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Form 990

Department of the Treasury  
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 07-01-2011 and ending 06-30-2012

B Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Terminated

☐ Amended return

☐ Application pending

C Name of organization

Baylor Regional Medical Center at Grapevine

Doing Business As

Number and street (or P O box if mail is not delivered to street address)

Room/suite

2001 Bryan Street No 2200

City or town, state or country, and ZIP + 4

Dallas, TX 752013005

F Name and address of principal officer

Doug Lawson

1650 W College

Grapevine, TX 76051

D Employer identification number

75-1777119

E Telephone number

(214) 820-4135

G Gross receipts \$ 497,149,530

I Tax-exempt status

☒ 501(c)(3) ☐ 501(c) ( ) ☐ (Insert no ) ☐ 4947(a)(1) or ☐ 527

J Website:

www.BaylorHealth.com

K Form of organization

☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation

1981

M State of legal domicile

TX

Part I

Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities Faith based acute care hospital providing exemplary patient care to Grapevine, Texas and the surrounding communities		
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	3	Number of voting members of the governing body (Part VI, line 1a)	3	6
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4	5
Revenue	5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	1,710
	6	Total number of volunteers (estimate if necessary)	6	479
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	27,170
	b	Net unrelated business taxable income from Form 990-T, line 34	7b	0
	8	Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9	Program service revenue (Part VIII, line 2g)	121,397	1,399,121
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	306,110,477	404,841,219
Expenses	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	7,615,574	9,904,493
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	18,573	19,940
	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	313,866,021	416,164,773
	14	Benefits paid to or for members (Part IX, column (A), line 4)	5,879,133	1,977,362
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	0	0
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	97,968,149	135,385,589
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶0	0	0
Net Assets or Fund Balances	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	151,292,346	209,552,787
	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	255,139,628	346,915,738
	19	Revenue less expenses Subtract line 18 from line 12	58,726,393	69,249,035
			Beginning of Current Year	End of Year
	20	Total assets (Part X, line 16)	430,123,602	485,908,253
	21	Total liabilities (Part X, line 26)	86,153,386	81,607,845
	22	Net assets or fund balances Subtract line 21 from line 20	343,970,216	404,300,408

Part II

Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer

2013-05-08

Date

Tern Foster VP Finance/Hosp Fin Off

Type or print name and title

Paid Preparer's Use Only

Preparer's signature

Date

Check if self-employed ☐

Preparer's taxpayer identification number (see instructions)

Firm's name (or yours if self-employed), address, and ZIP + 4

EIN

Phone no

May the IRS discuss this return with the preparer shown above? (see instructions)

☐ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2011)

Part IIIS

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1

Briefly describe the organization’s mission

Founded as a Christian ministry of healing, Baylor Regional Medical Center at Grapevine exists to serve all people through exemplary health care, education, research, and community service

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

If “Yes,” describe these new services on Schedule O

Yes

No

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

If “Yes,” describe these changes on Schedule O

Yes

No

4

Describe the organization’s program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code ) (Expenses \$ 196,800,246 including grants of \$ 1,977,362 ) (Revenue \$ 286,194,753 )

See Schedule OBaylor Regional Medical Center at Grapevine (Baylor Grapevine) is comprised of two separately licensed hospitals since Baylor Grapevine became the sole member of Trinity MC, LLC dba Baylor Medical Center at Carrollton (Baylor Carrollton) in May 2011 For federal income tax purposes, Baylor Carrollton is a disregarded entity for federal income tax purposes and is therefore treated as a department or division of Baylor Grapevine Baylor Grapevine is a faith-based, non-profit, 276-bed acute care hospital providing exemplary patient care to Grapevine, Texas and surrounding communities Baylor Grapevine is an affiliate of Baylor Health Care System (BHCS), a nationally acclaimed network of acute care hospitals and related health care entities providing quality patient care, medical education, medical research and community services to the North Texas region Baylor Grapevine provides inpatient and outpatient medical services to treat individuals with diseases, illnesses and injuries of varying complexities Comprehensive services include all offerings typical of a quality acute care hospital with multidisciplinary interaction among physicians to help provide patients with innovative methods of prevention, diagnosis, treatment, education and support These services include comprehensive care for all stages of illness through all stages of life Some of these clinical services are provided despite a financial loss to Baylor Grapevine During the fiscal year ending June 30, 2012, Baylor Grapevine admitted 22,211 inpatients resulting in a total of 101,229 days of care, treated 48,552 outpatients, delivered 2,875 babies and had 40,268 emergency department visits Baylor Grapevine was named one of the nation's Top Performers on Key Quality Measures by The Joint Commission, the leading accrediting agency of health care organizations in America The hospital was recognized for achieving excellence in performance on its accountability measures during 2011 for conditions including heart attack, heart failure, pneumonia and surgical care The American College of Surgeons granted Baylor Grapevine's oncology program Commission on Cancer (CoC) designation, and the Baylor Breast Center at Grapevine was accredited by the National Accreditation Program for Breast Centers (NAPBC) Receiving care at a CoC and NAPBC-accredited facility provides patients with access to quality, comprehensive care and a multidisciplinary team approach to treatment Baylor Grapevine is certified as a primary stroke center, which means it demonstrates the ability to provide the complete continuum of care, improving outcomes for people who suffer strokes Procedures are in place for the emergency department to quickly evaluate stroke victims for treatment options, which may include the use of drug therapy for dissolving clots Drug therapy within the first three hours after the onset of stroke symptoms can significantly reduce the effects of stroke and reduce permanent disability Baylor Grapevine received full Cycle III and Cycle II accreditation with PCI (percutaneous coronary intervention) from the Society of Cardiovascular Patient Care This recognition validated the commitment of Baylor Grapevine to providing quality cardiac care for all patients Baylor Grapevine's Level III NICU combines advanced technology and highly trained health care professionals to provide specialized care for the tiniest patients Care was provided for newborns and infants for a variety of reasons, including premature births (less than 37 weeks), respiratory distress, birth defects, infections and other illnesses Staffed by board-certified neonatologists, specialized nurses and neonatal nurse practitioners, Baylor Grapevine provided advanced life support and technologies for infants as early as 24 weeks gestation The highly trained staff in Baylor Grapevine's emergency department (ED) diagnoses and treats patients quickly The recently expanded facility includes large patient rooms, a spacious new reception area, streamlined processes and advanced imaging equipment The nationally recognized ED provides emergency care to patients of all ages The scope of care in the ED includes a digital imaging suite, including 64-slice Computed Tomography (CT) scanner, team collaboration between physicians, nurses and support staff, treatment of injuries and illnesses from minor to critical, care plans customized for each patient's need including diagnostic tests, consults and treatment plans, follow-up care instructions for treatment response, a post-care plan, and triage upon arrival and bedside check-in As part of its charitable mission, Baylor Grapevine is committed to providing free and/or subsidized care to both financially and medically indigent patients in the community During the year, Baylor Grapevine reported community benefits (as reported to the Texas Department of State Health Services and in accordance with the State of Texas Statutory methodology) of \$38,968,594 Baylor Grapevine provided community benefits (as reported on the IRS Form 990, Schedule H) of \$22,071,674 during the tax year The Texas Annual Statement of Community Benefit Standard includes approximately \$26,965,177 of unreimbursed cost of Medicare that is not included in the IRS Form 990, Schedule H Baylor Grapevine also is committed to promoting the health and wellbeing of individuals and families beyond the health activities of a traditional hospital or clinic setting through community outreach programs These programs aim to positively alter the health of the community through outreach and education on such topics as adult nutrition and childhood obesity, as well as through support groups for individuals suffering with diseases such as diabetes, cardiovascular and pulmonary disease, and cancer The unreimbursed cost of providing these programs was \$421,514 Baylor Grapevine also provided supervisory education programs for the training of future nurses in an effort to increase the supply of health care professionals nationwide Assisting with the preparation of future nurses at entry and advanced levels of nursing is critical to establishing a workforce of qualified nurses During the year, Baylor Grapevine invested 4,620 hours in the training of 116 undergraduate nurses Total unreimbursed cost of providing these nursing education programs was \$206,985

4b

(Code ) (Expenses \$ 104,755,515 including grants of \$ ) (Revenue \$ 118,739,413 )

See Schedule OBaylor Carrollton is a faith-based, non-profit, 235-bed acute care hospital providing exemplary patient care to Carrollton, Texas and surrounding communities Established as Trinity Medical Center in 1985, Baylor Carrollton became an affiliate of Baylor Health Care System (BHCS) in 2009 and a wholly owned hospital in 2011 Baylor Carrollton provides a broad spectrum of medical and healthcare services to the people of North Dallas The medical staff is comprised of more than 500 physicians representing nearly 50 specialties Baylor Carrollton is a full service hospital providing comprehensive diagnostic, surgical, and medical care for inpatients and outpatients, as well as 24 hour emergency care The hospital's emergency department is designated as an accredited chest pain center The hospital is accredited by The Joint Commission, the nation's oldest and largest hospital accreditation agency Comprehensive services typical of a quality acute care hospital with multidisciplinary interaction among physicians are available, providing patients with innovative methods of prevention, diagnosis, treatment, education and support of most major diseases through all stages of life Some of these clinical services are provided despite a financial loss to Baylor Carrollton During the fiscal year ended June 30, 2012, Baylor Carrollton admitted 20,582 inpatients resulting in a total of 46,271 days of care, treated 35,062 outpatients, delivered 1,429 babies, and had 30,096 emergency department visits Providing quality health care to women is one of Baylor Carrollton's specialties No matter the stage of a woman's life, the hospital offers a wide range of services to help them maintain good health A full service maternity program includes home-like labor, delivery, and recovery rooms (LDR's), surgical delivery suites, a 28- bed newborn nursery and a 15- bed neonatal intensive care nursery, equipped to care for infants as early as 27-weeks gestation Baylor Carrollton's comprehensive program also includes diagnostic, medical and therapeutic services such as screening and diagnostic mammograms, bone densitometry screening for osteoporosis, diagnostic testing and treatment for incontinence, gynecologic services, as well as genatric services through the Senior Health Center Located just north of the hospital on Josey Lane, the Women's Imaging Center offers a full range of breast screening and diagnostic services-mammography, breast ultrasound, and stereotactic biopsy-along with on-site breast imaging specialists and breast surgeons on the medical staff Baylor Carrollton's provides appropriate options for couples needing infertility consultation through board-certified gynecologists and reproductive endocrinologists on the medical staff These physicians trained in in-vitro fertilization (IVF) procedures and other assisted reproduction techniques offer advanced technology to couples seeking fertility assistance An on-campus IVF lab is accredited by the College of American Pathologists Embryo and sperm cryopreservation and storage are also available Baylor Carrollton's new interventional and vascular radiology suite provides an alternative to surgery using minimally invasive procedures to treat a wide range of clinical problems including stroke, carotid artery disease, abdominal aortic aneurysms and other peripheral vascular disorders Among the many benefits of catheter-based interventions are shorter hospital stays, reduced recovery time without the pain of a large incision, and less visible surgical scarring As part of its charitable mission, Baylor Carrollton is committed to providing free and/or subsidized care to both financially and medically indigent patients in the community During the year, Baylor Carrollton reported community benefits (as calculated in accordance with the State of Texas Statutory methodology) of \$32,844,992 Baylor Carrollton also is committed to promoting the healthy well-being of individuals and families beyond the health activities of the traditional hospital or clinic setting through its community outreach programs These programs are targeted to positively alter the health of the community through outreach and education on such topics as adult nutrition, and support groups for individuals suffering with diseases such as diabetes, cardiovascular and pulmonary diseases, and cancer Baylor Carrollton also works to increase awareness of the dangers of high cholesterol and high blood pressure, by providing free or reduced cost cholesterol/lipid and blood pressure screenings, and educating the community about healthier lifestyle choices (like diet, exercise, etc ) Through these programs, Baylor Carrollton assists with early detection of potential health problems and early treatment of any identified problems to save lives The unreimbursed cost of providing these programs during the year was \$319,107 Baylor Carrollton provided supervisory education programs for the training of future nurses in an effort to increase the supply of health care professionals nationwide Assisting with the preparation of future nurses at entry and advanced levels of nursing is critical to establishing a workforce of qualified nurses During the year, Baylor Carrollton invested 10,195 hours in the training of 111 undergraduate nurses Total unreimbursed cost of providing this nursing education program is \$436,709

