35)	(29)
Other changes attributable to noncontrolling interests	496	507
Changes in operating assets and liabilities (net of acquisitions):		
Increase in patient accounts receivable	(188)	(165)
Decrease (increase) in other accounts receivable	43	(1)
(Increase) decrease in other assets	(7)	22
Decrease in trade accounts payable and accrued liabilities	(311)	(2)
(Decrease) increase in other long-term liabilities	(64)	114
Net cash provided by operating activities	875	1,654
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(465)	(343)
Cash proceeds from sales of assets	2	3
Cash paid for acquisitions, net of cash received	(9)	(130)
Decrease in THVG funds due from United Surgical Partners, Inc.	94	68
Decrease (increase) in investments	224	(1,643)
Net receipts (payments) on interest rate swaps	3	(2)
Decrease (increase) in assets whose use is limited	3	(68)
Net cash used in investing activities	(148)	(2,115)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(318)	(1,140)
Proceeds from issuance of long-term debt	230	1,603
Distributions to noncontrolling interests	(505)	(523)

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS - continued

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021
(In millions)

	2022	2021
Purchases of noncontrolling interests	$ (13)	$ (12)
Sales of noncontrolling interests	59	28
Cash receipts restricted for long-term purposes	2	1
Annuity payments to beneficiaries	(1)	(1)
Net cash used in financing activities	(546)	(44)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	181	(505)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	1,470	1,975
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year	$ 1,651	$ 1,470
SUPPLEMENTAL CASH FLOW DATA:		
Cash paid for interest	$ 116	$ 108
Cash paid for income tax	$ 15	$ 26
Property and equipment acquired under finance leases	$ 19	$ 21
Right of use assets acquired under operating leases	$ 72	$ 93
(Decrease) increase in accounts payable due to property and equipment received but not paid	$ (46)	$ 58
Decrease in contributions receivable for property and equipment	$ 1	$ 7
Noncash sale of investments	$ 311	$ —
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents at beginning of year	$ 1,424	$ 1,965
Cash in short-term investments at beginning of year	32	—
Cash in unrestricted long-term investments at beginning of year	1	1
Cash in restricted long-term investments at beginning of year	11	8
Cash in assets whose use is limited at beginning of year	2	1
Cash and cash equivalents and restricted cash at beginning of year	$ 1,470	$ 1,975
Cash and cash equivalents at end of year	$ 1,624	$ 1,424
Cash in short-term investments at end of year	14	32
Cash in unrestricted long-term investments at end of year	1	1
Cash in restricted long-term investments at end of year	8	11
Cash in assets whose use is limited at end of year	4	2
Cash and cash equivalents and restricted cash at end of year	$ 1,651	$ 1,470

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

1. ORGANIZATION

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

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

The following summarizes significant changes in the System in 2022 and 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 consolidated financial statements of approximately $1,417 million and $1,318 million for the years ended June 30, 2022 and 2021, respectively.

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

THVG completed the acquisition of three ambulatory surgical centers and one endoscopy center in 2022. In connection with these transactions, THVG acquired goodwill and intangible assets, net of approximately $7 million, fixed assets of approximately $7 million, noncontrolling interests of approximately $5 million, and other net liabilities of approximately $9 million in fiscal year 2022.

Baylor Scott & White Medical Center - Llano

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

Gateway Diagnostic JV, LLC

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of New Accounting Pronouncements

In March 2017, FASB issued ASU 2017-08, *"Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities."* This ASU shortens the amortization period for certain callable debt securities held at a premium and requires the premium to be amortized to the earliest call date. However, the amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The System adopted the provisions of ASU 2017-08 in fiscal year 2021, which did not have a material impact on the consolidated financial statements.

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

In August 2018, FASB issued ASU 2018-14, *"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 System adopted the provisions of ASU 2018-14 in fiscal year 2022, which did not have a material impact on the consolidated financial statements.

In August 2018, FASB issued ASU 2018-15, *"Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a*

Cloud Computing Arrangement That is a Service Contract." The amendments in ASU 2018-15 determine which implementation costs to capitalize as an asset and which costs to expense. Additionally, these amendments clarify how the capitalized implementation costs should be presented within the financial statements. The System adopted the provisions of ASU 2018-15 in fiscal year 2022, which did not have a material impact on the consolidated financial statements.

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 nonfinancial assets as a separate line item in the statement of operations and changes in net assets apart from contributed cash and other financial assets, and disclose whether the assets were monetized or utilized during the reporting period. The provisions of ASU 2020-07 are effective for fiscal years beginning after June 15, 2021, and interim periods thereafter. The System adopted the provisions of ASU 2020-07 in fiscal year 2022, which did not have a material impact on the consolidated financial statements.

Upcoming Accounting Pronouncements

In June 2016, November 2018, April 2019, May 2019, November 2019, and March 2022, 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"*; ASU 2019-10, *"Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates";* and ASU 2022-02, "*Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructuring and Vintage Disclosures,"* respectively. The current standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. These ASU's remove the requirement that a credit loss be probable of occurring for it to be recognized. Instead these ASU's require entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The provisions of these ASU's are effective for fiscal years beginning after December 15, 2022. The System is currently evaluating the impact of these ASU's.

In January 2017 and November 2019, FASB issued ASU 2017-04, *"Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment"*; and ASU 2019-10, *"Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and*

Leases (Topic 842): Effective Dates," respectively. These ASU's eliminate Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The provisions of these ASU's are effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities, and December 15, 2022, and interim periods within those years for all other entities. The System is currently evaluating the impact of these ASU's.

In October 2021, FASB issued ASU 2021-08, "*Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*." This ASU requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, "*Revenue from Contracts with Customers*." The provisions of ASU 2021-08 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years for public business entities, and December 15, 2023, including interim periods within those fiscal years for all other entities. The System is currently evaluating the impact of this ASU.

Cash and Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities of three months or less when purchased. 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 $118 million and $212 million at June 30, 2022 and 2021, respectively. The funds due from USPI are available on demand.

Investments

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

Prior to June 30, 2022, BSWH held a 5% investment in USPI, a wholly owned subsidiary of Tenet Healthcare Corporation, classified in unrestricted long-term investments at approximately $129 million. Effective June 30, 2022, BSWH executed a share purchase agreement for the investment in USPI, which terminated the original 5-year Investor Put/Call Agreement, valued at approximately $406 million, to be paid over three years. BSWH recorded the present value of the purchase price as a short-term and long-term note receivable, in other accounts receivable and other long-term assets, respectively, with the offset to realized gains in nonoperating revenue.

Interest and dividends, realized and unrealized gains and losses for the years ended June 30, 2022 and 2021 consisted of the following (in millions):

	2022			
	Interest and Dividends	Realized Gains	Unrealized Losses	Total
Nonoperating gains (losses)	$ 80	$ 522	$ (987)	$ (385)
Changes in net assets with donor restrictions	22	32	(95)	(41)
	$ 102	$ 554	$ (1,082)	$ (426)

	2021			
	Interest and Dividends	Realized Gains	Unrealized Gains	Total
Nonoperating gains	$ 71	$ 125	$ 683	$ 879
Changes in net assets with donor restrictions	17	11	86	114
	$ 88	$ 136	$ 769	$ 993

Patient Accounts Receivable

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

Receivables from government-related programs (i.e., Medicare and Medicaid) represent the only concentrated group of payors for the System's receivables, and management does not believe there are any unusual collectability risks associated with these government programs. Approximately 35% and 36% of patient accounts receivable are from government-related programs at June 30, 2022 and 2021, respectively. Commercial and managed care receivables consist of receivables from various payors involved in diverse activities and are subject to differing economic conditions.

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

Premiums Receivable and Premium Revenue

Significant concentrations of premiums receivable were 99% from local, state, and federal government-related programs at both June 30, 2022 and 2021. Premium revenue from local, state, and federal agencies accounted for 84% and 74% of total premium revenue for the years ended June 30, 2022 and 2021, respectively.

Premiums receivable also includes settlements under the cost contract established between the Health Plan and the Centers for Medicare & Medicaid Services (CMS). The CMS Medicare Part B (Section 1876) cost plan contract, which ended in calendar year 2018, covered Medicare-covered members' medical services allowed under Medicare Part B coverage and contained provisions for risk sharing and reimbursement of allowed costs for which the Health Plan was not at risk. Plan years 2012 and 2013 are currently under appeal with CMS concerning a dispute over the allowance of coordination of benefit claims, but likely will not be settled until acceptance by CMS occurs. At both June 30, 2022 and 2021, the settlement amount receivable from CMS under this contract was $23 million. Premiums receivable generally are not collateralized.

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

Property and Equipment, net

Property and equipment are stated at cost on the date of purchase or fair value on the date of contribution or business acquisition. Property and equipment and related accumulated depreciation and amortization as of June 30, 2022 and 2021 (in millions) are summarized below:

	Useful Life	2022	2021
Land	—	$ 324	$ 322
Building and improvements	5 - 40 Years	4,779	4,592
Major moveable equipment and other	3 - 20 Years	3,940	3,701
Construction-in-progress	—	191	234
		9,234	8,849
Accumulated depreciation		(5,173)	(4,782)
		$ 4,061	$ 4,067

Property and equipment financed under finance leases totaled approximately $370 million and $355 million at June 30, 2022 and 2021, respectively, and related accumulated amortization was approximately $156 million and $133 million at June 30, 2022 and 2021, respectively. Amortization expense is included in depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets.

Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives of the property and equipment or the lease term, whichever is less. Depreciation expense was approximately $454 million and $435 million for the years ended June 30, 2022 and 2021, respectively. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset, or related groups of assets, may not be recoverable from estimated future undiscounted cash flows. If circumstances suggest that the recorded amounts cannot be recovered based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value. In the event of impairment, measurement of the amount of impairment may be based on valuation models using Level 3 inputs consisting of appraisals, fair values of similar assets, or estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. No impairments were identified in 2022 or 2021.

Goodwill and Intangible Assets, net

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

The System amortizes definite-lived intangible assets over their respective useful lives to the estimated residual values and reviews for impairment in the same manner as long-lived assets, as discussed above. No impairments were identified in 2022 or 2021.

Goodwill and indefinite-lived intangible assets are tested for impairment annually or more frequently if changing circumstances warrant. No impairments were identified in 2022 or 2021.

At June 30, 2022 and 2021, intangible assets and goodwill, net consisted of the following (in millions):

	2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Definite-lived intangible assets	$ 25	$ (11)	$ 14
Indefinite-lived intangible assets	27	—	27
Total intangible assets	52	(11)	41
Goodwill	1,074	—	1,074
Total intangible assets and goodwill	$ 1,126	$ (11)	$ 1,115

	2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Definite-lived intangible assets	$ 43	$ (33)	$ 10
Indefinite-lived intangible assets	27	—	27
Total intangible assets	70	(33)	37
Goodwill	1,070	—	1,070
Total intangible assets and goodwill	$ 1,140	$ (33)	$ 1,107

Income Taxes

Due to the organizational structure, certain of the System's entities are taxable under the Code and some entities are tax exempt but are required to pay income taxes for unrelated business activities. The overall impact of federal income taxes to the System's consolidated financial statements is not significant. In addition, certain of the System's entities file partnership income tax returns in the U.S. federal jurisdiction and franchise tax returns in the state of Texas. These entities are no longer subject to U.S. federal, state, and local income tax examinations by authorities for years prior to 2017.

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

The System follows the provisions of ASC 740, *"Income Taxes."* As of June 30, 2022 and 2021, the System had no material gross unrecognized tax benefits.

Insurance

For 2022 and 2021, excess policies that covered claims that exceeded $10 million per incident and $50 million in the general aggregate (shared) for hospital professional liability, general liability, and professional liability were provided by BSWA. The excess liability policies are reinsured 100% by ACE American Insurance Company (Chubb) and various other reinsurers.

Reserves for Self Insurance Losses and Loss Adjustment Expenses

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

Liabilities for outstanding claims, including estimates for claims incurred but not reported, as well as reported claims pending settlement, are actuarially determined and discounted using an interest rate of 2.0% in both 2022 and 2021. Total undiscounted reserves for losses and loss adjustment expenses were approximately $142 million and $124 million at June 30, 2022 and 2021, respectively. Discounted reserves for losses and loss adjustment expenses, including a risk margin at an approximate seventy percent confidence level, were approximately $144 million and $127 million at June 30, 2022 and 2021, respectively.

Contributions and Gifts

When received or pledged, unrestricted gifts are reported as contributions to net assets without donor restrictions and donor-restricted items are reported as contributions to net assets with donor restrictions. Donor-restricted contributions are restricted as to use and are transferred from net assets with donor restrictions to net assets without donor restrictions when the restrictions are satisfied or, in the case of endowment funds, when related earnings are appropriated for expenditure. Total in-kind contributions for the System for 2022 and 2021 were approximately $58 million and $52 million, respectively, and are reported at fair value in the accompanying consolidated statements of operations and changes in net assets.

The System recognized contributed professional services from Regional Advisory Councils (RAC) nurses of approximately $56 million and $49 million for 2022 and 2021, respectively. Contributed RAC nursing services were donor restricted to use for nurse staffing needs. Contributed services are valued and reported at the estimated fair value, based on current rates for similar nursing services.

The System recognized other in-kind contributions including donated supplies, meals and entertainment, advertising, printing, and space and equipment rental of approximately $2 million and $3 million, for 2022 and 2021, respectively. Donor restrictions for contributed goods and services include, but are not limited to, use in special events by the foundations or use by specific hospital needs. In valuing these items, the System estimated the fair value on the basis of estimates that would be received for selling or purchasing similar products and services in the United States.

Net Assets with Donor Restrictions

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

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

Revenue and Gains in Excess of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Other changes in net assets without donor restrictions which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include transactions related to noncontrolling interests, cumulative changes in accounting principle, and net assets released from restrictions for capital expenditures.

Derivative Financial Instruments

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

Use of Estimates

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

Reclassification

Certain reclassifications were made to the 2021 financial statements to conform to the 2022 presentation.

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 and recognized approximately $28 million and $290 million of emergency relief funds in other operating revenue for the years ended June 30, 2022 and 2021, respectively. As of June 30, 2022, the System has approximately $5 million of unrecognized emergency relief funds that are recorded in third-party program liabilities in the accompanying consolidated balance sheets.

The System also received approximately $765 million in Medicare advance payments in April 2020 and recorded a contract liability in accordance with ASC 606, *"Revenue from Contracts with Customers."* Repayment of the Medicare advance payments is phased through September 2022, when interest will begin to accrue. The System expects all funds to be repaid before any interest is incurred. Beginning in April 2021, and through June 30, 2022, the System has repaid approximately $645 million, resulting in a remaining liability of approximately $120 million as of June 30, 2022, which is included in third-party program liabilities.

The System had deferred the employer portion of Federal Insurance Contributions Act (FICA) taxes of approximately $57 million and $116 million as of June 30, 2022 and 2021. Approximately $59 million of the FICA deferrals were repaid in December 2021, and the remaining balance will be due in December 2022. As of June 30, 2022, the outstanding FICA deferrals of approximately $57 million are recorded in payroll liabilities in the accompanying consolidated balance sheets. As of June 30, 2021, the System recorded FICA deferrals of approximately $59 million in payroll liabilities, and $57 million in other long-term liabilities.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements

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

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

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable by market participants for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - Inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability are unobservable and developed based on the best information available in the circumstances.

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

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

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

Alternative Investments

Investments held consist of marketable securities as well as securities that do not have readily determinable fair values. Private equity investments, real estate investments, and hedge funds are collectively referred to as "alternative investments." These are included in unrestricted and restricted long-term investments in the accompanying consolidated balance sheets. The investments in alternative investments are valued by management at fair value utilizing the net asset value (NAV) provided by the underlying investment companies, unless management determines some other valuation is more appropriate. Such fair value estimates do not reflect early redemption penalties as the System does not intend to sell such investments before the expiration of the early redemption periods. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Investments valued at NAV are not leveled within the fair value hierarchy. BHCS Foundation d/b/a Baylor Scott & White Dallas Foundation, also has other real estate and oil and gas interests which are carried at the lower of cost or market and represent Level 3 assets.

Beneficial Interests

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

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

The financial assets and liabilities measured at fair value on a recurring basis by level at June 30, 2022 and 2021 are as follows (in millions):

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents:				
Cash and cash equivalents	$ 1,615	$ 1,553	$ 62	$ —
Money market funds	9	9	—	—
Total cash and cash equivalents	1,624	1,562	62	—
Short-term investments:				
Cash and cash equivalents	14	—	14	—
Mutual funds	288	288	—	—
Fixed income securities	32	—	32	—
U.S. government securities	51	—	51	—
Other	1	1	—	—
Total short-term investments	386	289	97	—
Unrestricted long-term investments:				
Cash and cash equivalents	1	1	—	—
Certificates of deposit	1	1	—	—
Mutual funds	280	280	—	—
Equity securities	1,484	227	1,257	—
Fixed income securities	1,628	—	1,628	—
U.S. government securities	763	—	763	—
Mortgage-backed securities	254	—	254	—
Split-interest agreements	1	—	1	—
Cash surrender value of life insurance	1	—	—	1
Common funds				
Group investment fund	1	—	1	—
Assets held at NAV practical expedient (1)				
Diversifiers alternative investments	458			
Private equity/debt alternative investments	494			
Private real assets alternative investments	177			
Total unrestricted long-term investments	5,543	509	3,904	1

In the accompanying consolidated balance sheets, unrestricted long-term investments at June 30, 2022, includes investments of approximately $57 million accounted for under the measurement alternative.

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Assets (continued):				
Restricted long-term investments:				
Cash and cash equivalents	$ 8	$ 8	$ —	$ —
Mutual funds	76	76	—	—
Equity securities	165	24	141	—
Fixed income securities	65	—	65	—
U.S. government securities	13	—	13	—
Mortgage-backed securities	11	—	11	—
Split-interest agreements	5	—	5	—
Real estate	1	—	—	1
Cash surrender value of life insurance	1	—	—	1
Common funds				
Group investment fund	56	—	56	—
Group bond fund	2	—	2	—
Group equity fund	4	—	4	—
Other funds	2	1	1	—
Assets held at NAV practical expedient [(1)]				
Diversifiers alternative investments	38			
Private equity/debt alternative investments	55			
Private real assets alternative investments	20			
Total restricted long-term investments	522	109	298	2

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Assets (continued):				
Assets whose use is limited:				
Cash and cash equivalents	$ 4	$ 4	$ —	$ —
Money market funds	5	5	—	—
Mutual funds	305	305	—	—
Equity securities	2	2	—	—
Fixed income securities	7	—	7	—
U.S. government securities	28	—	28	—
Mortgage-backed securities	12	—	12	—
Total assets whose use is limited	363	316	47	—
Contributions receivable, net				
Total beneficial interests in split-interest agreements	27	—	—	27
Total assets at fair value	$ 8,465	$ 2,785	$ 4,408	$ 30
Liabilities:				
Interest rate swap liabilities, net	$ 178	$ —	$ 178	$ —
Total liabilities at fair value	$ 178	$ —	$ 178	$ —

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents:				
Cash and cash equivalents	$ 1,382	$ 1,367	$ 15	$ —
Money market funds	42	42	—	—
Total cash and cash equivalents	1,424	1,409	15	—
Short-term investments:				
Cash and cash equivalents	32	—	32	—
Mutual funds	382	382	—	—
Fixed income securities	60	—	60	—
U.S. government securities	121	—	121	—
Other	2	2	—	—
Total short-term investments	597	384	213	—
Unrestricted long-term investments:				
Cash and cash equivalents	1	1	—	—
Certificates of deposit	1	1	—	—
Mutual funds	635	635	—	—
Equity securities	1,516	390	1,126	—
Fixed income securities	1,658	—	1,658	—
U.S. government securities	946	—	946	—
Mortgage-backed securities	255	—	255	—
Split-interest agreements	1	—	1	—
Cash surrender value of life insurance	1	—	—	1
Common funds				
Group investment fund	1	—	1	—
Assets held at NAV practical expedient [(1)]				
Diversifiers alternative investments	671			
Private equity/debt alternative investments	377			
Private real assets alternative investments	151			
Total unrestricted long-term investments	6,214	1,027	3,987	1

In the accompanying consolidated balance sheets, unrestricted long-term investments at June 30, 2021, includes an investment of approximately $175 million accounted for under the measurement alternative.