4c

(Code ) (Expenses \$ including grants of \$ ) (Revenue \$ )

4d

Other program services (Describe in Schedule O )

(Expenses \$ including grants of \$ ) (Revenue \$ )





















4e

Total program service expenses \$ 301,555,761

Form 990 (2011)

Part IV

Checklist of Required Schedules

		Yes	No	
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A.</i> 	1	Yes	
2	Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)? 	2	Yes	
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i> 	3		No
4	<b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II.</i> 	4	Yes	
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III.</i> 	5		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I.</i> 	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? <i>If "Yes," complete Schedule D, Part II.</i> 	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> 	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV.</i> 	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> 	10		No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI.</i> 	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII.</i> 	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII.</i> 	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX.</i> 	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> 	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X.</i> 	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i> 	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i> 	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States? . . . . .	14a		No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Part I.</i> . . . . .	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? <i>If "Yes," complete Schedule F, Part II and IV.</i> . . . . .	15		No
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? <i>If "Yes," complete Schedule F, Part III and IV.</i> . . . . .	16		No
17	Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I.</i>	17		No
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II.</i> . . . . .	18		No
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i> . . . . .	19		No
20a	Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> . . . . . 	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? <b>Note.</b> All Form 990 filers that operated one or more hospitals must attach audited financial statements . . . . . 	20b	Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	21	Yes	
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	22	Yes	
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25</i> . . . . .	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . .	24b		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .	24c		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . .	24d		
25a	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> . . . . .	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .	29	Yes	
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i> . . . . .	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a	Yes	
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	35b	Yes	
36	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	38	Yes	

<b>Part V</b> <b>Statements Regarding Other IRS Filings and Tax Compliance</b>						
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>						
		<b>Yes</b>	<b>No</b>			
<b>1a</b>	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable. .	<b>1a</b>	315			
<b>b</b>	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	<b>1b</b>	0			
<b>c</b>	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	<b>1c</b>	Yes			
<b>2a</b>	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return.	<b>2a</b>	1,710			
<b>b</b>	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?  <b>Note.</b> If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	<b>2b</b>	Yes			
<b>3a</b>	Did the organization have unrelated business gross income of \$1,000 or more during the year?	<b>3a</b>	Yes			
<b>b</b>	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	<b>3b</b>	Yes			
<b>4a</b>	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?	<b>4a</b>				No
<b>b</b>	If "Yes," enter the name of the foreign country: See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.					
<b>5a</b>	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	<b>5a</b>				No
<b>b</b>	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	<b>5b</b>				No
<b>c</b>	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	<b>5c</b>				
<b>6a</b>	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	<b>6a</b>				No
<b>b</b>	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	<b>6b</b>				
<b>7</b>	<b>Organizations that may receive deductible contributions under section 170(c).</b>					
<b>a</b>	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	<b>7a</b>				No
<b>b</b>	If "Yes," did the organization notify the donor of the value of the goods or services provided?	<b>7b</b>				
<b>c</b>	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	<b>7c</b>				No
<b>d</b>	If "Yes," indicate the number of Forms 8282 filed during the year.	<b>7d</b>				
<b>e</b>	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	<b>7e</b>				No
<b>f</b>	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	<b>7f</b>				No
<b>g</b>	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	<b>7g</b>				
<b>h</b>	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	<b>7h</b>				
<b>8</b>	<b>Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.</b> Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	<b>8</b>				
<b>9</b>	<b>Sponsoring organizations maintaining donor advised funds.</b>					
<b>a</b>	Did the organization make any taxable distributions under section 4966?	<b>9a</b>				
<b>b</b>	Did the organization make a distribution to a donor, donor advisor, or related person?	<b>9b</b>				
<b>10</b>	<b>Section 501(c)(7) organizations.</b> Enter					
<b>a</b>	Initiation fees and capital contributions included on Part VIII, line 12.	<b>10a</b>				
<b>b</b>	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	<b>10b</b>				
<b>11</b>	<b>Section 501(c)(12) organizations.</b> Enter					
<b>a</b>	Gross income from members or shareholders.	<b>11a</b>				
<b>b</b>	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	<b>11b</b>				
<b>12a</b>	<b>Section 4947(a)(1) non-exempt charitable trusts.</b> Is the organization filing Form 990 in lieu of Form 1041?	<b>12a</b>				
<b>b</b>	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	<b>12b</b>				
<b>13</b>	<b>Section 501(c)(29) qualified nonprofit health insurance issuers.</b>					
<b>a</b>	Is the organization licensed to issue qualified health plans in more than one state? <b>Note.</b> All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state.	<b>13a</b>				
<b>b</b>	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	<b>13b</b>				
<b>c</b>	Enter the aggregate amount of reserves on hand.	<b>13c</b>				
<b>14a</b>	Did the organization receive any payments for indoor tanning services during the tax year?	<b>14a</b>				No
<b>b</b>	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	<b>14b</b>				

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.  
Check if Schedule O contains a response to any question in this Part VI

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year		
1a	6		
b	Enter the number of voting members included in line 1a, above, who are independent	1b	5
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	No
6	Did the organization have members or stockholders?	6	Yes
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a	Yes
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b	Yes
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a	The governing body?	8a	Yes
b	Each committee with authority to act on behalf of the governing body?	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9	No

Section B. Policies

(This Section B requests information about policies not required by the Internal Revenue Code.)

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a	Yes
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b	Yes
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes
b	Describe in Schedule O the process, if any, used by the organization to review the Form 990		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes
13	Did the organization have a written whistleblower policy?	13	Yes
14	Did the organization have a written document retention and destruction policy?	14	Yes
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
a	The organization's CEO, Executive Director, or top management official	15a	Yes
b	Other officers or key employees of the organization	15b	Yes
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)		
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a	Yes
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b	Yes

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
19	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization. Terri Foster 1650 West College Street Grapevine, TX 76051 (817) 329-2555

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization’s tax year

- List all of the organization’s **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization’s **current** key employees, if any See instructions for definition of “key employee ”
- List the organization’s five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC ) of more than \$100,000 from the organization and any related organizations
- List all of the organization’s **former** officers, key employees, or highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations
- List all of the organization’s **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O )	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC )	(E) Reportable compensation from related organizations (W- 2/1099-MISC )	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Paul Madeley MD Trustee	1 00	X						0	505,380	79,610
(2) George McClesky Trustee	1 00	X						0	0	0
(3) Ron Carter Trustee	1 00	X						0	583	0
(4) Roy Lamkin Chairman	1 00	X						0	1,729	0
(5) Timothy Owens Trustee	1 00	X						0	547	0
(6) Walker Harman Trustee	1 00	X						0	5,919	0
(7) Christopher York Chief Operating Officer	40 00			X				198,583	111,802	55,182
(8) Elizabeth Houser VP CNO	40 00			X				212,899	0	29,637
(9) T Doug Lawson President	40 00			X				531,357	0	145,142
(10) Tern Foster VP Finance/Hosp Fin Off	40 00			X				242,231	0	27,262
(11) William Boyd Secretary	1 00			X				0	860,104	239,979
(12) Karen Stubbs CNO/COO	40 00				X			209,573	0	31,061
(13) Michael Sanborn President	40 00				X			145,029	180,352	54,758
(14) Norma Kretzschmar VP Finance/Hosp Fin Off	40 00				X			218,226	0	26,211
(15) Spencer Turner President	40 00				X			935,454	0	22,713
(16) Byron Murphy Director Radiology	40 00					X		142,055	0	27,649
(17) Christine Cerone Pharmacy Manager	40 00					X		140,524	0	31,583



Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) Robert Batton Clinical Pharmacist	46 00					X		159,283	0	20,569
(19) Ronald Jensen Chief Medical Officer	20 00					X		150,702	0	23,560
(20) Shidramappa Kotagi Technical Director Embryology	40 00					X		163,095	0	31,037
(21) Preshie Wilson Former Officer	0 00						X	0	238,561	28,749
(22) Scott Peek Former Officer	0 00						X	162,559	261,067	100,228
<b>1b Sub-Total</b>										
<b>c Total from continuation sheets to Part VII, Section A</b>										
<b>d Total (add lines 1b and 1c)</b>								3,611,570	2,166,044	974,930

2

Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization▶141

		Yes	No
3	Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	3 Yes	
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	4 Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>	5	No

Section B. Independent Contractors

1

Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
Baylor Health Care System 2001 Bryan St Ste 2200 Dallas, TX 75201	Management Services	39,569,564
MEDCO Construction LLC 2001 Bryan St Ste 2200 Dallas, TX 75201	Construction Services	12,251,192
Aramark Services Inc P O Box 651009 Charlotte, NC 282651009	Engineering/Food Services	6,232,255
Med Fusion LLC P O Box 222137 Dallas, TX 75222	Lab Services	1,876,489
HDR Architecture Inc P O Box 3480 Omaha, NE 681030480	Architecture Services	1,791,472
2	Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶51	

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns . . .	1a					
	b	Membership dues . . . . .	1b					
	c	Fundraising events . . . . .	1c					
	d	Related organizations . . . .	1d	1,392,253				
	e	Government grants (contributions)	1e					
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	6,868				
	g	Noncash contributions included in lines 1a-1f \$ _____						
	h	Total. Add lines 1a-1f . . . . .		1,399,121				
Program Service Revenue			Business Code					
	2a	Patient Care Revenue	621990	402,010,166	402,010,166			
	b	Rent	531120	1,694,872	1,694,872			
	c	Cafeteria	722210	903,090		903,090		
	d	Education	611600	100,414	100,414			
	e	Gift Shop	453220	81,646		81,646		
	f	All other program service revenue		51,031	14,198	27,170	9,663	
	g	Total. Add lines 2a-2f . . . . .		404,841,219				
Other Revenue	3	Investment income (including dividends, interest and other similar amounts) . . . . .		3,834,609	92,947		3,741,662	
	4	Income from investment of tax-exempt bond proceeds . .						
	5	Royalties . . . . .		19,940			19,940	
	6a	Gross rents	(i) Real	(ii) Personal				
	b	Less rental expenses						
	c	Rental income or (loss)						
	d	Net rental income or (loss) . . . . .						
	7a	Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other				
			85,835,272	1,219,369				
			80,151,630	833,127				
			5,683,642	386,242				
	d	Net gain or (loss) . . . . .		6,069,884			6,069,884	
	8a	Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18 . . . . .	a					
	b	Less direct expenses . . . . .	b					
	c	Net income or (loss) from fundraising events . .						
	9a	Gross income from gaming activities See Part IV, line 19 . . . . .	a					
	b	Less direct expenses . . . . .	b					
c	Net income or (loss) from gaming activities . .							
10a	Gross sales of inventory, less returns and allowances . . . . .	a						
b	Less cost of goods sold . . . . .	b						
c	Net income or (loss) from sales of inventory . .							
Miscellaneous Revenue		Business Code						
11a								
b								
c								
d	All other revenue . . . . .							
e	Total. Add lines 11a-11d . . . . .							
12	Total revenue. See Instructions . . . . .		416,164,773	403,912,597	27,170	10,825,885		