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Assets (continued):				
Restricted long-term investments:				
Cash and cash equivalents	$ 11	$ 11	$ —	$ —
Mutual funds	102	102	—	—
Equity securities	193	49	144	—
Fixed income securities	36	—	36	—
U.S. government securities	27	—	27	—
Mortgage-backed securities	6	—	6	—
Split-interest agreements	5	—	5	—
Cash surrender value of life insurance	1	—	—	1
Common funds				
Group investment fund	60	—	60	—
Group bond fund	3	—	3	—
Group equity fund	6	—	6	—
Other funds	2	2	—	—
Assets held at NAV practical expedient (1)				
Diversifiers alternative investments	64			
Private equity/debt alternative investments	52			
Private real assets alternative investments	10			
Total restricted long-term investments	578	164	287	1

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Assets (continued):				
Assets whose use is limited:				
Cash and cash equivalents	$ 2	$ 2	$ —	$ —
Money market funds	6	6	—	—
Mutual funds	298	298	—	—
Equity securities	2	2	—	—
Fixed income securities	23	—	23	—
U.S. government securities	26	—	26	—
Mortgage-backed securities	7	—	7	—
Total assets whose use is limited	364	308	56	—
Contributions receivable, net				
Total beneficial interests in split-interest agreements	32	—	—	32
Total assets at fair value	$ 9,209	$ 3,292	$ 4,558	$ 34
Liabilities:				
Interest rate swap liabilities, net	$ 290	$ —	$ 290	$ —
Total liabilities at fair value	$ 290	$ —	$ 290	$ —

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

At June 30, 2022 and 2021, alternative investments recorded at NAV consisted of the following (in millions):

	2022			
	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Diversifiers [a]	$ 496	$ —	monthly, quarterly, annually	5-90 days
Private equity [b]	492	119		
Private debt [c]	57	41		
Private real assets [d]	197	25	quarterly	90 days
Total	$ 1,242	$ 185		

	2021			
	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Diversifiers [a]	$ 735	$ —	monthly, quarterly, annually	5-90 days
Private equity [b]	349	72		
Private debt [c]	80	22		
Private real assets [d]	161	31	quarterly	90 days
Total	$ 1,325	$ 125		

a) **Diversifiers** - This group includes a broad range of mandates, but the typical objective is to generate strong absolute returns in a variety of market conditions. Portfolios range from net short to net long, depending on market conditions. Aggressive funds may capture returns by exceeding 100% exposure while conservative funds mitigate market risk by maintaining net exposures of between 0-50%. Asset classes that these managers invest in can range from distressed debt to public equity, while some managers have exposure to private investments as well. Diversifiers are expected to provide additional downside protection from public equities while generally offering more upside on balance over traditional fixed income. Strategies include: equity-oriented, event-driven, credit-focused, multi-strategy, and global macro funds as well as risk parity managers. Diversifier manager liquidity profiles differ based on their underlying investments, but are generally less liquid than public equity and fixed income managers while more liquid than private investments.

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

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

d) **Private real assets** - Private real assets are invested in open-end funds and closed-end funds. Open-end fund managers invest in U.S. commercial real estate. Redemptions are available on a quarterly basis, subject to the discretion of the General Partners. The General Partners may elect to establish a redemption queue, should the level of redemptions for a given quarter be detrimental to the fund's overall performance. The fair values of the investments in this class have been estimated using the NAV, which is based on the ownership interest of partners' capital. Closed-end fund managers invest primarily in U.S. commercial real estate and industries related to real estate, with some having minimal exposure outside of the U.S. These partnerships are illiquid, and therefore do not have a redemption feature. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of these funds will be liquidated over the next six years with the value of those underlying assets being replaced by investments in new real estate funds. The fair values of the investments in this class have been estimated using the NAV, which is based on the ownership interest of partners' capital.

Long-term Debt

The System's long-term debt obligations, excluding finance leases, are reported in the accompanying consolidated balance sheets at carrying value, which totaled approximately $3,745 million and $3,811 million at June 30, 2022 and 2021, respectively.

4. LIQUIDITY

The System's financial assets available as of June 30, 2022 and 2021, for general expenditure within one year of the balance sheet date, are comprised of the following (in millions):

	2022	2021
Cash and cash equivalents	$ 1,624	$ 1,424
Short-term investments	386	597
THVG funds due from United Surgical Partners, Inc.	118	212
Patient accounts receivable	1,138	948
	$ 3,266	$ 3,181

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

5. MEDICAL CLAIMS PAYABLE

Medical claims payable represents management's estimate of the ultimate net cost of all reported and unreported medical claims and claim adjustment expenses incurred through June 30, 2022 and 2021. Reserves for unpaid medical claims are actuarially estimated using individual case-basis valuations and statistical analysis. These estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that reserves for unpaid medical claims are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in operations when determined. There were no material adjustments recorded to these estimates during the years ended June 30, 2022 and 2021. A roll forward of medical claims payable for the years ended June 30, 2022 and 2021, is as follows (in millions):

	2022	2021
Medical claims payable - beginning of year	$ 67	$ 65
Incurred related to:		
Current year	952	722
Prior years	4	2
	956	724
Paid related to:		
Current year	(855)	(657)
Prior years	(77)	(65)
	(932)	(722)
Medical claims payable - end of year	$ 91	$ 67

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

The following table provides information about incurred and paid medical claims development for the years ended June 30, 2022 and 2021 (in millions):

	2022	2021
Incurred medical claims by claim year		
2020	$ 746	$ 750
2021	730	722
2022	952	—
Total incurred medical claims	2,428	1,472
Paid medical claims by claim year		
2020	746	748
2021	736	657
2022	855	—
Total paid medical claims	2,337	1,405
Medical claims payable - end of year	$ 91	$ 67

6. OPERATING LEASE LIABILITIES

The System determines if an arrangement is a lease at inception of the contract. The right of use assets represent the System's right to use the underlying assets for the lease term, and the lease liabilities represent the System's obligation to make lease payments arising from the leases. Right of use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The System uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The System estimates an incremental borrowing rate for each lease by utilizing historical and projected financial data, estimating a hypothetical credit rating using publicly available market data, and adjusting the market data to reflect the effects of collateralization.

The System's operating leases are primarily for real estate, including office space, as well as medical and office equipment. The System's finance leases are primarily for select real estate properties, medical equipment, and vehicles. For finance lease related disclosures, see Note 7. The System's real estate agreements typically have initial terms of three to fifteen years with longer terms for select properties. Renewal options are typically negotiated for real estate leases, most commonly for one or more renewal option terms of five to ten years each. Equipment lease agreements typically have initial terms of two to seven years. The System does not record leases with an initial term of 12 months or less (referred to as "short-term leases") in its consolidated balance sheets.

Certain real estate and equipment leases also include options to purchase the leased property. The useful life of assets and leasehold improvements are limited by the lease term, unless there is a purchase or renewal option reasonably certain of exercise or transfer of title. Certain medical equipment leases have terms with a bargain purchase option that is reasonably certain of exercise, so medical equipment assets can have useful lives that can range on average from two to seven years. Certain lease agreements include additional payments for actual common area maintenance and other operating expenses, while others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in other operating expenses but are not included in the right of use asset or liability balances. The System's lease agreements do not contain any material residual value guarantees, restrictions or covenants.

The weighted-average remaining lease term for operating leases was 6.45 years and 7.01 years for the years ended June 30, 2022 and 2021, respectively, and the weighted-average discount rate was 2.86% and 2.88% for the years ended June 30, 2022 and 2021, respectively.

For the years ended June 30, 2022 and 2021, the System's total lease cost was as follows (in millions):

	2022	2021
Operating lease cost	$ 176	$ 174
Short-term lease cost	25	27
Variable lease cost	64	72
Sublease income	(5)	(4)
Total lease cost	$ 260	$ 269

For the years ended June 30, 2022 and 2021, supplemental cash flow information related to operating leases was as follows (in millions):

	2022	2021
Operating cash flows from operating leases	$ 189	$ 180
Right of use assets obtained in exchange for lease obligations	72	93

Future maturities of operating lease liabilities as of June 30, 2022 are as follows (in millions):

2023	$	179
2024		160
2025		133
2026		105
2027		90
Thereafter		241
		908
Less imputed interest		87
	$	821

As of June 30, 2022, the System has executed lease agreements which have not yet commenced but have created significant rights and obligations for future years of approximately $25 million. The leased assets primarily include real estate and delivery vehicles. The System works with real estate landlords to design and often construct the tenant improvements within the leased space. Lease assets and liabilities are recorded on the consolidated balance sheets on the lease commencement date, which occurs when the lessor makes a leased asset available for use by the lessee. Commencement date delays have occurred due to normal design, approval, and permitting processes, as well as agreed upon delays and pandemic related supply chain issues.

7. LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS

Long-term debt and finance lease obligations as of June 30, 2022 and 2021, consist of the following:

	2022	2021
	(In millions)	
BSW Holdings -		
Series 2015 Bonds (Taxable) -		
Term Bonds, fixed interest rates ranging from 3.10% to 4.19%, payable semi-annually, principal payable November 2025 and 2045	$ 505	$ 505

	2022	2021
	(In millions)	
Series 2015A Revenue Bonds - Term Bonds, fixed interest rate of 2.19%, payable semi-annually, principal payable through November 2027	$ 135	$ 149
Series 2016 Bonds (Taxable) - Term Bonds, fixed interest rates ranging from 2.65% to 3.97%, payable semi-annually, principal payable November 2026 and 2046	485	535
Series 2016A Revenue Bonds - Serial and Term Bonds, fixed interest rates ranging from 3.00% to 5.00%, payable semi-annually, principal payable through November 2045	349	350
Series 2019A Revenue Bonds - Fixed interest rate of 2.01%, payable semi-annually, principal payable through November 2030	40	40
Series 2019B Revenue Bonds - Variable interest rate payable monthly (1.39% at June 30, 2022), principal payable November 2032 through November 2050	97	97
Series 2019C Revenue Bonds - Variable interest rate payable monthly (1.12% at June 30, 2022), principal payable August 2030 through August 2046	180	180
Series 2019D Revenue Bonds - Variable interest rate payable monthly (1.06% at June 30, 2022), principal payable November 2032 through November 2050	45	45
Series 2019E Revenue Bonds - Variable interest rate payable monthly (1.30% at June 30, 2022), principal payable through August 2050	93	95