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns  
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)  
Check if Schedule O contains a response to any question in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21	1,968,362	1,968,362		
2	Grants and other assistance to individuals in the United States See Part IV, line 22	9,000	9,000		
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees	3,321,118		3,321,118	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7	Other salaries and wages	105,651,763	104,653,966	997,797	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	3,399,919	3,272,914	127,005	
9	Other employee benefits	15,172,425	15,049,981	122,444	
10	Payroll taxes	7,840,364	7,673,478	166,886	
11	Fees for services (non-employees)				
a	Management	121,023	121,023		
b	Legal	68,963		68,963	
c	Accounting	50,026		50,026	
d	Lobbying				
e	Professional fundraising See Part IV, line 17				
f	Investment management fees				
g	Other	67,928,513	36,880,853	31,047,660	
12	Advertising and promotion	2,673,012	940,002	1,733,010	
13	Office expenses	7,423,456	6,769,147	654,309	
14	Information technology	9,128,242	9,128,242		
15	Royalties				
16	Occupancy	16,600,909	10,569,719	6,031,190	
17	Travel	243,610	218,229	25,381	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings	162,603	156,535	6,068	
20	Interest	706,217	706,217		
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	17,684,213	17,683,856	357	
23	Insurance	138,557		138,557	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O )				
a	Medical Supplies	53,660,902	53,660,902		
b	Bad Debt	29,940,657	29,940,657		
c	Taxes-Property, Margin	994,708	627,247	367,461	
d	Recruiting	879,536	825,236	54,300	
e					
f	All other expenses	1,147,640	700,195	447,445	
25	Total functional expenses. Add lines 1 through 24f	346,915,738	301,555,761	45,359,977	0
26	Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing . . . . .			446	1	13,174
	2	Savings and temporary cash investments . . . . .			4,761,227	2	3,363,308
	3	Pledges and grants receivable, net . . . . .				3	
	4	Accounts receivable, net . . . . .			18,864,486	4	38,766,386
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L . . . . .				5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L . . . . .				6	
	7	Notes and loans receivable, net . . . . .			1,625,248	7	2,182,296
	8	Inventories for sale or use . . . . .			7,376,426	8	7,995,120
	9	Prepaid expenses and deferred charges . . . . .			109,484	9	-104,536
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a	334,746,337			
	b	Less accumulated depreciation . . . . .	10b	115,547,040	206,930,018	10c	219,199,297
	11	Investments—publicly traded securities . . . . .			175,285,392	11	197,198,356
	12	Investments—other securities See Part IV, line 11 . . . . .				12	
	13	Investments—program-related See Part IV, line 11 . . . . .				13	1,250,000
	14	Intangible assets . . . . .			13,128,356	14	13,128,356
	15	Other assets See Part IV, line 11 . . . . .			2,042,519	15	2,916,496
	16	Total assets. Add lines 1 through 15 (must equal line 34) . . . . .			430,123,602	16	485,908,253
Liabilities	17	Accounts payable and accrued expenses . . . . .			19,934,099	17	18,786,754
	18	Grants payable . . . . .				18	
	19	Deferred revenue . . . . .			3,319,354	19	2,321,286
	20	Tax-exempt bond liabilities . . . . .				20	
	21	Escrow or custodial account liability Complete Part IV of Schedule D . . . . .				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L . . . . .				22	
	23	Secured mortgages and notes payable to unrelated third parties . . . . .			60,387,379	23	59,525,764
	24	Unsecured notes and loans payable to unrelated third parties . . . . .				24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D . . . . .			2,512,554	25	974,041
	26	Total liabilities. Add lines 17 through 25 . . . . .			86,153,386	26	81,607,845
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets . . . . .			342,286,645	27	402,060,767
	28	Temporarily restricted net assets . . . . .			1,683,571	28	2,239,641
	29	Permanently restricted net assets . . . . .				29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds . . . . .				30	
	31	Paid-in or capital surplus, or land, building or equipment fund . . . . .				31	
	32	Retained earnings, endowment, accumulated income, or other funds . . . . .				32	
	33	Total net assets or fund balances . . . . .			343,970,216	33	404,300,408
	34	Total liabilities and net assets/fund balances . . . . .			430,123,602	34	485,908,253

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	416,164,773
2	Total expenses (must equal Part IX, column (A), line 25)	2	346,915,738
3	Revenue less expenses Subtract line 2 from line 1	3	69,249,035
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	343,970,216
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-8,918,843
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	404,300,408

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	Yes	
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	Yes	

SCHEDULE A

(Form 990 or 990EZ)

Department of the Treasury  
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public  
Inspection

Name of the organization Baylor Regional Medical Center at Grapevine	Employer identification number  75-1777119
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Part I Reason for Public Charity Status

(All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box )

- 1

☐

A church, convention of churches, or association of churches **section 170(b)(1)(A)(i).**
- 2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E )
- 3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state
- 5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II )
- 6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III )
- 10

☐

An organization organized and operated exclusively to test for public safety See**section 509(a)(4).**
- 11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h  

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?  

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)  
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 <b>Total.</b> Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 <b>Public Support.</b> Subtract line 5 from line 4						

Section B. Total Support							
Calendar year (or fiscal year beginning in)		(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7	Amounts from line 4						
8	Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9	Net income from unrelated business activities, whether or not the business is regularly carried on						
10	Other income (Explain in Part IV ) Do not include gain or loss from the sale of capital assets						
11	Total support (Add lines 7 through 10)						
12	Gross receipts from related activities, etc (See instructions )					12	
13	First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage			
14	Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))	14	
15	Public Support Percentage for 2010 Schedule A, Part II, line 14	15	
16a	<b>33 1/3% support test—2011.</b> If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization		
b	<b>33 1/3% support test—2010.</b> If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization		
17a	<b>10%-facts-and-circumstances test—2011.</b> If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization		
b	<b>10%-facts-and-circumstances test—2010.</b> If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization		
18	<b>Private Foundation</b> If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions		

Part IIIPart III

Support Schedule for Organizations Described in IRC 509(a)(2)  
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6.)						

Section B. Total Support						
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support (Add lines 9, 10c, 11 and 12.)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and <b>stop here</b>						

Section C. Computation of Public Support Percentage			
15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15		
16 Public support percentage from 2010 Schedule A, Part III, line 15	16		

Section D. Computation of Investment Income Percentage			
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17		
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18		
19a 33 1/3% support tests—2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization			
b 33 1/3% support tests—2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization			
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions			



**Part IV** **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

SCHEDULE C  
(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ Complete if the organization is described below.  
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, line 35c (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization Baylor Regional Medical Center at Grapevine	Employer identification number 75-1777119
---	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization's direct and indirect political campaign activities on behalf of or in opposition to candidates for public office in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b	If "Yes," describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities	▶ \$
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

- A
- Check
- ☐
- if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B
- Check
- ☐
- if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a	Total lobbying expenditures to influence public opinion (grass roots lobbying)														
b	Total lobbying expenditures to influence a legislative body (direct lobbying)														
c	Total lobbying expenditures (add lines 1a and 1b)														
d	Other exempt purpose expenditures														
e	Total exempt purpose expenditures (add lines 1c and 1d)														
f	Lobbying nontaxable amount Enter the amount from the following table in both columns														
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g	Grassroots nontaxable amount (enter 25% of line 1f)														
h	Subtract line 1g from line 1a If zero or less, enter -0-														
i	Subtract line 1f from line 1c If zero or less, enter -0-														
j	If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No												

4-Year Averaging Period Under Section 501(h)  
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a)		(b)
		Yes	No	Amount
<b>1</b>	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
	<b>a</b> Volunteers?		No	
	<b>b</b> Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?	Yes		
	<b>c</b> Media advertisements?		No	
	<b>d</b> Mailings to members, legislators, or the public?		No	
	<b>e</b> Publications, or published or broadcast statements?		No	
	<b>f</b> Grants to other organizations for lobbying purposes?	Yes		
	<b>g</b> Direct contact with legislators, their staffs, government officials, or a legislative body?	Yes		
	<b>h</b> Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
	<b>i</b> Other activities? If "Yes," describe in Part IV		No	
<b>j</b> Total lines 1c through 1i			90,278	
<b>2a</b>	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
<b>b</b>	If "Yes," enter the amount of any tax incurred under section 4912			
<b>c</b>	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
<b>d</b>	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

		Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1	
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2	
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3	

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).	2a	
a	Current year		
b	Carryover from last year		
c	Total		
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV

Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
Part IV, Supplemental Information		Statement Regarding Legislative Activity Health care policy is critical to all Americans, and Baylor Regional Medical Center at Grapevine ("BRMCG") believes that health care providers must participate in forming health care policy by interacting with national, state and local representatives and their staff members to help them better understand the complexities and ramifications of key health care policies including, without limitation, those related to uninsured and indigent patient needs as well as the legislative and regulatory needs to assure the delivery of cost-efficient, quality health care. BRMCG has established relationships with persons and industry associations that often communicate BRMCG's positions on major health care issues. These contacts may include direct contact, telephone conversations and/or letters. Also, BRMCG may attempt to educate the local community on certain legislative initiatives that may impact BRMCG's ability to provide quality health care services to the community through direct mailings, media advertising or broadcast statements. The amount of resources (time and money) involved in these activities is insubstantial. BRMCG has not intervened in any political campaign.

SCHEDULE D  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Supplemental Financial Statements

► Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b  
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization  
Baylor Regional Medical Center at Grapevine

Employer identification number  
75-1777119

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)☐ Preservation of an historically importantly land area  
☐ Protection of natural habitat☐ Preservation of a certified historic structure  
☐ Preservation of open space

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ► \_\_\_\_\_

4

Number of states where property subject to conservation easement is located ► \_\_\_\_\_

5

Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

☐ Yes ☐ No

6

Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ► \_\_\_\_\_

7

Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year  
► \$ \_\_\_\_\_

8

Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

☐ Yes ☐ No

9

In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a

If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1

► \$ \_\_\_\_\_

(ii) Assets included in Form 990, Part X

► \$ \_\_\_\_\_

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a

Revenues included in Form 990, Part VIII, line 1

► \$ \_\_\_\_\_

b

Assets included in Form 990, Part X

► \$ \_\_\_\_\_

For Privacy Act and Paperwork Reduction Act Notice, see the Intructions for Form 990

Cat No 52283D

Schedule D (Form 990) 2011

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV

Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance . . . . .				
b	Contributions . . . . .				
c	Investment earnings or losses . . . . .				
d	Grants or scholarships . . . . .				
e	Other expenditures for facilities and programs . . . . .				
f	Administrative expenses . . . . .				
g	End of year balance . . . . .				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

	Yes	No
(i) unrelated organizations . . . . .	3a(i)	
(ii) related organizations . . . . .	3a(ii)	
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? . . . . .	3b	

4

Describe in Part XIV the intended uses of the organization's endowment funds

Part VI

Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land . . . . .		3,687,516		3,687,516
b Buildings . . . . .		239,429,786	60,392,658	179,037,128
c Leasehold improvements . . . . .				
d Equipment . . . . .		91,629,035	55,154,382	36,474,653
e Other . . . . .				
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) . . . . . ▶				219,199,297



Part XI

Reconciliation of Change in Net Assets from Form 990 to Financial Statements

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	
9	Total adjustments (net) Add lines 4 - 8	9	
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	

Part XII

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements . . . . .	1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments . . . . .	2a	
b	Donated services and use of facilities . . . . .	2b	
c	Recoveries of prior year grants . . . . .	2c	
d	Other (Describe in Part XIV) . . . . .	2d	
e	Add lines 2a through 2d . . . . .	2e	
3	Subtract line 2e from line 1 . . . . .	3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1		
a	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	4a	
b	Other (Describe in Part XIV) . . . . .	4b	
c	Add lines 4a and 4b . . . . .	4c	
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12 ) . . . . .	5	

Part XIII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements . . . . .	1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25		
a	Donated services and use of facilities . . . . .	2a	
b	Prior year adjustments . . . . .	2b	
c	Other losses . . . . .	2c	
d	Other (Describe in Part XIV) . . . . .	2d	
e	Add lines 2a through 2d . . . . .	2e	
3	Subtract line 2e from line 1 . . . . .	3	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:		
a	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	4a	
b	Other (Describe in Part XIV) . . . . .	4b	
c	Add lines 4a and 4b . . . . .	4c	
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18 ) . . . . .	5	

Part XIV

Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
Description of Uncertain Tax Positions Under FIN 48	Part X	The filing organization does not have separate individual audited financial statements, however, the organization is included in Baylor Health Care System's combined audited financial statements (System). The System follows the provisions of ASC 740 "Income Taxes." As of June 30, 2012 and 2011, the System had no material gross unrecognized tax benefits.



SCHEDULE H  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Hospitals

OMB No 1545-0047

2011

Open to Public Inspection

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 20.  
▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization  
Baylor Regional Medical Center at Grapevine

Employer identification number  
75-1777119

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a . . . . .	1a	Yes	
b	If "Yes," is it a written policy? . . . . .	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals			
	<input checked="" type="checkbox"/> Applied uniformly to all hospitals			
	<input type="checkbox"/> Generally tailored to individual hospitals			
	<input type="checkbox"/> Applied uniformly to most hospitals			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care	3a	Yes	
	<input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____ %			
b	Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care . . . . .	3b	Yes	
	<input type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input checked="" type="checkbox"/> Other 500.000000000000 %			
c	If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care			
4	Did the organization's policy provide free or discounted care to the "medically indigent"? . . . . .	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . . .	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount? . . . . .	5b	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? . . . . .	5c		No
6a	Did the organization prepare a community benefit report during the tax year? . . . . .	6a	Yes	
6b	If "Yes," did the organization make it available to the public? . . . . .	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H.			

7

Charity Care and Certain Other Community Benefits at Cost

Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charnty care at cost (from Worksheet 1) . . . . .			15,611,362	0	15,611,362	4 720 %
b Medicaid (from Worksheet 3, column a) . . . . .			15,745,124	13,596,825	2,148,299	0 650 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . . . . .			2,952	0	2,952	0 %
d Total Charity Care and Means-Tested Government Programs . . . . .			31,359,438	13,596,825	17,762,613	5 370 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . . .			1,316,100	11,865	1,304,235	0 390 %
f Health professions education (from Worksheet 5) . . . . .			645,946	0	645,946	0 200 %
g Subsidized health services (from Worksheet 6) . . . . .			0	0		0 %
h Research (from Worksheet 7) . . . . .			0	0		0 %
i Cash and in-kind contributions for community benefit (from Worksheet 8) . . . . .			2,361,050	2,170	2,358,880	0 710 %
j Total Other Benefits . . . . .			4,323,096	14,035	4,309,061	1 300 %
k Total. Add lines 7d and 7j . . . . .			35,682,534	13,610,860	22,071,674	6 670 %

Part II

Community Building Activities

Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing					
2	Economic development					
3	Community support		50,000	0	50,000	0 020 %
4	Environmental improvements					
5	Leadership development and training for community members					
6	Coalition building					
7	Community health improvement advocacy					
8	Workforce development					
9	Other					
10	Total		50,000		50,000	0 020 %

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?	1 Yes	
2	Enter the amount of the organization's bad debt expense	2 29,940,657	
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3 1,616,795	
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5 60,770,640	
6	Enter Medicare allowable costs of care relating to payments on line 5	6 81,000,199	
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7 -20,229,559	
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?	9a Yes	
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.	9b Yes	

Part IV

Management Companies and Joint Ventures

(see instructions)

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

## Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 2

## Name and address

[illegible]

Part V

Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

Baylor Regional Med Cntr at Grapevine

Name of Hospital Facility: \_\_\_\_\_

Line Number of Hospital Facility (from Schedule H, Part V, Section A): \_\_\_\_\_ 1

	Yes	No
<b>Community Health Needs Assessment</b> (Lines 1 through 7 are optional for 2011)		
<b>1</b> During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 . . . . . If "Yes," indicate what the Needs Assessment describes (check all that apply) <b>a</b> <input type="checkbox"/> A definition of the community served by the hospital facility <b>b</b> <input type="checkbox"/> Demographics of the community <b>c</b> <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community <b>d</b> <input type="checkbox"/> How data was obtained <b>e</b> <input type="checkbox"/> The health needs of the community <b>f</b> <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups <b>g</b> <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs <b>h</b> <input type="checkbox"/> The process for consulting with persons representing the community's interests <b>i</b> <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs <b>j</b> <input type="checkbox"/> Other (describe in Part VI)	<b>1</b>	
<b>2</b> Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____		
<b>3</b> In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	<b>3</b>	
<b>4</b> Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI . . . . .	<b>4</b>	
<b>5</b> Did the hospital facility make its Needs Assessment widely available to the public? . . . . . If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) <b>a</b> <input type="checkbox"/> Hospital facility's website <b>b</b> <input type="checkbox"/> Available upon request from the hospital facility <b>c</b> <input type="checkbox"/> Other (describe in Part VI)	<b>5</b>	
<b>6</b> If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) <b>a</b> <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community <b>b</b> <input type="checkbox"/> Execution of the implementation strategy <b>c</b> <input type="checkbox"/> Development of a community-wide community benefit plan for the facility <b>d</b> <input type="checkbox"/> Participation in community-wide community benefit plan <b>e</b> <input type="checkbox"/> Inclusion of a community benefit section in operational plans <b>f</b> <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA <b>g</b> <input type="checkbox"/> Prioritization of health needs in the community <b>h</b> <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community <b>i</b> <input type="checkbox"/> Other (describe in Part VI)		
<b>7</b> Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	<b>7</b>	
<b>Financial Assistance Policy</b>		
Did the hospital facility have in place during the tax year a written financial assistance policy that		
<b>8</b> Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	<b>8</b>	Yes
<b>9</b> Used federal poverty guidelines (FPG) to determine eligibility for providing free care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care <u>200 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used	<b>9</b>	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>500 000000000000%</u> If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input type="checkbox"/> Medicaid/Medicare g <input checked="" type="checkbox"/> State regulation h <input checked="" type="checkbox"/> Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance? . . . . .	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? . . . . . If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input type="checkbox"/> The policy was attached to all billing invoices c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input checked="" type="checkbox"/> Other (describe in Part VI)	13	Yes	

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment? . . . . .	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input type="checkbox"/> Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? . . . . . If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)			

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? . . . . . If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? . . . . . If "Yes," explain in Part VI		No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? . . . . . If "Yes," explain in Part VI		No

Part V

Facility Information (continued)

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

Trinity MC LLC dba Baylor Med Cntr at C

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):2

		Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)			
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8 . . . . . If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)		1	
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ____			
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted		3	
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI . . . . .		4	
5 Did the hospital facility make its Needs Assessment widely available to the public? . . . . . If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)		5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> Other (describe in Part VI)			
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs		7	
Financial Assistance Policy			
Did the hospital facility have in place during the tax year a written financial assistance policy that			
8	Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9	Used federal poverty guidelines (FPG) to determine eligibility for providing free care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care 200 0000000000000% If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No	
10	Used FPG to determine eligibility for providing discounted care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>500 000000000000%</u> If "No," explain in Part VI the criteria the hospital facility used	10	Yes	
11	Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply) a <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input type="checkbox"/> Insurance status e <input type="checkbox"/> Uninsured discount f <input type="checkbox"/> Medicaid/Medicare g <input checked="" type="checkbox"/> State regulation h <input checked="" type="checkbox"/> Other (describe in Part VI)	11	Yes	
12	Explained the method for applying for financial assistance? . . . . .	12	Yes	
13	Included measures to publicize the policy within the community served by the hospital facility? . . . . . If "Yes," indicate how the hospital facility publicized the policy (check all that apply) a <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input type="checkbox"/> The policy was attached to all billing invoices c <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input checked="" type="checkbox"/> Other (describe in Part VI)	13	Yes	

Billing and Collections

14	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment? . . . . .	14	Yes	
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments or arrests e <input type="checkbox"/> Other similar actions (describe in Part VI)			
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? . . . . . If "Yes," check all actions in which the hospital facility or a third party engaged a <input type="checkbox"/> Reporting to credit agency b <input type="checkbox"/> Lawsuits c <input type="checkbox"/> Liens on residences d <input type="checkbox"/> Body attachments e <input type="checkbox"/> Other similar actions (describe in Part VI)	16		No
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)			



Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
18	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? . . . . . If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> Other (describe in Part VI)		
20	Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? . . . . . If "Yes," explain in Part VI		No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? . . . . . If "Yes," explain in Part VI		No

Part V

Facility Information (continued)

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? 13

Name and address	Type of Facility (Describe)
1 See Additional Data Table	
2	
3	
4	
5	
6	
7	
8	
9	
10	

Part VI Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6l, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc )
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
		Part I, Line 3c and Line 3b In addition to providing free care to financially indigent patients at 200% of the federal poverty guidelines ("FPG"), the organization provides discounted care to the medically indigent which is based on both the FPG (up to 500% ) and the percentage of the patient's total bills from all providers in relation to the patient's annual income Pursuant to the charity care policy, a patient's total balance due will not exceed 10% of total annual income if the patient qualifies as medically indigent The organization also provides discounted care to those individuals whose amount of total bills, after all payments from third parties, exceeds 50% of the patient's annual income (regardless of the level of income) if the patient is unable to pay the remaining bill

Identifier	ReturnReference	Explanation
		Part I, Line 6a The organization prepares and files an Annual Report of Community Benefit Plan with the Texas Department of State Health Services This report is made available through the organization's website at www.baylorhealth.com

Identifier	ReturnReference	Explanation
		Part I, Line 7 A ratio of patient care cost to charges, as determined in Worksheet 2, was used to report the amounts in Part I, Lines 7a - 7d For amounts reported on lines 7e - 7k, actual expenses for each community benefit activity are tracked and reported using both community benefit software and/or the organization's cost accounting system Part I, Line 7b, Column (d) Includes payments from the State Medicaid Private Hospital Upper Payment Limit Program, which funds are to be used to expand indigent care Part I, Line 7i, Column (c) Includes charity care payments of \$2,217,824 that are made directly to or on the behalf of a local public hospital and/or other nonprofit organizations for the treatment of indigent patients of those organizations

Identifier	ReturnReference	Explanation
		Part I, L7 Col(f) The amount of bad debt expense included on Form 990, Part IX, line 25, but removed for Schedule H, Part I, Line 7, Column (f) totaled \$ 29,940,657

Identifier	ReturnReference	Explanation
		Part II Community Building Improving the health of surrounding communities is a priority of the organization including providing certain community building activities such as the following Over the last two years, the organization has completed a community health assessment addressing the existing needs of the communities through a comprehensive analysis and action-planning process for the cities in its primary and secondary service areas As a result, the organization developed a program with the goal to award participating communities up to an amount totaling \$50,000 for efforts that focus on improving the health of communities in Northeast Tarrant and Southern Denton counties The funding will seek to aid in the facilitation of programs that promote community-based wellness and prevention Through our collaborative efforts with local communities, we hope to empower individuals to take more control of their own health and develop a healthy lifestyle that will directly impact their future health care needs

Identifier	ReturnReference	Explanation
		Part III, Line 4 As stated in the combined audited financial statements, the organization maintains allowances for uncollectible accounts for estimated losses resulting from a payor's inability to make payments on accounts The organization assesses the reasonableness of the allowance account based on the historical write-offs, cash collections, the aging of the accounts and other economic factors Accounts are written off when collection efforts have been exhausted Management continually monitors and adjusts its allowance associated with its receivable Bad debt does not include amounts for patients who are known to qualify under the organizations charity care policy The amount of bad debt attributable to patient's accounts is net of contractual allowances, payments received and recoveries of bad debt previously written off Based on prior experience and certain demographics and other information obtained during admission, the organization believes a portion of the bad debt expenses would be attributable to patients that would otherwise qualify for charity care Despite all of the effort and ways the organization educates patients about qualifying for its charity care program as demonstrated in Part IV, question 3 below, many uninsured patients either refuse or fail to complete a charity care application or provide sufficient information at the time of admission, during their stay or after being discharged to qualify for assistance under the organization's charity care policy The amount reported on Part III, Line 3 was estimated by reviewing the average acceptance rate for charity care applications received at certain facilities during the year multiplied by the number of denials that were attributable to those facilities due to insufficient information