	2022	2021
	(In millions)	
Series 2021 Bonds (Taxable) - Term Bonds, fixed interest rates ranging from 0.83% to 2.84%, payable semi-annually, principal payable November 2025, 2030, and 2050	$ 1,300	$ 1,300
Series A Commercial Paper Notes (Taxable) - Variable interest rate (0.80% to 1.35% at June 30, 2022)	208	208
BHCS -		
Series 2011A Revenue Bonds - Serial Bonds, fixed interest rates ranging from 3.80% to 4.63%, payable semi-annually, principal payable through November 2028	1	2
Series 2011B Revenue Bonds - Window Variable Rate Demand Bonds, variable interest rate (1.21% at June 30, 2022), payable monthly, principal payable November 2032 through 2050	50	50
Series 2011C Revenue Bonds - Variable Rate Demand Bonds, variable interest rate (0.61% at June 30, 2022), payable monthly, principal payable November 2032 through 2050	45	45
Series 2013B Revenue Bonds - Window Variable Rate Demand Bonds, variable interest rate (1.21% at June 30, 2022), payable monthly, principal payable November 2032 through 2050	45	45
Series 2013C Revenue Bonds (Taxable) - Term Bonds, fixed interest rate of 4.45%, payable semi-annually, principal payable November 2032 through 2043	63	63

	2022	2021
	(In millions)	
Lake Pointe Construction Loan - Interest rate of 4.21% payable monthly, principal and interest payable through December 2026	$ 41	$ 42
Baylor Medical Center at Irving - Building Lease - Interest rate of 3.70% payable monthly, principal and interest payments through March 2045	136	139
Baylor Scott & White Sports Therapy & Research at The Star in Frisco - Building Leases - Interest rates ranging from 4.10% to 6.80%, payable monthly, principal and interest payments through May 2033	52	52
THVG -		
Equipment Notes Payable - Interest rates ranging from 2.32% to 8.00%, payable monthly, principal and interest payments through December 2025	40	31
Building Lease, Frisco Medical Center, LLP - Interest rate of 11.63%, payable monthly, principal and interest payments through June 2027	39	43
Building Lease, Arlington Orthopedic and Spine Hospital - Interest rate of 8.61%, payable monthly, principal and interest payments through January 2030	20	22
Building Lease, Dallas Uptown - Interest rate of 9.43%, payable monthly, principal and interest payments through January 2031	18	19
Other THVG Leases - Interest rates ranging from 0.50% to 6.40%, payable monthly, principal and interest payments through May 2025	$ 2	$ 3

	2022	2021
	(In millions)	
Other finance leases and long-term debt	60	52
	4,049	4,112
Net unamortized original issue premium/discount and bond issuance costs	23	24
Current maturities of long-term debt and finance lease obligations	(66)	(109)
Commercial paper	(208)	(208)
Long-term debt subject to short-term remarketing arrangements	(95)	(95)
	$ 3,703	$ 3,724

BSW Holdings

BSW Holdings and certain of its affiliates issue and secure debt under a Master Indenture of Trust and Security Agreement, dated as of February 1, 2014, as supplemented and amended (the "Master Indenture"), among BSW Holdings, the affiliates from time to time obligated thereunder (the "Obligated Affiliates"), and The Bank of New York Mellon Trust Company, National Association, as trustee. The following entities are currently Obligated Affiliates: BSW Holdings, BSW Health, BHCS, SWH, BUMC, SWMH, Baylor All Saints Medical Center, a Texas nonprofit corporation, Baylor Medical Centers at Garland and McKinney, a Texas nonprofit corporation, Baylor Regional Medical Center at Grapevine, a Texas nonprofit corporation, Baylor Medical Center at Waxahachie, a Texas nonprofit corporation, Baylor Regional Medical Center at Plano, a Texas nonprofit corporation, Scott & White Hospital – College Station, a Texas nonprofit corporation, Scott & White Clinic, a Texas nonprofit corporation, Scott & White Hospital – Round Rock, a Texas nonprofit corporation, Scott & White Continuing Care Hospital, a Texas nonprofit corporation, and Hillcrest Baptist Medical Center, a Texas nonprofit corporation. BSW Holdings is currently the Combined Group Representative under the Master Indenture.

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

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

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

In September 2017, BSW Holdings created a taxable commercial paper program ("BSW Holdings CP Program"). The BSW Holdings CP Program allows for the issuance of up to $400 million of commercial paper notes, of which an aggregate amount of $188 million was issued in September 2017. Additionally, in September 2017 BSW Holdings placed the $77 million Series 2017A, $75 million Series 2017B, and $44 million Series 2017C Revenue Bonds (collectively "BSW Holdings Series 2017A, B, and C Bonds") with various banks. Proceeds from the BSW Holdings CP Program issuance and BSW Holdings Series 2017A, B, and C Bonds were used to redeem the BHCS Series 2011F, BHCS Series 2011G, BSW Holdings Series 2015D Bonds, as well as a SWH taxable loan, a SWH tax-exempt note, and a BHCS taxable loan. In November 2018, BSW Holdings issued additional commercial paper, increasing the amount outstanding under the BSW Holdings CP Program by $20 million to an undiscounted total of $208 million.

Proceeds of the additional commercial paper issuance were used to redeem the outstanding BHCS Series 2000 Auction Rate Securities in full. In October 2020, BSW Holdings issued $45 million to pay Series 2015 principal that was due in November 2020. This issuance was later refunded in January 2021 with proceeds from the BSW Holdings Series 2021 Bonds (as defined below).

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 (collectively “BSW Holdings Series 2019A, B, C, D, and E”) through TCCEFFC with various banks. Proceeds from this issuance were used to defease $38 million of the BHCS 2011A and redeem the SWH 2013C, BSW Holdings 2015B and 2015C, BSW Holdings Series 2017A, 2017B and 2017C bonds.

BSW Holdings maintained a $400 million revolving line of credit with an expiration date of January 2020. Under that line of credit, BSW Holdings could borrow at variable rates. In September 2019, the balance of $79 million was paid off with operating cash. Effective January 2020, BSWH entered into a new $400 million line of credit with an expiration date of January 2023. BSWH drew $400 million from the revolving line of credit, which was repaid in January 2021 as further described below. As of June 30, 2022, there is $0 drawn on this line of credit.

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

BHCS

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

The BHCS Series 2011 Bonds issuance included $50 million of Window Variable Rate Demand Bonds. These bonds are subject to long-term amortization periods and may be put to BHCS at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2022 and 2021, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. Although management believes the likelihood to be remote, management has taken steps to provide various sources of liquidity in the event any bonds were to be put back to BHCS.

In April 2013, BHCS issued the Series 2013A and B Hospital Revenue Bonds and Series 2013C Taxable Hospital Revenue Bonds ("BHCS Series 2013 Bonds") through the TCCEFFC in the aggregate amount of $277 million. Proceeds from the BHCS Series 2013 Bonds were used to repay $112 million in borrowings under a taxable revolving line of credit. The remaining bond proceeds were used for various project expenditures and to pay cost of issuance. The BHCS Series 2013 Bonds issuance included $45 million of Window Variable Rate Demand Bonds. These bonds are subject to long-term amortization and may be put to BHCS at the option of the bondholders in connection with certain remarketing arrangements. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2022 and 2021, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. Although management believes the likelihood to be remote, management has taken steps to provide various sources of liquidity in the event any bonds were to be put back to BHCS.

FINANCE LEASES

The System's finance lease costs for the years ended June 30, 2022 and 2021 included approximately $17 million and $19 million in interest, respectively, and approximately $21 million and $18 million, respectively, of amortization of financed property and equipment. The weighted-average remaining lease term for finance leases was 14.25 and 15.5 years for the years ended June 30, 2022 and 2021, respectively, and weighted average discount rate was 5.71% and 6.0% for the years ended June 30, 2022 and 2021, respectively. Renewal options are typically negotiated for real estate leases, most commonly for one or more renewal option terms of five to ten years each. Only renewal options considered reasonably certain to be exercised are included in finance lease asset and liability calculations. Interest rates on finance leases range from 0.35% to 14.82%.

For the years ended June 30, 2022 and 2021, supplemental cash flow information related to finance leases was as follows (in millions):

	2022	2021
Operating cash flows from finance leases	$ 16	$ 19
Financing cash flows from finance leases	21	20
Property and equipment acquired under finance leases	19	21

Future maturities of long-term debt and finance lease obligations as of June 30, 2022, are shown below (in millions):

	Long-Term Debt	Finance Lease Obligations	Total
2023	$ 345	$ 42	$ 387
2024	40	42	82
2025	39	41	80
2026	192	38	230
2027	133	35	168
Thereafter	2,996	221	3,217
	3,745	419	4,164
Less imputed interest	—	115	115
	$ 3,745	$ 304	$ 4,049

8. INTEREST RATE SWAPS

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

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

Effective October 23, 2014, BHCS novated the two SWH swaps with Wells Fargo (originally novated from JPMorgan to Wells Fargo on August 29, 2014) from the SWH ISDA to the BHCS ISDA. Concurrent with this novation, the Wells Fargo collateral thresholds under the BHCS Credit Support Annex were increased to accommodate the novated swaps.

Effective November 15, 2016, BSW Holdings, BHCS, and SWH entered into a swap novation transaction that novated two swaps previously between BHCS and Deutsche Bank, N.A. and two swaps previously between SWH and Deutsche Bank, N.A., such that, all four swaps are now between BSW Holdings and Citibank, N.A. under the BSW Holdings ISDA.

At June 30, 2022, BSW Holdings, SWH and BHCS (collectively, the “BSWH Swap Entities”) had twenty interest rate swap agreements with a total notional amount of $888 million comprised of $411 million in notional fixed payer swaps held by BSW Holdings, $282 million in notional fixed payer swaps held by BHCS, and $195 million in notional fixed payer swaps held by SWH.