Identifier	ReturnReference	Explanation
		<p>Part III, Line 8 The amount reported on Part III, Section B, line 6 was calculated in accordance with the Schedule H instructions utilizing the organization's allowable cost reported in the Medicare cost report based on a cost to charge ratio. However, the allowable costs in the Medicare cost report do not reflect the actual cost of providing care to patients since the Medicare cost report excludes many direct patient care costs that are essential to providing quality care to these patients. For example, certain coverage fees to physicians, cost of Medicare C and D, and other similar direct patient care expenses are specifically excluded as allowable cost in the cost reports. Using the same methodology to calculate the unreimbursed cost of providing charity care and Medicaid (using applicable Schedule H Worksheets) would result in a shortfall of \$30,654,656, which is \$10,425,097 higher than the shortfall reported on Part III, Section B, Line 7. The organization believes that all of the shortfall should be considered as a community benefit for the following reasons. First, the IRS Community Benefit Standard includes the provision of care to the elderly and Medicare patients. IRS Revenue Ruling 69-545 provides, in part, that hospitals serving patients with governmental health benefits, including for example Medicare, is an indication that the hospital operates for the promotion of health in the community. Second, the organization provides care to Medicare patients regardless of this shortfall, i.e., loss, and thereby relieves the state and federal government of the burden of paying the full cost for the care of Medicare beneficiaries. Medicare does not provide sufficient reimbursement to cover the entire cost of providing care to these patients causing the organization to use other surplus funds to cover the shortfall. It is expected that reimbursement under the Medicare program will continue to decline and therefore may further limit access to care due to the anticipated reduction of participating Medicare providers in the community. As a result, the care for these patients will likely increase at, and rest on the shoulders of, nonprofit hospitals or county hospital districts. Third, many of the Medicare participants have low fixed incomes and therefore would qualify for charity care or other means tested government programs absent being enrolled in the Medicare program. Fourth, Texas nonprofit hospitals must provide a minimum level of community benefit in order to obtain exemption from state and local taxes. According to the current Texas Health and Safety Code, the unreimbursed cost of Medicare is considered to be a community benefit in determining these state statutory requirements as it helps relieve a governmental burden of providing this care that would otherwise be provided through the county hospital system in Texas.</p>

Identifier	ReturnReference	Explanation
		Part III, Line 9b The organization's debt collection policy and procedures prohibit any collection efforts for the portion of the patient account balance that qualifies for financial assistance under the organization's charity care policy For any remaining balances due, the same collection policy and procedures are applied equally to all patient types

Identifier	ReturnReference	Explanation
Baylor Regional Med Cntr at Grapevine		Part V, Section B, Line 10 In addition to providing free care to financially indigent patients at 200% of the federal poverty guidelines (FPG), the organization provides discounted care to the medically indigent which is based on both the FPG (up to 500%) and the percentage of the patient's total bills from all providers in relation to the patient's annual income Pursuant to the charity care policy, a patient's total balance due will not exceed 10% of total annual income if the patient qualifies as medically indigent The organization also provides discounted care to those individuals whose amount of total bills, after all payments from third parties, exceeds 50% of the patient's annual income (regardless of the level of income) if the patient is unable to pay the remaining bill

Identifier	ReturnReference	Explanation
Trinity MC, LLC dba Baylor Med Cntr at C		Part V, Section B, Line 10 In addition to providing free care to financially indigent patients at 200% of the federal poverty guidelines (FPG), the organization provides discounted care to the medically indigent which is based on both the FPG (up to 500%) and the percentage of the patient's total bills from all providers in relation to the patient's annual income Pursuant to the charity care policy, a patient's total balance due will not exceed 10% of total annual income if the patient qualifies as medically indigent The organization also provides discounted care to those individuals whose amount of total bills, after all payments from third parties, exceeds 50% of the patient's annual income (regardless of the level of income) if the patient is unable to pay the remaining bill

Identifier	ReturnReference	Explanation
Baylor Regional Med Cntr at Grapevine		Part V, Section B, Line 11h For almost 20 years, the hospital has adopted a financial assistance policy written in accordance with Texas Health and Safety Code Chapter 311 In general, that statute defines charity care as providing, funding or otherwise financially supporting health care services to a person classified by the hospital as financially or medically indigent, or providing funding or otherwise financially supporting health care services provided to financially indigent persons through other nonprofit or public clinics, hospitals or hospital organizations To determine if a patient meets the definition of financially or medically indigent in the statute, the number in the household is required Additionally, although assets and other resources are not included in the calculation to determine whether a patient is financially or medically indigent, the organization's policy reserves the right to allow the patient's assets or other resources to be considered when determining if financial assistance will be granted

Identifier	ReturnReference	Explanation
Trinity MC, LLC dba Baylor Med Cntr at C		Part V, Section B, Line 11h For almost 20 years, the hospital has adopted a financial assistance policy written in accordance with Texas Health and Safety Code Chapter 311 In general, that statute defines charity care as providing, funding or otherwise financially supporting health care services to a person classified by the hospital as financially or medically indigent, or providing funding or otherwise financially supporting health care services provided to financially indigent persons through other nonprofit or public clinics, hospitals or hospital organizations To determine if a patient meets the definition of financially or medically indigent in the statute, the number in the household is required Additionally, although assets and other resources are not included in the calculation to determine whether a patient is financially or medically indigent, the organization's policy reserves the right to allow the patient's assets or other resources to be considered when determining if financial assistance will be granted

Identifier	ReturnReference	Explanation
Baylor Regional Med Cntr at Grapevine		Part V, Section B, Line 13g Measures to publicize the policy within the community served by the hospital facility, include but are not limited to, the following 1) posting signs and notices regarding the charity care policy in the emergency departments, admitting areas and business offices located throughout the organization 2) annual posting regarding the organization's charity care program in the local newspapers 3) information regarding financial assistance, including the organization's charity care policy, is posted on the organization's website 4) notices about the organization's financial assistance policies are posted on each bill sent to patients including providing a phone number to access the customer service unit dedicated to answering patients billing questions, as well as provide information regarding financial assistance and 5) the organization provides free financial counselors to help patients determine how to meet their financial obligations for services provided Specifically financial counselors assist patients in applying for government assistance programs such as Medicaid or the organization's charity care program Any patient may request to speak to a financial counselor when being treated at the organization Uninsured patients who are admitted to the hospital will automatically receive help from a financial counselor These services are provided in writing and through interpretation services in the primary language of the patient requesting assistance Though the most often needed alternate language is Spanish, the organization can accommodate multiple languages including American Sign Language

Identifier	ReturnReference	Explanation
Trinity MC, LLC dba Baylor Med Cntr at C		Part V, Section B, Line 13g Measures to publicize the policy within the community served by the hospital facility, include but are not limited to, the following 1) posting signs and notices regarding the charity care policy in the emergency departments, admitting areas and business offices located throughout the organization 2) annual posting regarding the organization's charity care program in the local newspapers 3) information regarding financial assistance, including the organization's charity care policy, is posted on the organization's website 4) notices about the organization's financial assistance policies are posted on each bill sent to patients including providing a phone number to access the customer service unit dedicated to answering patients billing questions, as well as provide information regarding financial assistance and 5) the organization provides free financial counselors to help patients determine how to meet their financial obligations for services provided Specifically financial counselors assist patients in applying for government assistance programs such as Medicaid or the organization's charity care program Any patient may request to speak to a financial counselor when being treated at the organization Uninsured patients who are admitted to the hospital will automatically receive help from a financial counselor These services are provided in writing and through interpretation services in the primary language of the patient requesting assistance Though the most often needed alternate language is Spanish, the organization can accommodate multiple languages including American Sign Language



Identifier	ReturnReference	Explanation
Baylor Regional Med Cntr at Grapevine		Part V, Section B, Line 19d The organizations financial assistance policy is developed to provide discounted care to those qualifying for financial assistance to where the amount charged under the policy will always be equal to or lower than the average of the three largest (by volume) negotiated commercial insurance rates However, for those qualifying as medically indigent and whose income level is from 200% to 500% of the federal poverty level shall not be billed more than 10% of their annual income which is generally lower than the methodology listed above and the three methods listed in Q uestion Part V, Line 19ac

Identifier	ReturnReference	Explanation
Trinity MC, LLC dba Baylor Med Cntr at C		Part V, Section B, Line 19d The organizations financial assistance policy is developed to provide discounted care to those qualifying for financial assistance to where the amount charged under the policy will always be equal to or lower than the average of the three largest (by volume) negotiated commercial insurance rates However, for those qualifying as medically indigent and whose income level is from 200% to 500% of the federal poverty level shall not be billed more than 10% of their annual income which is generally lower than the methodology listed above and the three methods listed in Q uestion Part V, Line 19ac

Identifier	ReturnReference	Explanation
		Part VI, Line 2 Prior to June 30, 2012, the organization has elected to base their service area needs on a report generated by the local county hospital district The annual Our Community Health Checkup for the Dallas/Fort Worth Combined Metropolitan Statistical Area (Checkup) is a collaborative effort of member hospitals of the Dallas Fort Worth Hospital Council (DFWHC) The preparation (including support, research and analysis) of the report was provided by the staffs of the Strategic Planning and Population Medicine Department of the Parkland Health & Hospital System also known as the Dallas County Hospital District, Baylor Health Care System and other health care providers The Checkup was developed to address issues relative to health pertaining to individuals, families, and communities for use by the residents of the community and the institutions serving them The Checkup provides a framework by which health needs can be joined with the assets or investments made by the community in its social and physical infrastructure During the tax year ending June 30, 2013, the organization will be conducting a community health needs assessment and developing a written implementation strategy in accordance with the requirements under the Internal Revenue Code Section 501(r) which will be made widely available to the public on or before June 30, 2013

Identifier	ReturnReference	Explanation
		Part VI, Line 3 The organization is committed to promoting health in the community including providing or finding financial assistance programs to assist patients Patients who may qualify for financial assistance through the organization's charity care program or other federal, state and local government programs are informed and educated about their eligibility in several ways including, but not limited to, the following 1) posting signs and notices regarding the charity care policy in the emergency departments, admitting areas and business offices located throughout the organization, 2) annual posting regarding the organization's charity care program in the local newspapers, 3) information regarding financial assistance, including the organization's charity care policy, is posted on the organization's website, 4) notices about the organization's financial assistance policies are posted on each bill sent to patients including providing a phone number to access the customer service unit dedicated to answering patients billing questions, as well as provide information regarding financial assistance, and 5) the organization provides free financial counselors to help patients determine how to meet their financial obligations for services provided Specifically financial counselors assist patients in applying for government assistance programs such as Medicaid or the organization's charity care program Any patient may request to speak to a financial counselor when being treated at the organization Uninsured patients who are admitted to the hospital will automatically receive help from a financial counselor These services are provided in writing and through interpretation services in the primary language of the patient requesting assistance Though the most often needed alternate language is Spanish, the organization can accommodate multiple languages including American Sign Language

Identifier	ReturnReference	Explanation
		<p>Part VI, Line 4 The organization's community includes both the Baylor Grapevine and Baylor Carrollton service area as described below Located in Tarrant County, Baylor Grapevine's service area includes parts of the urban/suburban North Texas area including Tarrant, Denton and Dallas Counties The population is estimated to be approximately 783,365 The average household income is \$94,463 with 4 7 percent of the population having household incomes below the Federal Poverty Level (FPL) The population is made up of 69 8 percent white non-Hispanic, 15 2 percent Hispanic, 5 6 percent black non-Hispanic, 6 5 percent Asian and Pacific Islanders Non-Hispanic and 2 9 percent other Baylor Grapevine's service area payer mix is comprised of 50 5 percent Managed Care, 9 0 percent Medicaid, 31 0 percent Medicare and 9 2 percent Self-pay/Charity and 0 4 percent other There are approximately 10 other hospitals located within Baylor Grapevine's service area Baylor Grapevine's service area is partially medically underserved The areas designated as underserved by the Texas Department of State Health Services comprise the Diamond Hill area census tracts, the East Side low income census tracts and the Central Tarrant low income census tracts Located in Denton County, Baylor Carrolltons service area includes parts of the urban/suburban North Texas area including Carrollton, Dallas, Frisco and Lewisville The population is estimated to be approximately 592,157 The average household income is \$90,884 with 4 3 percent of the population having household incomes below the Federal Poverty Level (FPL) The population is made up of 58 8 percent white non-Hispanic, 22 2 percent Hispanic, 8 2 percent black non-Hispanic, 8 0 percent Asian and Pacific Islanders Non-Hispanic and 2 7 percent other The organizations service area payer mix is comprised of 47 9 percent Managed Care, 11 3 percent Medicaid, 30 3 percent Medicare and 10 2 percent Self-pay/Charity and 0 4 percent other There are approximately 10 other hospitals located within the organization service area Baylor Carrolltons service area does not contain any medically underserved areas</p>

Identifier	ReturnReference	Explanation
		<p>Part VI, Line 5 With the oversight of an independent volunteer community board and Baylor Health Care System, the organization's sole member, the organization, including both the Baylor Grapevine and Baylor Carrollton hospitals, has promoted health and benefited the community by providing access to more than 20 specialty centers designed to treat a range of medical conditions The organization's governing body is comprised of volunteer community representatives that provide leadership and governance for the organization The members of the governing body contribute their wisdom, insights, and expertise to ensure the organization is fulfilling its mission and charitable purpose while providing efficient administrative support services and direction for the System The members are well respected residents and/or own businesses in the organization's primary or secondary service area and understand the needs of the community The medical staff of the organization is open to all physicians in the community who meet membership and clinical privileges requirements Surplus funds are continuously utilized to maintain access to limited patient services or expand access points of care to patients throughout the community including, but not limited to, the following Baylor Grapevine operates an emergency department accepting all patients without the regard for their ability to pay The emergency department provides coverage 24 hours a day, seven days a week The expanded 23,000 square foot facility is equipped with bedside check-in and triage, and advanced scanning equipment to speed a patient's diagnosis and treatment Baylor Grapevine's involvement goes beyond the operating room and the patient floors, and reaches out to our community by way of treatment and prevention through events focused on community health education about chronic disease and issues related to maintaining a healthy lifestyle These events include an annual Women's Health Day, Men's Health Day, the Southlake Senior Center Health Fairs, and numerous health educational programs At these events, staff and physicians donate their time to educate the public on various health-related preventive measures and healthy lifestyle choices Through this commitment Baylor Grapevine served over 15,000 individuals Medical education is a crucial part of the Baylor Grapevine's mission During a nurses training, clinical skills and professional competencies are developed to provide the nurse with the ability to take on increasing responsibility for patient care Quality teaching programs add many dimensions to Baylor Grapevine's ability to serve patients During the fiscal year 2012 Baylor Grapevine provided education for nursing students from across the Dallas Fort Worth Metroplex to help improve the level of medical care for the entire community Teaching programs also aid attending teaching nurse staff in keeping their own knowledge current Upon completion of their education programs at Baylor Grapevine, many nurses remain in North Texas, providing a continuous supply of well-trained medical professionals for the region Baylor Carrollton is committed to promoting an environment of wellness in its community and coaches residents to intentionally adopt healthier lifestyles to reduce the number of deaths associated with chronic disease Throughout the year Baylor Carrollton offers free preventive health services to the community such as health screenings, health fairs, immunizations and community education These efforts are targeted to meet the community health needs identified in the Checkup and during the fiscal year over 70,000 individuals benefitted through these efforts Baylor Carrollton provides a broad spectrum of medical and health care services to the North Dallas community The medical staff comprises over five hundred physicians representing more than fifty specialties Baylor Carrollton provides comprehensive diagnostic, surgical, and medical care for inpatients and outpatients, as well as 24-hour emergency care Baylor Carrolltons emergency department is designated as an accredited chest pain center and the Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations (TJC), the nations oldest and largest hospital accreditation agency Baylor Carrollton is also committed to assisting with the preparation of future nurses at entry and advanced levels of the profession to establish a workforce of qualified nurses Through BHCS relationships with fifteen North Texas schools of nursing, the Hospital maintains strong affiliations with schools of nursing In the fiscal year ending June 30, 2012, Baylor Carrollton invested in training 148 nurses Total unreimbursed cost of these programs was \$438,961 Like physicians, nursing graduates trained at a System entity are not obligated to join the staff although many remain in the North Texas area to provide top quality nursing services to many health care institutions</p>

Identifier	ReturnReference	Explanation
		<p>Part VI, Line 6 The organization is part of a large faith based integrated health care delivery system ("System") serving the health care needs of the twelve county Dallas-Fort Worth metroplex area The System exists to serve all people through exemplary health care, education, research and community service Community benefits are provided through the provision of charity care, governmental sponsored programs (such as Medicaid and Medicare), medical research, medical education, community health improvement services, donations to other nonprofit health care providers, and many other community service activities During the year, the affiliated nonprofit hospitals reported community benefits (as reported to the Texas Department of State Health Services, and in accordance with the State of Texas Statutory methodology) in excess of \$539,700,000 The System's nonprofit hospitals provided community benefits (as reported on the IRS Form 990, Schedule H) in excess of \$221,650,000 during the tax year The Texas Annual Statement of Community Benefit Standard includes approximately \$297,000,000 of unreimbursed cost of Medicare that is not included in the IRS Form 990, Schedule H The System is comprised of separate legal entities including philanthropic foundations, a research institute, a physician network, acute care hospitals, short-stay hospitals, specialty hospitals, ambulatory surgery centers and other health care providers all which fall under the common control of Baylor Health Care System, the organization's sole member As part of the System, certain affiliates make grants and/or contributions to other related nonprofit affiliates to help financially support and/or fund worthy community benefits activities The System has also established a patient transfer system among the affiliated hospitals allowing patients needing a particular level of care to be transferred as needed to a related hospital that can provide that service in an efficient and effective manner As part of the System, all hospitals and other affiliated health care providers are required to adhere to high standards for medical quality, patient safety and patient satisfaction These standards are set forth by Baylor Health Care System, the organization's sole member, which helps ensures consistency across the System</p>

Identifier	ReturnReference	Explanation
Reports Filed With States	Part VI, Line 7	TX



## Additional Data

**Software ID:**  
**Software Version:**  
**EIN:** 75-1777119  
**Name:** Baylor Regional Medical Center at Grapevine

**Form 990 Schedule H, Part V Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility**

[illegible]

Schedule I  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Grants and Other Assistance to Organizations,  
Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.  
▶ Attach to Form 990

OMB No 1545-0047

2011

Open to Public  
Inspection

Name of the organization  
Baylor Regional Medical Center at Grapevine

Employer identification number  
75-1777119

Part I General Information on Grants and Assistance

1

Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . . .

☒ Yes ☐ No

2

Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Use Part IV and Schedule I-1 (Form 990) if additional space is needed . . . . . ☐

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1) Tarrant County Indigent Care Corporation612 East Lamar Blvd Arlington, TX 76011	26-0648532	501(c)(3)	759,585		N/A	N/A	Indigent Care
(2) Baylor University Medical Center2001 Bryan Street Suite 2200 Dallas, TX 75201	75-1837454	501(c)(3)	1,169,762		N/A	N/A	Indigent Care

2

Enter total number of section 501(c)(3) and government organizations listed in the line 1 table . . . . .

2

3

Enter total number of other organizations listed in the line 1 table . . . . .

0

Part III

Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22.  
Use Schedule I-1 (Form 990) if additional space is needed.

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance
(1) Scholarships	3	9,000		N/A	N/A

Part IV

Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

Identifier	Return Reference	Explanation
Procedure for Monitoring Grants in the U S	Part I, Line 2	Schedule I, Part I, Line 2 Monitoring Grants & Other Assistance As part of its mission, the organization provides grants and other assistance to related organizations and/or unrelated not-for-profit organizations which are religious, charitable, scientific, or educational in nature, within the meaning of Internal Revenue Code Section 501(c)(3), when the use will further one or more tenets of Baylor's charitable mission and one of the following criteria for use of these funds is met (1)Fulfills a need identified by a community needs assessment conducted by Baylor Health Care System (BHCS) or a third party (such as Community Health Check Up or by the United Way) and adopted as a priority by BHCS's Community Service Advisory Council, (2) Serves an under-served community or group of people through medical mission work to improve their health status For related organizations, all grants and other assistance are subject to the policies and procedures set forth by BHCS which ensures all funds are used in accordance with the guidelines set forth above and in accordance with the related organization's exempt purpose Grants and other assistance provided to unrelated organizations are typically monitored by personal inspection Examples include providing assistance to entities where the filing organization's employee serves as a Board Member for the recipient organization or through attendance at community events where the filing organization employees work as volunteers or to help coordinate these events

Schedule J  
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization  
Baylor Regional Medical Center at Grapevine

Employer identification number  
75-1777119

Part I

Questions Regarding Compensation

		Yes	No
1a	Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items		
	<input type="checkbox"/> First-class or charter travel		
	<input checked="" type="checkbox"/> Travel for companions		
	<input checked="" type="checkbox"/> Tax idemnification and gross-up payments		
	<input checked="" type="checkbox"/> Discretionary spending account		
	<input checked="" type="checkbox"/> Housing allowance or residence for personal use		
	<input type="checkbox"/> Payments for business use of personal residence		
	<input type="checkbox"/> Health or social club dues or initiation fees		
	<input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain	1b	Yes
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	2	Yes
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply		
	<input checked="" type="checkbox"/> Compensation committee		
	<input checked="" type="checkbox"/> Independent compensation consultant		
	<input type="checkbox"/> Form 990 of other organizations		
	<input type="checkbox"/> Written employment contract		
	<input checked="" type="checkbox"/> Compensation survey or study		
	<input checked="" type="checkbox"/> Approval by the board or compensation committee		
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization		
a	Receive a severance payment or change-of-control payment?	4a	Yes
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b	Yes
c	Participate in, or receive payment from, an equity-based compensation arrangement?	4c	No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.		
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of		
a	The organization?	5a	No
b	Any related organization?	5b	No
	If "Yes," to line 5a or 5b, describe in Part III		
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of		
a	The organization?	6a	No
b	Any related organization?	6b	No
	If "Yes," to line 6a or 6b, describe in Part III		
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	7	Yes
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	8	No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	9	

**Note.** The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual.

**Schedule J (Form 990) 2011**

**Part III Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
	Part I, Line 1a	Tax indemnification and gross up payments - The organization provides tax indemnification where an authorized member of management determines there is justification to reimburse an individual for the tax impact on certain taxable, non-cash benefits provided to them. All tax indemnification payments provided are treated as taxable compensation. Eight of the persons listed in the Form 990, Part VII, Section A, received this benefit during the tax year.
	Part I, Line 1a	Travel for companions-The organization reimburses eligible employees and board members certain reasonable travel expenses associated with spousal travel where the spouse's presence is important to the event. These events may include, for example, board meetings, business meetings, and award ceremonies approved by Baylor Health Care System's (BHCS) CEO. All spousal travel reimbursements are treated as taxable compensation. One of the persons listed in the Form 990, Part VII, Section A, received this benefit during the tax year.
	Part I, Line 1a	Housing allowance or residence of personal use-The organization provides temporary housing to eligible employees under the organization's moving and relocation reimbursement policy. All temporary housing provided to any employee is treated as taxable compensation. Two of the persons listed in the Form 990, Part VII, Section A, received this benefit during the tax year.
	Part I, Line 1a	Discretionary spending account-The organization provides eligible employees who travel frequently in their personal vehicle an auto expense allowance in lieu of reimbursement for business mileage under the organization's business travel and expense reimbursement policy. All auto expense allowances are treated as taxable compensation. Five of the persons listed in the Form 990, Part VII, Section A, received this benefit during the tax year.
	Part I, Lines 4a-b	Spencer Turner's employment with the organization terminated during the tax year and he received a severance payment of \$614,593. In order to recruit and retain key talent, BHCS offers a supplemental non qualified retirement plan to eligible employees. The plan provides an annual benefit (based on a percentage of compensation) to the employee that is paid to the employee on a future date upon vesting in the plan. The following individual(s) participated in and/or received payments (noted in parenthesis) from BHCS' supplemental non qualified retirement plan during the tax year: Scott Peek (\$19,598), T. Doug Lawson (\$27,963), Paul Madeley, M.D. (\$42,772), Christopher York (\$17,061), Michael Sanborn (\$27,811), Spencer Turner (\$43,707) and William Boyd. Also, select certain officers, as designated by BHCS's governing body, are eligible to participate in a Long Term Incentive Plan that is designed to recognize the key senior leaders' value and contribution to BHCS as well as align their compensation to the long term strategy of BHCS. Performance targets are based upon a percentage of the participants' base salary and are developed by independent third party expert(s) using market competitive data within the guides of reasonableness. The plan is based on BHCS's three-year performance against its peers, determined based on peer rankings or percentile rankings in quality, patient satisfaction and financial performance. At the end of three years, awards are determined by BHCS's governing body for participants. Payouts are partially made in cash and the remainder vests over an additional two year period. The following individuals participated in and/or received payments (noted in parenthesis) from this plan during the tax year: William Boyd (\$115,038), Doug Lawson (\$58,281) and Scott Peek (\$37,459).
	Part I, Line 7	The organization has adopted and implemented BHCS's, the organization's sole member, Performance Award Program to provide a market competitive total cash compensation incentive program that is designed to attract and retain key leaders and establish greater individual accountability and alignment to business performance. Payout targets are based upon a percentage of base pay and are developed by independent third party expert(s) using comparable market competitive data within the bounds of reasonableness and that are reviewed and approved by BHCS's governing body. Payout levels are based upon a combination of system, entity, and individual performance using various metrics related to quality, patient satisfaction, employee retention, and financial stewardship. BHCS's governing body may approve modifications to annual incentive awards provided under the program consistent with market comparability data.
Supplemental Information	Part III	Supplemental Information: Governing body compensation. The members of the governing body serve on a voluntary basis and receive no cash compensation from the organization for these duties as a member of the governing body. Some, but not all, members have received modest benefits incident to their service on the board and/or multiple board committees or received compensation as an employee of a related organization. These benefits include reimbursement for certain reasonable expenses paid on behalf of the member's spouse while accompanying the member on business travel on behalf of the related organization and/or a wellness physical. All such benefits are treated as taxable compensation to the extent required by law and are reported in the Form 990 where applicable.