Net settlements on interest rate swap agreements totaled $27 million for both years ended June 30, 2022 and 2021. Net settlements and the change in fair value on interest rate swap agreements are reported in interest rate swap activity in the nonoperating section of the accompanying consolidated statements of operations and changes in net assets. The fair value of interest rate swap agreements is reported in other long-term liabilities on the accompanying consolidated balance sheets. The change in the fair value of interest rate swap agreements was an unrealized gain of approximately $142 million and $101 million for the fiscal years ended June 30, 2022 and 2021, respectively.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

The following table summarizes the fair value of interest rate swaps, by counterparty, as of June 30, 2022 and 2021 (in millions):

	Notional* Amount	Fair Value 2022	Fair Value 2021
Bank of America, N.A.	$ 66	$ (17)	$ (31)
Citibank, N.A.	177	(43)	(72)
Goldman Sachs Bank, USA	233	(56)	(100)
JPMorgan Chase Bank, N.A.	139	(35)	(56)
Wells Fargo Bank, N.A.	273	(35)	(69)
Total interest rate swap liability	888	(186)	(328)
Interest rate swap collateral	—	8	38
Total interest rate swap liability, net	$ 888	$ (178)	$ (290)

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

9. NET PATIENT CARE REVENUE

Net patient care revenue generally relates to contracts with patients, in which the performance obligation is to provide healthcare services. The contractual relationship with patients typically involves a third-party payor. The System has agreements with third-party payors that provide for payments to the System at amounts different from the System's established rates, which are explicit price concessions. The transaction prices for services provided are dependent upon the terms provided by, or negotiated with, third-party payors. Payment arrangements include prospectively determined rates per case, reimbursed costs, discounted charges, and per diem payments. The System offers discounts to uninsured patients, which are also explicit price concessions. Implicit price concessions relate primarily to uninsured patients and patient copays, co-insurance, and deductibles, and are estimated using historical collection data. Net patient care revenue (exclusive of charity care - see Note 10) is recognized as performance obligations are satisfied and reported at the amounts that reflect the consideration that the System expects to be entitled in exchange for providing patient care.

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

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

Federal regulations require submission of annual cost reports covering medical costs and expenses associated with services provided to program beneficiaries. Medicare and Medicaid cost report settlements are estimated in the period services are provided to beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change by a material amount, as interpretations are clarified and cost reports are settled. These initial estimates are revised, as needed, until the final cost report is settled. Net patient care revenue from the Medicare and Medicaid programs increased approximately $5 million and decreased approximately $3 million for the years ended June 30, 2022 and 2021, respectively, due to changes in previously estimated amounts due to Medicare and Medicaid, as a result of changes in regulations, and final settlement of numerous cost reports.

Net patient care revenue from the Medicare and Medicaid programs accounted for approximately 41% of total net patient care revenue for the years ended June 30, 2022 and 2021. Net patient care revenue from managed care contracts accounted for approximately 57% and 58% of total net patient care revenue for the years ended June 30, 2022 and 2021, respectively. Net patient care revenue from other payors accounted for approximately 2% and 1% of total net patient care revenue for the years ended June 30, 2022 and 2021, respectively.

The estimated amount of net patient care revenue, net of all price concessions for the years ended June 30, 2022 and 2021, disaggregated by major service line, is as follows (in millions):

	2022	2021
Inpatient	$ 3,999	$ 3,748
Outpatient	6,301	5,484
Total	$ 10,300	$ 9,232

Indigent Care Access

Beginning in 2007, BSWH hospitals in North Texas voluntarily participated in non-profit, indigent care corporations (established by the BSWH hospitals and other private hospitals) in order to improve access to and the quality of health care for indigent patients in the community. These non-profit, indigent care corporations, the Dallas County Indigent Care Corporation (DCICC) and the Tarrant County Indigent Care Corporation (TCICC), arranged for the provision of health care services to indigent patients in the hospitals' respective communities under various services agreements, with the compensation methodology set in advance, and such total compensation being consistent with fair market value and commercially reasonable for the services performed as determined by an independent expert analysis. These DCICC and TCICC services agreements expired or were effectively terminated in September 2017. As a result, for the years ended June 30, 2022 and 2021, BSWH hospitals did not provide any funds to DCICC or TCICC for professional health care and related services furnished to and for the benefit of indigent patients receiving services under these services agreements, which amounts were previously recorded as other operating expenses in the consolidated statements of operations and changes in net assets. On June 1, 2018, DCICC began providing limited dialysis and related services for indigent patients in the community through two contracts that support unmet community needs. These contracts terminated in 2021.

BSWH hospitals in Central Texas also voluntarily participate in nonprofit, indigent care corporations (established by the Scott & White hospitals and other private hospitals) in order to improve access to and the quality of health care for indigent patients. These nonprofit, indigent care corporations arrange for the provision of health care services to indigent patients under certain services agreements, with the compensation methodology set in advance, and such total compensation being consistent with fair market value and commercially reasonable for the services performed. The total expenditures related to these programs were approximately $0 for both years ended June 30, 2022, and 2021, and are included in other operating expenses in the consolidated statements of operations and changes in net assets. These programs are being wound down.

Section 1115 Waiver Program

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

An extension of the Waiver Program was approved by CMS in January 2021 for a period of ten years, but this extension was subsequently rescinded by CMS in April 2021. The Texas Attorney General then filed a lawsuit in July 2021 on behalf of the State of Texas and THHSC asking for a preliminary injunction to enjoin the rescission of the Waiver Program extension. A district judge in the Northern District of Texas granted the injunction thereby preserving the extension of the Waiver Program for the duration of litigation. In April 2022, CMS withdrew its revocation of the Waiver Programs, effectively ending the litigation and allowing the extension of the Waiver Programs to remain in effect.

During the years ended June 30, 2022 and 2021, certain BSWH hospitals (legacy Baylor Health Care System (BHCS) hospitals except as otherwise noted herein) participated in the Waiver Program.

During the years ended June 30, 2022 and 2021, BHCS (on behalf of Baylor University Medical Center, Baylor Medical Center at Irving d/b/a Baylor Scott & White Medical Center – Irving (BSW Irving), and Baylor Medical Center at Carrollton d/b/a Baylor Scott & White Medical

Center – Carrollton (BSW Carrollton)) (effective March 1, 2020, BSW Carrollton ceased operations), Baylor Heart and Vascular Center, LLP d/b/a Baylor Scott & White Heart and Vascular Hospital (BSWHVH), BT Garland JV, LLP d/b/a Baylor Scott & White Medical Center – Garland (on February 28, 2018, this hospital ceased operations), BT East Dallas JV, LLP d/b/a Baylor Scott & White Medical Center – White Rock (BSW White Rock) (effective March 1, 2018, BSW White Rock ceased operations), and Texas Regional Medical Center, LLC d/b/a Baylor Scott & White Medical Center – Sunnyvale (on March 1, 2018, this hospital ceased to be managed by BSWH) were parties to the Amended and Restated Dallas and Neighboring Counties Indigent Care Affiliation Agreement with the Dallas County Hospital District d/b/a Parkland Health & Hospital System (Dallas Affiliation Agreement) and participated in RHP Nine and the Waiver Program.

During the years ended June 30, 2022 and 2021, Baylor All Saints Medical Center d/b/a Baylor Scott & White All Saints Medical Center – Fort Worth (BSW Fort Worth) and Baylor Regional Medical Center at Grapevine d/b/a Baylor Scott & White Medical Center – Grapevine (BSW Grapevine) were parties to the Tarrant County Regional Healthcare Partnership Affiliation Agreement with the Tarrant County Hospital District d/b/a JPS Health Network (Tarrant Affiliation Agreement) and participated in RHP Ten and the Waiver Program.

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

For the years ended June 30, 2022 and 2021, as a result of their participation in the Waiver Program, these BSWH hospitals (as parties to the Dallas Affiliation Agreement and Tarrant Affiliation Agreement) achieved required metrics, recorded as other receivables in the accompanying consolidated balance sheets, and received Waiver Program payments totaling approximately $102 million and $130 million, respectively, which amounts are Medicaid supplemental payments and recognized as net patient care revenue in the consolidated statements of operations and changes in net assets.

BSWH hospitals in North Texas incurred expenditures of approximately $12 million and $11 million for the years ended June 30, 2022 and 2021, respectively, in the operation and maintenance of the hospital's DSRIP projects approved under the 1115 Waiver Program, which are recorded as other operating expenses in the consolidated statements of operations and changes in net assets.

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

In a letter dated September 1, 2016, to THHSC, CMS announced that it was disallowing $26,844,551 in FFP as reported on the CMS-64 form for the quarter ending December 31, 2015. The disallowed amount was based on the projected value of purported in-kind donations to the Dallas County Hospital District and the Tarrant County Hospital District by DCICC and TCICC, respectively, during the fourth quarter of 2015. CMS alleges that these Medicaid payments failed to comply with the federal provider-related donation requirements. The services agreements that were the subject of the disallowance expired or were effectively terminated on September 30, 2017. BSWH hospitals and affiliated hospitals subject to the disallowance are: (i) BHCS (on behalf of Baylor University Medical Center, BSW Irving, BSW Carrollton, and Baylor Medical Centers at Garland and McKinney d/b/a Baylor Medical Center at Garland) (effective January 1, 2016, this hospital was replaced by BSW Garland); (ii) BSWHVH; (iii) BSW Fort Worth; (iv) BSW Grapevine; and (v) Baylor Medical Center at Waxahachie (now d/b/a Baylor Scott & White Medical Center – Waxahachie) (BSW Waxahachie). THHSC requested reconsideration of the disallowance, which request was denied. THHSC then appealed the disallowance to the Department of Health and Human Services' Departmental Appeals Board – Appellate Division (DAB or Board). BHCS (on behalf of the BSWH hospitals participating in the Dallas and Tarrant County Affiliations) and certain other private hospital systems were intervenors in the DAB litigation and requested the Board to reverse CMS's disallowance. In August 2018, the DAB upheld CMS's disallowance, but reduced the disallowed amount to $25,276,116. THHSC and the intervenor hospitals, including BHCS, filed with the Board a joint motion for reconsideration and reversal of the DAB decision, which motion was denied. In the meantime, CMS issued a formal negative grant award, seeking recoupment from THHSC as a result of the disallowance. THHSC, in turn, requested that the private hospitals remit payment to satisfy CMS's demand. BHCS returned its approximately 40 percent share (based on payment amounts received in the fourth quarter of 2015) of the total disallowed amount of $25,276,116 – and the other private hospitals returned their respective percentage shares of the total disallowed amount as well. In December

2019, THHSC filed a complaint in the United States District Court for the Northern District of Texas, Dallas Division, requesting the court to set aside and reverse the DAB decision affirming the disallowance. In December 2019, the private hospitals, including BHCS, filed a motion to intervene in THHSC's lawsuit against Secretary Azar and the U.S. Department of Health and Human Services. In March 2020, the motion to intervene was granted and the private hospitals' complaint in intervention was filed. Since then, the private hospitals, including, BHCS, have filed a motion seeking additional discovery from CMS. This motion is fully briefed and pending before the district court. Additionally, all parties have fully briefed cross-motions for summary judgment, which are likewise pending before the district court. The lawsuit is ongoing.