Software ID:

Software Version:

EIN: 75-1777119

Name: Baylor Regional Medical Center at Grapevine

## Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
Paul Madeley MD	(i)	0	0	0	0	0	0	0
	(ii)	446,493	0	58,887	61,035	18,575	584,990	42,772
Christopher York	(i)	122,275	41,536	34,772	17,039	10,264	225,886	0
	(ii)	94,012	0	17,790	15,605	12,274	139,681	17,061
Elizabeth Houser	(i)	173,985	38,604	310	9,011	20,626	242,536	0
	(ii)	0	0	0	0	0	0	0
T Doug Lawson	(i)	336,075	154,978	40,304	113,541	31,601	676,499	27,963
	(ii)	0	0	0	0	0	0	0
Terri Foster	(i)	199,992	41,469	770	10,134	17,128	269,493	0
	(ii)	0	0	0	0	0	0	0
William Boyd	(i)	0	0	0	0	0	0	0
	(ii)	554,997	277,981	27,126	212,834	27,145	1,100,083	0
Karen Stubbs	(i)	178,489	30,274	810	9,293	21,768	240,634	0
	(ii)	0	0	0	0	0	0	0
Michael Sanborn	(i)	85,215	45,600	14,214	12,508	6,637	164,174	0
	(ii)	151,379	0	28,973	24,085	11,528	215,965	27,811
Norma Kretzschmar	(i)	183,628	34,598	0	9,306	16,905	244,437	0
	(ii)	0	0	0	0	0	0	0
Spencer Turner	(i)	184,141	62,268	689,045	9,386	13,327	958,167	43,707
	(ii)	0	0	0	0	0	0	0
Byron Murphy	(i)	117,567	23,003	1,485	6,236	21,413	169,704	0
	(ii)	0	0	0	0	0	0	0
Christine Cerone	(i)	132,884	500	7,140	7,152	24,431	172,107	0
	(ii)	0	0	0	0	0	0	0
Robert Batton	(i)	154,870	100	4,313	1,331	19,238	179,852	0
	(ii)	0	0	0	0	0	0	0
Ronald Jensen	(i)	128,281	21,853	568	6,550	17,010	174,262	0
	(ii)	0	0	0	0	0	0	0
Shidramappa Kotagi	(i)	156,478	0	6,617	8,248	22,789	194,132	0
	(ii)	0	0	0	0	0	0	0
Preshie Wilson	(i)	0	0	0	0	0	0	0
	(ii)	203,373	34,878	310	10,365	18,384	267,310	0
Scott Peek	(i)	107,061	0	55,498	18,363	10,838	191,760	19,598
	(ii)	146,137	104,261	10,669	57,005	14,022	332,094	0

SCHEDULE M  
(Form 990)

NonCash Contributions

OMB No 1545-0047

2011

Open to Public Inspection

►Complete if the organization answered "Yes" on Form 990, Part IV, lines 29 or 30.  
► Attach to Form 990.

Name of the organization  
Baylor Regional Medical Center at Grapevine

Employer identification number  
75-1777119

Part I

Types of Property

	(a) Check if applicable	(b) Number of Contributions or items contributed	(c) Contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining contribution amounts
1 Art—Works of art . . . . .				
2 Art—Historical treasures . . . . .				
3 Art—Fractional interests . . . . .				
4 Books and publications . . . . .				
5 Clothing and household goods . . . . .				
6 Cars and other vehicles . . . . .				
7 Boats and planes . . . . .				
8 Intellectual property . . . . .				
9 Securities—Publicly traded . . . . .				
10 Securities—Closely held stock . . . . .				
11 Securities—Partnership, LLC, or trust interests . . . . .				
12 Securities—Miscellaneous . . . . .				
13 Qualified conservation contribution—Historic structures . . . . .				
14 Qualified conservation contribution—Other . . . . .				
15 Real estate—Residential . . . . .				
16 Real estate—Commercial . . . . .	X	1	1,173,968	Fair Market Value
17 Real estate—Other . . . . .				
18 Collectibles . . . . .				
19 Food inventory . . . . .				
20 Drugs and medical supplies . . . . .				
21 Taxidermy . . . . .				
22 Historical artifacts . . . . .				
23 Scientific specimens . . . . .				
24 Archeological artifacts . . . . .				
25 Other ► ( _____ )				
26 Other ► ( _____ )				
27 Other ► ( _____ )				
28 Other ► ( _____ )				

29 Number of Forms 8283 received by the organization during the tax year for contributions for which the organization completed Form 8283, Part IV, Donee Acknowledgement . . . . .

29

0

30a	During the year, did the organization receive by contribution any property reported in Part I, lines 1-28 that it must hold for at least three years from the date of the initial contribution, and which is not required to be used for exempt purposes for the entire holding period? . . . . .	Yes	No
30a			No
b	If "Yes," describe the arrangement in Part II		
31	Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?	Yes	
32a	Does the organization hire or use third parties or related organizations to solicit, process, or sell non-cash contributions? . . . . .		No
32a			No
b	If "Yes," describe in Part II		
33	If the organization did not report revenues in column (c) for a type of property for which column (a) is checked, describe in Part II		



Part III

**Supplemental Information.** Complete this part to provide the information required by Part I, lines 30b, 32b, and 33. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
Method for Determining Number of Contributors	Part I, Column (b)	The organization is reporting based on the number of contributions, not the number of items contributed

SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on  
Form 990 or to provide any additional information.  
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2011

Open to Public  
Inspection

Name of the organization Baylor Regional Medical Center at Grapevine	Employer identification number  75-1777119
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Identifier	Return Reference	Explanation
	Form 990, Part VI, Section A, line 6	Members or stockholders The organization is a Texas nonprofit membership organization in which Baylor Health Care System ("BHCS"), a tax exempt, Texas nonprofit corporation, is the sole member

SCHEDULE R  
(Form 990)

Department of the Treasury  
Internal Revenue Service

**Related Organizations and Unrelated Partnerships**  
▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.**  
▶ **Attach to Form 990.** ▶ **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

**Name of the organization**  
Baylor Regional Medical Center at Grapevine

**Employer identification number**  
75-1777119

**Part I** Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) Trinity MC LLC 2001 Bryan Street Suite 2200 Dallas, TX 75201 20-8889358	Acute Care Hospital	TX	118,949,163	99,370,535	Baylor Regional Medical Center at Grapevine

**Part II** Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of- year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
See Additional Data Table												

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
See Additional Data Table							

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1

During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a

Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b

Gift, grant, or capital contribution to related organization(s)

c

Gift, grant, or capital contribution from related organization(s)

d

Loans or loan guarantees to or for related organization(s)

e

Loans or loan guarantees by related organization(s)

f

Sale of assets to related organization(s)

g

Purchase of assets from related organization(s)

h

Exchange of assets with related organization(s)

i

Lease of facilities, equipment, or other assets to related organization(s)

j

Lease of facilities, equipment, or other assets from related organization(s)

k

Performance of services or membership or fundraising solicitations for related organization(s)

l

Performance of services or membership or fundraising solicitations by related organization(s)

m

Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

n

Sharing of paid employees with related organization(s)

o

Reimbursement paid to related organization(s) for expenses

p

Reimbursement paid by related organization(s) for expenses

q

Other transfer of cash or property to related organization(s)

r

Other transfer of cash or property from related organization(s)

Yes

No

1a

Yes

1b

Yes

1c

Yes

1d

No

1e

No

1f

No

1g

No

1h

No

1i

No

1j

No

1k

Yes

1l

Yes

1m

No

1n

No

1o

Yes

1p

No

1q

Yes

1r

No

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) See Additional Data Table			
(2)			
(3)			
(4)			
(5)			
(6)			

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation	
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Software ID:

Software Version:

EIN: 75-1777119

Name: Baylor Regional Medical Center at Grapevine

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary Activity	(c) Legal Domicile (State or Foreign Country)	(d) Exempt Code section	(e) Public charity status (if 501(c)(3))	(f) Direct Controlling Entity	(g) Section 512 (b)(13) controlled organization	
Baylor Health Care System  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1812652	Management Services	TX	501(c)(3)	11, Type III	N/A		No
Baylor University Medical Center  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1837454	Acute Care Hospital	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Medical Centers at Garland and McKinney  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1037591	Acute Care Hospital	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Medical Center at Irving  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-2586857	Acute Care Hospital	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Medical Center at Waxahachie  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1844139	Acute Care Hospital	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Regional Medical Center at Plano  2001 Bryan Street Suite 2200 Dallas, TX 75201 82-0551704	Acute Care Hospital	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Institute for Rehabilitation at Gaston Episcopal Hospital  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1037226	Rehabilitation Hospital	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Specialty Health Centers  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1765385	Long Term Care Hospitals	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor All Saints Medical Center  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1008430	Acute Care Hospital	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Health Care System Foundation  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1606705	Fundraising	TX	501(c)(3)		7 Baylor Health Care System	Yes	
All Saints Health Foundation  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1947007	Fundraising	TX	501(c)(3)		7 Baylor All Saints Medical Center	Yes	
HealthTexas Provider Network  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-2536818	Physician Practices	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Health Services  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1917311	Inactive	TX	501(c)(3)		3 Baylor Health Care System	Yes	
Baylor Research Institute  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1921898	Research	TX	501(c)(3)		4 Baylor Health Care System	Yes	
Southern Sector Health Initiative  2001 Bryan Street Suite 2200 Dallas, TX 75201 26-3087442	Diabetes Health & Wellness Center	TX	501(c)(3)	11, Type I	Baylor University Medical Center	Yes	
Baylor Health Care System Employee Benefit Trust  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1848557	VEBA	TX	501(c)(9)		Baylor Health Care System	Yes	
Irving Healthcare Foundation  2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1570933	Fundraising	TX	501(c)(3)		7 Baylor Medical Center at Irving	Yes	









Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal Domicile (State or Foreign Country)	(d) Direct Controlling Entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income (\$)	(g) Share of end-of-year assets (\$)	(h) Percentage ownership
Baylor Health Enterprises LP 2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1997378	Fitness Center/Pharmacy/Hotel	TX	N/A	C			
Baylor Health Network Inc 2001 Bryan Street Suite 2200 Dallas, TX 75201 75-2463251	Billing/Collection	TX	N/A	C			
BMP Incorporated 2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1436779	Post Office	TX	N/A	C			
Health Care Insurance Company of Texas Ltd PO Box GT 2nd Fl Buckingham Sq Grand Cayman CJ 98-0403182	Investments	CJ	N/A	C			
Baylor Medical Center at Grapevine Condominium Owners Association Inc 2001 Bryan Street Suite 2200 Dallas, TX 75201 75-2747555	Condo Association	TX	Baylor Reg Med Ctr at Grapevine	C			100 000 %
BUMCRoberts Condominium Owners Association Inc 2001 Bryan Street Suite 2200 Dallas, TX 75201 75-2897806	Condo Association	TX	N/A	C			
Baylor All Saints Med Cntr at Ft Worth Condo Owners Association Inc 2001 Bryan Street Suite 2200 Dallas, TX 75201 26-1661900	Condo Association	TX	N/A	C			
Baylor Quality Health Care Alliance LLC 2001 Bryan Street Suite 2200 Dallas, TX 75201 45-4015863	ACO	TX	N/A	C	193,126	1,276,104	25 000 %