At this time, management cannot predict the ultimate outcome of the dispute or its possible financial impact on BSWH hospitals.

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

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

Effective June 2019, the Texas Legislature approved legislation amending the Texas Health & Safety Code to enable Ellis County to create and operate a health care provider participation program that would require mandatory payments by all hospitals in the county based upon net patient revenue and the option of using the mandatory payment revenue as the non-federal share of Medicaid payments. The Ellis County Commissioners Court subsequently authorized creation of a LPPF in Ellis County and chose to utilize mandatory payment revenue as the non-federal share of Medicaid payments under the Waiver Program. BSW Waxahachie is a party to the Ellis County Affiliation Agreement and is eligible to receive supplemental payments funded through the LPPF program.

BSWH hospitals in North Texas incurred expenditures of approximately $28 million and $41 million for the years ended June 30, 2022 and 2021, respectively, through the hospital's participation in the various LPPF programs discussed above.

During the years ended June 30, 2022 and 2021, certain BSWH hospitals (from legacy Scott & White Healthcare) participated in the Waiver Program.

Scott & White Memorial Hospital d/b/a Baylor Scott & White Medical Center – Temple (BSW Temple) is a party to an Indigent Care Affiliation Agreement with Bell County and under this agreement participates in RHP Eight and the Waiver Program.

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

BSW Round Rock, BSW Taylor, Scott & White Hospital – Llano d/b/a Baylor Scott & White Medical Center – Llano (BSW Llano) (effective December 31, 2020, BSW Llano ceased operations) and BSW Marble Falls are parties to Indigent Care Affiliation Agreements with Williamson County and under these agreements participate in RHP Eight and the Waiver Program.

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

BSW Llano is a party to an Indigent Care Affiliation Agreement with Llano and under this agreement participates in RHP Eight and the Waiver Program. Effective December 31, 2020, BSW Llano ceased operations.

BSW Temple, Scott & White Hospital – College Station d/b/a Baylor Scott & White Medical Center – College Station (BSW College Station), and BSW Hillcrest participate in LPPF programs in Bell, Brazos, and McLennan Counties respectively pursuant to legislation enacted into law by the Texas Legislature. The bills amended the Texas Health & Safety Code to create health care provider participation programs that would require mandatory payments by all hospitals in the counties based upon net revenue and the option of using the mandatory payment revenue as the non-federal share of Medicaid payments. Bell, Brazos, and McLennan Counties authorized creation of LPPF programs in the respective counties and chose to utilize mandatory payment revenue as the non-federal share of Medicaid payments. BSW Temple, BSW College Station, and BSW Hillcrest are eligible to receive Medicaid payments as a result of their participation in these LPPF programs. BSW Waxahachie, BSW Round Rock, BSW Marble Falls, BSW Taylor, and BSW Llano (effective December 31, 2020, BSW Llano ceased operations) are also affiliated with Brazos and McLennan Counties and are eligible to receive Medicaid payments under the McLennan County LPPF program.

BSWH hospitals in Central Texas incurred expenditures of approximately $21 million and $34 million for the years ended June 30, 2022 and 2021, respectively, through the hospital's participation in the various LPPF programs discussed above.

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

BSWH hospitals in Central Texas incurred expenditures of approximately $0 million and $3 million for the years ended June 30, 2022 and 2021, respectively, in the operation and maintenance of the hospital's DSRIP projects approved under the 1115 Waiver Program, which are recorded as other operating expenses in the consolidated statements of operations and changes in net assets.

For the years ended June 30, 2022 and 2021, BSWH hospitals in Central Texas achieved required metrics, recorded as other receivables in the accompanying consolidated balance sheets, and received Waiver Program payments totaling approximately $66 million and $85 million, respectively, such amounts are Medicaid supplemental payments and recognized as net patient care revenue in the consolidated statements of operations and changes in net assets.

10. CHARITY CARE

BSWH provides care to patients who lack financial resources and are deemed medically or financially indigent. Because BSWH does not pursue collection of amounts determined to qualify as charity care, these amounts have been removed from net patient care revenue. The estimated direct and indirect cost of providing these services, calculated using the ratio of patient care cost to charges, was approximately $361 million and $318 million for the years ended June 30, 2022 and 2021, respectively. The ratio of cost to charges is an estimate calculated based on total expenses, less non-patient care activities and other community benefit expenses, divided by gross patient care charges. In addition, BSWH provides services through government-sponsored indigent health care programs to other indigent patients.

BSWH also commits time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are entered into with the understanding that they will not be self-supporting or financially viable. The expenditures for medical research activities and direct medical education are reported in Note 12.

11. RETIREMENT BENEFITS

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

The System provides 401(k) defined contribution plans for eligible employees. Employees are eligible to contribute to the plans immediately with no minimum service or age requirement. The System’s contributions to the 401(k) plans totaled approximately $134 million and $125 million for the years ended June 30, 2022 and 2021, respectively, and are included in salaries, wages, and employee benefits in the accompanying consolidated statements of operations and changes in net assets.

BHCS and six of its affiliated hospitals provided a defined benefit plan, the Baylor Health Care System Retirement Security Plan (the “BEST Plan”), for employees, which was discontinued on January 1, 1984. All BEST Plan assets were invested in cash and cash equivalents at June 30, 2022 and 2021.

The following table sets forth the benefit obligations, plan assets, and funded status of the BEST Plan as of June 30, 2022 and 2021 (in millions):

	2022	2021
Fair value of plan assets	$ 3	$ 3
Benefit obligation	(13)	(17)
Unfunded benefit obligation	$ (10)	$ (14)

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

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

Scott & White Hospital-Brenham provided a defined benefit plan, the Brenham Plan, for employees of Scott & White Hospital-Brenham, which was frozen to future benefit accruals as of June 30, 2010, with the Brenham Hospital purchase by SWH. Effective March 31, 2017, the Brenham Plan was renamed the Baylor Scott & White Health Consolidated Frozen Benefit Plan (the “BSWH Plan”). In September 2022, the termination of the BSWH Plan was approved, effective December 31, 2022.

The following table sets forth the benefit surplus/obligation, plan assets, and funded status of the BSWH Plan as of June 30, 2022 and 2021 (in millions):

	2022	2021
Fair value of plan assets	$ 78	$ 79
Benefit obligation	(74)	(93)
Funded (unfunded) benefit surplus (obligation)	$ 4	$ (14)

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

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

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

The following table sets forth a reconciliation of benefit obligations, plan assets, and balance sheet position for the postretirement benefit obligation as of June 30, 2022 and 2021 (in millions):

	2022	2021
Fair value of plan assets	$ —	$ —
Benefit obligation	(10)	(13)
Unfunded benefit obligation	$ (10)	$ (13)

12. FUNCTIONAL EXPENSES

The System provides general health care services to residents within its geographic area. The consolidated financial statements report expenses that can be attributable to more than one function. These expenses require an allocation, on a reasonable basis, that is consistently applied. The System allocates expenses by function based on the nature of each business units' operations.

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

Expenses related to providing these services are as follows for the years ended June 30, 2022 and 2021 (in millions):

	2022				
	Patient Care	Education and Research	Health Plan and Other	General and Administrative	Total
Salaries, wages, and employee benefits	$ 5,106	$ 117	$ 109	$ 494	$ 5,826
Supplies	1,698	3	225	106	2,032
Other operating expenses	1,495	48	135	717	2,395
Medical claims	—	—	956	—	956
Tangible and intangible asset related expenses	233	—	1	222	456
Interest	81	—	—	34	115
Total	$ 8,613	$ 168	$ 1,426	$ 1,573	$ 11,780

	2021				
	Patient Care	Education and Research	Health Plan and Other	General and Administrative	Total
Salaries, wages, and employee benefits	$ 4,436	$ 111	$ 113	$ 548	$ 5,208
Supplies	1,578	2	187	109	1,876
Other operating expenses	1,328	47	102	610	2,087
Medical claims	—	—	724	—	724
Tangible and intangible asset related expenses	226	—	2	212	440
Interest	74	—	—	34	108
Total	$ 7,642	$ 160	$ 1,128	$ 1,513	$ 10,443

13. NONCONTROLLING INTERESTS

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

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

The activity for net assets without donor restrictions presented as attributable to BSWH and noncontrolling interests - nonredeemable for the years ended June 30, 2022 and 2021 is summarized below (in millions):

	Attributable to BSWH	Noncontrolling Interest-Nonredeemable	Total Net Assets Without Donor Restrictions
Balance, as of June 30, 2020	$ 5,840	$ 326	$ 6,166
Revenue and gains in excess of expenses and losses	2,067	129	2,196
Net assets released from restrictions for capital expenditures	13	—	13
Distributions to noncontrolling interests	—	(141)	(141)
Purchases of noncontrolling interests	—	(1)	(1)
Sales of noncontrolling interests	—	1	1
Noncontrolling interest of acquired entities	—	23	23
Other changes in noncontrolling interests	(1)	—	(1)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(388)	—	(388)
Other	26	—	26
Change in net assets without donor restrictions	1,717	11	1,728
Balance, as of June 30, 2021	$ 7,557	$ 337	$ 7,894
Revenue and gains in excess of expenses and losses	547	106	653
Net assets released from restrictions for capital expenditures	6	—	6
Distributions to noncontrolling interests	—	(114)	(114)
Purchases of noncontrolling interests	—	(3)	(3)
Sales of noncontrolling interests	—	5	5
Noncontrolling interest of acquired entities	—	5	5
Other changes in noncontrolling interests	(2)	(2)	(4)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(390)	—	(390)
Other	6	—	6
Change in net assets without donor restrictions	167	(3)	164
Balance, as of June 30, 2022	$ 7,724	$ 334	$ 8,058

The activity for noncontrolling interests - redeemable for the years ended June 30, 2022 and 2021 is summarized below (in millions):

Balance, as of June 30, 2020	$ 482
Net income attributable to noncontrolling interests - redeemable	388
Distributions to noncontrolling interests	(382)
Purchases of noncontrolling interests	(11)
Sales of noncontrolling interests	27
Noncontrolling interests of acquired entities	102
Balance, as of June 30, 2021	$ 606
Net income attributable to noncontrolling interests - redeemable	390
Distributions to noncontrolling interests	(391)
Purchases of noncontrolling interests	(10)
Sales of noncontrolling interests	51
Noncontrolling interests of acquired entities	2
Other changes	1
Balance, as of June 30, 2022	$ 649

14. ENDOWMENTS

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

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

Endowment fund composition by type of fund as of June 30, 2022 and 2021, is as follows (in millions):

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ —	$ 405	$ 405
Board-designated endowment funds	11	—	11
Total endowment funds	$ 11	$ 405	$ 416

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ —	$ 462	$ 462
Board-designated endowment funds	13	—	13
Total endowment funds	$ 13	$ 462	$ 475

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

Changes in endowment funds for the years ended June 30, 2022 and 2021 are as follows (in millions):

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, as of June 30, 2021	$ 13	$ 462	$ 475
Investment income and realized gains	—	38	38
Net appreciation and unrealized losses	—	(79)	(79)
Gifts	—	2	2
Appropriation of endowment assets for expenditure	(2)	(19)	(21)
Other	—	1	1
Endowment funds, as of June 30, 2022	$ 11	$ 405	$ 416

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment funds, as of June 30, 2020	$ 23	$ 370	$ 393
Investment income and realized gains	—	103	103
Gifts	—	3	3
Appropriation of endowment assets for expenditure	(11)	(14)	(25)
Other	1	—	1
Endowment funds, as of June 30, 2021	$ 13	$ 462	$ 475

THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by State of Texas UPMIFA as of June 30, 2022 and 2021 is as follows (in millions):

	2022	2021
Education	$ 53	$ 52
Patient care	139	137
Research	75	75
General operations	2	2
Total	$ 269	$ 266

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions. Deficiencies of this nature existed in 2022 and 2021 and were less than $1 million in total. These deficits resulted from unfavorable market fluctuations and authorized appropriation that was deemed prudent.

Endowment Return Objectives and Risk Parameters

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

Relationship of Endowment Spending Practices to Investment Objectives

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

15. COMMITMENTS AND CONTINGENCIES

BSWH

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

Irving

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

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

The Amended Lease Agreement is accounted for as a finance lease with (a) fixed rent payments of approximately $9 million per year, as adjusted by a September 24, 2010 amendment to the

Amended Lease Agreement, plus (b) a contingent rent payment equal to 20.0% of the excess operating cash flow derived from the prior fiscal year's operations, as defined in the Amended Lease Agreement. Irving accrued approximately $2 million and $8 million at June 30, 2022 and 2021, respectively, for the contingent rent payment due to the Authority within five business days following the issuance of Irving's audited financial statements.

BHCS signed a Limited Joinder to evidence its agreement with the BHCS obligations included in the Amended Lease Agreement and to covenant that BHCS will pay the rent and the early termination fee/liquidated damages if Irving fails to pay those obligations. BHCS is required to contribute $100,000 per year to Irving, to be matched by the Irving Healthcare Foundation, for community health projects, which are mutually agreed upon by BHCS and Irving. BHCS contributed $100,000 directly to Irving in 2022 and 2021. At the end of the lease term, the leased assets, as defined in the Amended Lease Agreement will be surrendered to the Authority. At June 30, 2022 and 2021, no liability, related to the surrender of assets at the end of the lease term, was recorded as no amount can be reasonably estimated.

16. AFFILIATION AGREEMENTS

On February 1, 2007, BHCS entered into a five year affiliation agreement (that automatically renews for additional five year terms) with 189-bed Decatur Hospital Authority d/b/a Wise Health System, located in Decatur, Texas (approximately 40 miles northwest of Fort Worth). Under the affiliation agreement, BHCS makes available certain services which include advisory services, physician recruitment, and access to continuing education programs. Purchasing and purchased services organization sponsorship are also available for an additional fee, in addition to advisory services that exceed the time and resource requirements outlined in the affiliation agreement. Wise Health System is not owned or controlled by any member of the System. The affiliation agreement with Decatur Hospital Authority was discontinued in fiscal year 2022.

On October 1, 2008, BHCS entered into a five year affiliation agreement (that automatically renews for additional five year terms) with Glen Rose Medical Foundation d/b/a Glen Rose Medical Center, a 16-bed hospital located in Glen Rose, Texas (approximately 54 miles southwest of Fort Worth). As of March 24, 2010, the agreement was assigned to Somervell County Hospital Authority, which assumed operation of the hospital. Under the affiliation agreement, BHCS makes available certain services which include advisory services, physician recruitment, and access to continuing education programs. Purchasing and purchased services organization sponsorship are also available for an additional fee, in addition to advisory services that exceed the time and resource requirements outlined in the affiliation agreement. Glen Rose

Medical Center is not owned or controlled by any member of the System. The affiliation agreement with Glen Rose Medical Center was discontinued in fiscal year 2022.

On August 11, 2016, BSWH entered into a five year affiliation agreement (that automatically renews for additional five year terms) with Fairfield Hospital District. The hospital is operating as Freestone Medical Center under a management agreement with Community Hospital Corporation in Plano. Freestone Medical Center is a 37-bed hospital located in Fairfield, Texas (approximately 90 miles southeast of Dallas). The hospital also operates a rural health care clinic staffed by primary care physicians and advanced practice providers. Under the affiliation agreement, both organizations remain independent, but BSWH provides certain services for a fee including advisory services, physician recruitment/alignment, and access to continuing education programs. Freestone Medical Center is not owned or controlled by any member of the System. The affiliation agreement with Fairfield Hospital District was discontinued in fiscal year 2022.

17. SUBSEQUENT EVENTS

BSWH Holdings Series 2022

In August 2022, BSW Holdings issued the $180 million Series 2022A, $41 million Series 2022B and $92 million Series 2022C Revenue Bonds (collectively "BSW Holdings Series 2022A, B, and C") through TCCEFFC with various banks. Proceeds from this issuance were used to refinance the Series 2019C, Series 2019D, and Series 2019E Revenue Bonds.

In August 2022, BSW Holdings terminated the existing revolving line of credit. BSW Holdings entered into a new $200 million revolving line of credit, which expires in August 2027, and two additional lines of credit, each in the amount of $100 million, which expire in August 2025.

Termination of Swaps

On August 15, 2022, the two Wells Fargo swaps expired and two JPMorgan swaps became effective on the same date.

On September 27, 2022, BSW Holdings terminated two of the swaps with Citibank, N.A. with outstanding notional amounts totaling $92 million as of June 30, 2022. The termination payment from BSW Holdings to Citibank, N.A. in the aggregate amount of $20 million settled on September 30, 2022.

The System has performed an evaluation of subsequent events through October 28, 2022, which is the date the financial statements were issued.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Supplemental Unaudited Information

INDEX

OTHER COMMUNITY BENEFITS - UNAUDITED

Nonprofit hospitals are required to report community benefits under the requirements of Texas Health and Safety Code Chapter 311. For Texas state law purposes, unaudited community benefits include the unreimbursed cost of charity care; the unreimbursed cost of government-sponsored indigent health care (i.e., Medicaid); the unreimbursed cost of government-sponsored health care (i.e., Medicare), medical education, medical research, and other community benefits and services. The amount of community benefits reportable for Texas state law purposes by all BSWH nonprofit hospitals totaled approximately $974 million and $930 million for the years ended June 30, 2022 and 2021, respectively.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of Baylor Scott & White Holdings

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of Baylor Scott & White Holdings and its controlled affiliates (the "Company"), which comprise the consolidated balance sheet as of June 30, 2022, and the related consolidated statements of operations and changes in net assets, and of cash flows for the year then ended, including the related notes (collectively referred to as the "consolidated financial statements"), and have issued our report thereon dated October 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion[5] on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PricewaterhouseCoopers LLP, 2121 North Pearl Street, Suite 2000 Dallas, TX 75201
T: 214 999 1400, www.pwc.com/us

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Dallas, Texas
October 28, 2022

Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance

To the Board of Trustees of Baylor Scott & White Holdings

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Baylor Scott & White Holdings and its controlled affiliates' (the "Company") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended June 30, 2022. The Company's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Company's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Company's federal programs.

PricewaterhouseCoopers LLP, 2121 North Pearl Street, Suite 2000 Dallas, TX 75201
T: 214 999 1400, www.pwc.com/us

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Company's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Company's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Dallas, Texas
February 6, 2023

Baylor Scott & White Holdings and Its Controlled Affiliates
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Name of Agency and Office	Assistance Listing Number	Direct	Pass-Through	Pass - Through Entity	Identifier Number	Total	Passed to Sub-Recipients
RESEARCH AND DEVELOPMENT - CLUSTER							
DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Administration for Community Living							
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	$ 1,081,307	$ —			$ 1,081,307	$ 160,417
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	—	42,000	Craig Hospital	2694-BRIBY1	42,000	—
ACL National Institute on Disability, Independent Living, and Rehabilitation Research	93.433	—	3,600	Trustees of Indiana University	8703	3,600	—
Centers for Disease Control and Prevention							
Prevention of Disease, Disability, and Death through Immunization and Control of Respiratory and Related Diseases	93.083	25,061	—			25,061	—
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	274,789	—			274,789	—
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421	—	22,436	UT Southwestern Medical Center	GMO 190504	22,436	—
Centers for Medicare and Medicaid Services							
Accountable Health Communities	93.650	—	(23,218)	Parkland Center for Clinical Innovation	1 P1 CMS331580	(23,218)	—
Substance Abuse and Mental Health Services Administration							
Opioid Response Grants	93.788	—	44,640	The University of Texas at Austin	UTA21-000427	44,640	—
National Institutes of Health							
Human Genome Research	93.172	—	239,782	Duke University	A032838	239,782	—
Research and Training in Complementary and Alternative Medicine	93.213	—	(1,498)	Baylor University	100157-01	(1,498)	—
Mental Health Research Grants	93.242	—	40,854	Kaiser Foundation Research Institute	RNG210280-BUDG01	40,854	—
Drug Abuse and Addiction Research Programs	93.279	—	11,258	Kaiser Foundation Research Institute	RNG210715-BRI-01	11,258	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	—	2,292	Texas A&M Engineering Experiment Station	M2103560	2,292	—
Minority Health and Health Disparities Research	93.307	—	144,930	COG Analytics, LLC	11206-S	144,930	—
Minority Health and Health Disparities Research	93.307	—	23,435	RAND Corporation	9920170032	23,435	—
Trans-NIH Research Support	93.310	—	1,424,287	Henry Ford Health System	B11170BRI	1,424,287	—
National Center for Advancing Translational Sciences	93.350	—	38,209	National Jewish Health	20115904	38,209	—
Cancer Cause and Prevention Research	93.393	—	1,730	Fred Hutchinson Cancer Research Center	0000971510	1,730	—
Cancer Detection and Diagnosis Research	93.394	—	11,857	Mayo Clinic	BAY-285429/ PO#68198995	11,857	—

Baylor Scott & White Holdings and Its Controlled Affiliates
Schedule of Expenditures of Federal Awards - Continued
For the Year Ended June 30, 2022

Name of Agency and Office	Assistance Listing Number	Direct	Pass-Through	Pass - Through Entity	Identifier Number	Total	Passed to Sub-Recipients
Cancer Detection and Diagnosis Research	93.394	$ —	$ 161,078	Baylor College of Medicine	7000000838	$ 161,078	$ —
Cancer Treatment Research	93.395	16,409	—			16,409	—
Cancer Treatment Research	93.395	—	16,657	The Jackson Laboratory	TBI	16,657	—
Cancer Treatment Research	93.395	—	5,300	National Childhood Cancer Foundation	020875	5,300	—
Cancer Treatment Research	93.395	—	2,500	Children's Oncology Group	AGCT1531	2,500	—
Cancer Treatment Research	93.395	—	8,400	Children's Hospital of Philadelphia	APEC1481	8,400	—
Cancer Biology Research	93.396	—	23,809	Baylor College of Medicine	7000000928	23,809	—
Cancer Control	93.399	—	12,800	Public Health Institute	6765-00-SA008	12,800	—
Cardiovascular Diseases Research	93.837	—	2,700	Duke University	2037894	2,700	—
Cardiovascular Diseases Research	93.837	—	59,238	Icahn School of Medicine at Mount Sinai	0255-A342-4605 0255-A343-4605	59,238	—
Cardiovascular Diseases Research	93.837	—	1,050	New England Research Institutes, Inc.	130591	1,050	—
Cardiovascular Diseases Research	93.837	—	571	Northwestern University	60060152BAY	571	—
Cardiovascular Diseases Research	93.837	—	3,889	The Brigham and Women's Hospital, Inc.	114117	3,889	—
Lung Diseases Research	93.838	—	15,594	The Washington University	WU-19-67	15,594	—
Lung Diseases Research	93.838	—	90,000	Covance, Inc.	20203331	90,000	—
Lung Diseases Research	93.838	—	4,907,700	The Icahn School of Medicine at Mount Sinai	00045358	4,907,700	—
Lung Diseases Research	93.838	—	23,800	NYU Grossman School of Medicine	OT2 HL 156812	23,800	—
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	—	3,050	Brigham and Women's Hospital	113296	3,050	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	386,856	—			386,856	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	—	63,055	George Washington University	S-GRD1718-LL4	63,055	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	—	67,435	Baylor University	1001083-01	67,435	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	—	397	Giner Life Sciences	700419	397	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	—	10,534	Regents of the University of Minnesota	N005115001	10,534	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	—	20,543	The University of Texas Southwestern Medical Center	GMO 901102	20,543	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	278,705	The University of Texas at Dallas	2109689	278,705	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	72,854	The Ohio State University	GR125941 SPC-1000006083	72,854	—
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	20,724	National Coordinating Center University of Cincinnati	011337-136955	20,724	—
Allergy and Infectious Diseases Research	93.855	—	44,922	The General Hospital Corporation d/b/a Massachusetts General Hospital	232561	44,922	—
Allergy and Infectious Diseases Research	93.855	—	45,420	Trustees of the University of Pennsylvania	578249	45,420	—
Aging Research	93.866	930,225	—			930,225	79,156
Aging Research	93.866	—	12,835	Johns Hopkins Institute	2003455946	12,835	—
Aging Research	93.866	—	230,659	The Regents of the University of California	10849sc 1558GWA346	230,659	—

Name of Agency and Office	Assistance Listing Number	Direct	Pass-Through	Pass - Through Entity	Identifier Number	Total	Passed to Sub-Recipients
Aging Research	93.866	$ —	$ 3,677	The Trustees of Columbia University in the City of New York	1(GG015357-01)	$ 3,677	$ —
Aging Research	93.866	—	41,094	University of Massachusetts, Worcester	OSP27336-P6	41,094	—
Aging Research	93.866	—	178,018	Baylor University	1001124-02	178,018	—
Aging Research	93.866	—	25,000	Birkeland Current	G065118-01-BRI	25,000	—
Aging Research	93.866	—	30,260	Duke University	A032814	30,260	—
Total Department of Health and Human Services		2,714,647	8,510,862			11,225,509	239,573
UNITED STATES DEPARTMENT OF DEFENSE							
Military Medical Research and Development	12.420	815,969	—			815,969	14,284
Military Medical Research and Development	12.420	—	10,665	University of Colorado Denver	FY19.576.003	10,665	—
Military Medical Research and Development	12.420	—	15,726	Baylor University	1001033-01A	15,726	—
Uniformed Services University Medical Research Projects	12.750	—	3,500	Trauma Insight, LLC	HU00012020070	3,500	—
Research and Technology Development	12.910	—	202,027	The University of Texas at Dallas	1502904	202,027	—
Research and Technology Development	12.910	—	186,762	The University of Texas at Dallas	1604551	186,762	—
Total United States Department of Defense		815,969	418,680			1,234,649	14,284
Total Research and Development - Cluster		3,530,616	8,929,542			12,460,158	253,857
OTHER SPONSORED PROGRAMS							
HEALTH RESOURCES AND SERVICES ADMINISTRATION							
Rural Health Research Centers	93.155	—	93,500	Texas Department of Agriculture	2021CTM0089	93,500	—
Poison Center Support and Enhancement Grant Program	93.253	242,687	—			242,687	—
Small Rural Hospital Improvement Grant Program	93.301	12,699	—			12,699	—
COVID-19: Uninsured COVID Testing and Treatment	93.461	84,149,296	—			84,149,296	—
COVID-19: Provider Relief Fund	93.498	273,515,661	—			273,515,661	—
Temporary Assistance for Needy Families	93.558	—	641,580	Texas Department of Family and Protective Services	HHS000791900008	641,580	—
Community-Based Child Abuse Prevention Grants	93.590	—	353,131	Texas Department of Family and Protective Services	HHS000791900008	353,131	—
Rural Health Outreach and Rural Network Development	93.912	102,745	—			102,745	—
Maternal and Child Health Services Block Grants to the States	93.994	—	36,820	Texas Department of State Health Services	HHS000043600007	36,820	—
Total Health Resources and Services Administration		358,023,088	1,125,031			359,148,119	—
DEPARTMENT OF HOMELAND SECURITY							
Assistance to Firefighters Grant	97.044	675,461	—			675,461	—

Baylor Scott & White Holdings and Its Controlled Affiliates
Schedule of Expenditures of Federal Awards - Continued
For the Year Ended June 30, 2022

Name of Agency and Office	Assistance Listing Number	Direct	Pass-Through	Pass - Through Entity	Identifier Number	Total	Passed to Sub-Recipients
DEPARTMENT OF JUSTICE							
Victims of Crime Act Formula Grant Program	16.575	$ —	$ 479,505	Texas Office of the Governor-Criminal Justice Division	3590401 3542801 3590403	$ 479,505	$ —
FEDERAL COMMUNICATIONS COMMISSION							
COVID-19 Telehealth Program	32.006	984,183	—			984,183	—
DEPARTMENT OF THE TREASURY							
COVID-19: Coronavirus Relief Fund	21.019	—	1,000,000	City of Irving		1,000,000	—
Total Other Sponsored Programs		359,682,732	2,604,536			362,287,268	—
TOTAL FEDERAL AWARD EXPENDITURES		$363,213,348	$11,534,078			$374,747,426	$ 253,857

The accompanying notes are an integral part of this schedule.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

1. **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Baylor Scott & White Holdings and Its Controlled Affiliates (collectively referred to as the "System" or "BSWH") and are presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements of BSWH. Negative amounts represent adjustments made to amounts reported in the prior year in the normal course of business. BSWH uses its predetermined/negotiated indirect cost rate rather than the 10% de minimis indirect cost rate described in the Uniform Guidance.

2. Provider Relief Fund

The Schedule includes grant activity related to the Department of Health and Human Services ("HHS") Coronavirus Aid Relief and Economic Security (CARES) Act Assistance Listing Number 93.498. As required based on guidance in the 2022 OMB Compliance Supplement, the Schedule includes periods 2 and 3 funds received between July 1, 2020 and June 30, 2021 and expended by June 30, 2022 as reported to the Health Resources and Services Administration ("HRSA") via the Provider Relief Fund Reporting Portal.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Part I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements Section

Type of auditor's report issued:			***unmodified opinion***
Internal control over financial reporting:			
• Material weakness(es) identified?	____ yes	x	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses	____ yes	x	none reported
• Noncompliance material to financial statements noted	____ yes	x	no

Federal Awards Section

Internal control over major programs			
• Material weakness(es) identified?	____ yes	x	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____ yes	x	none reported
Type of auditor's report issued on compliance for major programs:			***unmodified opinion***
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	____ yes	x	no

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Schedule of Findings and Questioned Costs – continued

For the Year Ended June 30, 2022

Identification of major Federal Awards:

Assistance Listing Number	Name of Federal Program or Cluster
93.498	Department of Health & Human Services – COVID-19: Provider Relief Fund
93.461	Health Resources and Services Administration - COVID-19: Uninsured COVID Testing and Treatment
32.006	Federal Communications Commission – COVID-19 Telehealth Program

The dollar threshold used to distinguish between Type A and Type B programs	$ 3,000,000
Auditee qualified as a low risk auditee.	_x_ yes ___ no

Part II. FINANCIAL STATEMENT FINDINGS SECTION

There were no findings relating to the consolidated financial statements which are required to be reported in accordance with *Government Auditing Standards.*

Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings which are required to be reported in accordance with the Uniform Guidance.

BAYLOR SCOTT & WHITE HOLDINGS
AND ITS CONTROLLED AFFILIATES

Summary Schedule of Prior Audit Findings and Status

For the Year Ended June 30, 2022

There are no findings from prior years which require an update in this report.