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(1) HealthTexas Provider Network	A	372,445	GAAP
(2) Baylor Health Care System Foundation	C	1,392,253	GAAP
(3) Baylor Health Care System	L	49,026,640	GAAP
(4) Baylor University Medical Center	L	364,017	GAAP
(5) HealthTexas Provider Network	L	1,574,802	GAAP
(6) MEDCO Construction LLC	L	16,941,270	GAAP
(7) Baylor Health Care System	O	634,761	GAAP
(8) BIR JV LLP	L	1,386,866	GAAP
(9) Baylor Health Care System	Q	1,124,891	GAAP
(10) Baylor University Medical Center	B	1,169,762	GAAP
(11) Baylor Health Care System	Q	706,217	GAAP
(12) Baylor Quality Health Care Alliance LLC	B	1,250,000	GAAP

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section A, line 7a	Election of members of governing body by members, stockholders, or other persons The sole member, BHCS, elects and removes the members of the governing body

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section A, line 7b	Governing body decisions subject to approval All rights and powers are reserved to the sole member, BHCS, except only those rights and powers expressly set forth in the bylaws, required by state or federal law , or to meet the requirements and standards promulgated by Joint Commission For example, the member's reserved rights and powers include, without limitation, approval of the organization's articles of incorporation and bylaws and amendments thereto, appointment and removal of members of the organization's governing body, approval of dissolutions and mergers, and other similar decisions over the organization

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 11	Process used to review the Form 990 The Form 990 is prepared and reviewed by BHCS's tax department During the return preparation process the tax department works with other functional areas including finance, accounting, treasury, legal, human resources, and corporate compliance for advice, information and assistance to prepare a complete and accurate return Upon completion, the Form 990 is reviewed by the organization's President, financial officer and/or other key officers A complete final copy of the return is provided to the organization's governing body prior to filing with the IRS



Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 12c	Process used to monitor and enforce compliance with the organization's conflict of interest policy. Persons with the actual or perceived ability to influence the organization have the duty to disclose annually and otherwise promptly as potential conflicts are identified, any familial, professional or financial relationships with entities or individuals that do, or seek to do business with the organization or that compete with the organization. These individuals include the organization's officers, governing body, management, physicians with administrative services agreements and other key personnel who interact with outside organizations or businesses on behalf of the organization. The BHCS Board of Trustees Audit and Compliance Committee and the BHCS Corporate Compliance Committee review all relevant disclosures submitted by these individuals to determine whether a conflict of interest exists and to determine an appropriate resolution, if necessary. Any individual with a perceived or potential conflict is prohibited from voting or participating in the decision making process regarding such transaction with that individual.

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 15	<p>Process for determining compensation The organization, a controlled affiliate of BHCS, recognizes that those chosen to lead the organization are vital to its ongoing success and growth Thus, it must attract, retain and engage the highest quality officers and key employees to lead the organization and help BHCS maintain its national reputation for achieving high targets for medical quality, patient safety, and patient satisfaction A significant portion of the organization's officers' and key employees' total compensation is based on significant performance achievements This strategy, known as the Performance Award Program, works to put a greater emphasis on the importance of the organization achieving targeted improvements in the areas of People, Quality, Patient Satisfaction and Financial Stewardship, annually Total executive compensation is part of an integrated talent management strategy developed by the BHCS Board of Trustees and its Compensation and Governance Committee (Committee) to attract, motivate, and retain the best leadership resources for the organization Executive compensation is determined pursuant to guidelines outlined in the intermediate sanction rules under IRC Section 4958 including taking steps to meet the rebuttable presumption standard of reasonableness under Treasury Regulation 53.4958-6, as summarized below</p> <p>When making compensation decisions, the organization compares itself to similar-sized, and structured businesses including other integrated health care service systems and other similar-sized organizations, both locally and nationally The BHCS Board of Trustees and Committee, on behalf of the organization, work directly with independent compensation expert(s) to identify reasonable and competitive market rates as well as provide an annual review of the total compensation of the organization's top management officials and key employees The Committee is made up of members of the BHCS Board of Trustees, who are independent, community volunteers Guided by the information provided by the independent compensation expert(s), the Committee approves and recommends to the BHCS Board of Trustees salary increases, earned incentives, and benefit offerings for the organization's President, other officers and/or key employees to be comparable to similar organizations for similar services and/or positions Furthermore, the Committee is charged with the responsibility of reviewing annually the major elements of the executive compensation program to assure designs remain consistent with the business needs, market practices, and compensation philosophy As part of the decision making process, the Committee will often meet in executive session to discuss and review recommendations made by the independent compensation expert(s) During the executive session no officer or key employee whose compensation is being reviewed is present during these discussions All decisions are contemporaneously documented in the Committee minutes which are timely reviewed and approved by the Committee</p>

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section C, line 19	Process for making governing documents, conflict of interest policy, & financial statements available to the public The organization's articles of incorporation and amendments thereto are made available to the public by the filing of those documents with the Texas Secretary of State. Also, the organization is included within the combined financial statements of BHCS that are made available to the public by the posting of those documents through DAC Bond and are attached to this return. The organization's other governing documents and conflicts of interest policy are not made available to the public.

Identifier	Return Reference	Explanation
	Form 990, Part VII Hours devoted to related organizations	The persons listed below also serve either as a voluntary member of the governing body, an employed officer, or an employee of a related organization. The average hours per week devoted to the related organizations are listed below: William Boyd (40 Hours), Ron Carter (10 Hours), Walker Harman (10 Hours), Roy Lamkin (10 Hours), Paul Madeley, MD (40 Hours), Tim Owens (10 Hours), Preslie Wilson (40 Hours), Christopher York, Michael Sanborn, and Scott Peek transferred to/from a related organization during the year. They worked an average of 40 hours per week both before and after the transfer.

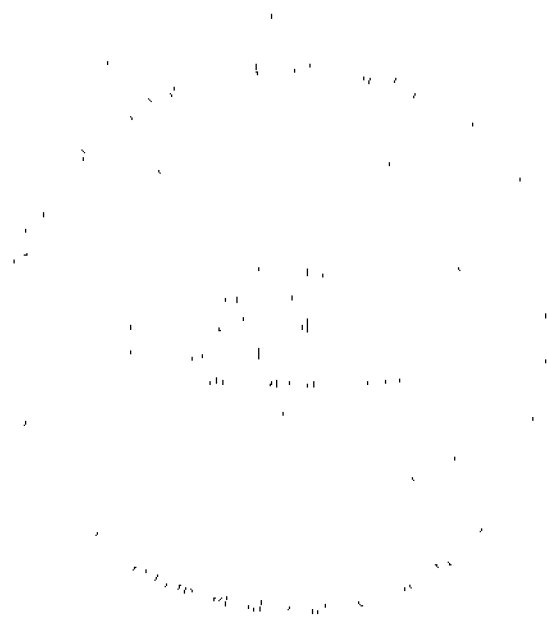
Identifier	Return Reference	Explanation
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 5	Net unrealized losses on investments -8,359,022 Change in Net Assets Held at BHCS Foundation 579,125 Volunteer Auxiliary -14,055 Transfer to/from BHCS-Liability Reserve -1,124,891 Total to Form 990, Part XI, Line 5 -8,918,843

Identifier	Return Reference	Explanation
	Supplemental Information IRC Section 6038 Statement	Baylor Grapevine is controlled by BHCS, Employer Identification Number 75-1812652 BHCS also owns Health Care Insurance Company of Texas, Ltd (HCIC) HCIC is a controlled foreign corporation BHCS furnishes all information required of Baylor Grapevine by IRC Section 6038 and the regulations thereunder with respect to HCIC Therefore, pursuant to Treasury Regulation Sec 1 6038-2(j)(2), Baylor Grapevine is excepted from providing such information BHCS files its Return of Organization Exempt from Income Tax in Ogden, Utah



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**Combined Financial Statements  
and Supplementary Information  
Years ended June 30, 2012 and 2011**



**BAYLOR HEALTH CARE SYSTEM**

*Combined Financial Statements and Supplementary Information*  
*Years ended June 30, 2012 and 2011*



# **BAYLOR HEALTH CARE SYSTEM**

## **Combined Financial Statements and Supplementary Information**

Years ended June 30, 2012 and 2011

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
Baylor Health Care System.

In our opinion, the accompanying combined balance sheets and the related combined statements of operations and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of Baylor Health Care System and subsidiaries (the "System") at June 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

November 5, 2012

# BAYLOR HEALTH CARE SYSTEM

## COMBINED BALANCE SHEETS - JUNE 30, 2012 AND 2011 (In thousands)

ASSETS	2012	2011	LIABILITIES AND NET ASSETS	2012	2011
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents	\$ 261,348	\$ 218,263	Current maturities of long-term debt and capital lease obligations	\$ 37,519	\$ 43,955
Short-term investments	55,869	59,550	Long-term debt subject to short-term remarketing arrangements	50,000	50,000
THVG funds due from United Surgical Partners, Inc.	46,854	46,538	Trade accounts payable	156,001	163,336
Accounts receivable:			Payable under securities lending program	165,281	109,626
Patient, net of allowance for uncollectibles of \$126,478 and \$115,970 in 2012 and 2011, respectively	395,266	397,288	Accrued liabilities:		
Other	30,724	66,357	Payroll related	182,552	157,102
Invested collateral - securities lending program	165,281	109,626	Third-party programs	51,569	57,984
Other current assets	118,156	99,775	Other	126,059	111,416
Total current assets	1,073,498	997,397	Total current liabilities	768,981	693,419
<b>LONG-TERM INVESTMENTS:</b>			<b>LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities</b>	1,186,028	1,213,863
Unrestricted	1,440,238	1,473,908	<b>OTHER LONG-TERM LIABILITIES:</b>		
Restricted	273,709	263,463	Self insurance and other insurance liabilities	57,574	71,235
Total long-term investments	1,713,947	1,737,371	Interest rate swap liability, net	91,477	66,604
<b>ASSETS WHOSE USE IS LIMITED:</b>			Other	126,505	124,896
Other designated assets	7,633	6,663	Total other long-term liabilities	275,556	262,735
Self insurance retention trust	66,016	57,561	Total liabilities	2,230,565	2,170,017
Funds held by bond trustee	37,345	118,903	<b>COMMITMENTS AND CONTINGENCIES</b>		
Total assets whose use is limited	110,994	183,127	<b>NONCONTROLLING INTERESTS - REDEEMABLE</b>	148,008	120,830
<b>ASSETS HELD FOR SALE</b>	3,635	-	<b>NET ASSETS:</b>		
<b>PROPERTY AND EQUIPMENT, net</b>	2,068,308	1,941,261	Unrestricted - attributable to BHCS	2,490,551	2,443,733
<b>CONTRIBUTIONS RECEIVABLE, net</b>	51,252	54,234	Unrestricted - noncontrolling interests-nonredeemable	119,941	114,412
<b>INVESTMENTS OF INSURANCE SUBSIDIARIES</b>	2,163	2,126	Total unrestricted net assets	2,610,492	2,558,145
<b>OTHER LONG-TERM ASSETS:</b>			Temporarily restricted	152,209	147,421
Equity investments in unconsolidated entities	9,057	13,100	Permanently restricted	175,284	175,113
Goodwill and intangible assets, net	250,532	217,691	Total net assets	2,937,985	2,880,679
Other	33,172	25,219	Total liabilities and net assets	\$ 5,316,558	\$ 5,171,526
Total other long-term assets	292,761	256,010			
Total assets	\$ 5,316,558	\$ 5,171,526			

See accompanying notes.

# BAYLOR HEALTH CARE SYSTEM

## COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Net patient care revenue	\$ 3,921,273	\$ 3,821,093
Other operating revenue	107,015	152,246
Net assets released from restrictions for operations	<u>57,224</u>	<u>54,650</u>
Total operating revenue	<u>4,085,512</u>	<u>4,027,989</u>
OPERATING EXPENSES:		
Salaries, wages, and employee benefits	1,834,477	1,729,526
Supplies	708,747	681,084
Other operating expenses	764,296	776,277
Bad debt expense	239,666	284,051
Depreciation and amortization	209,652	201,517
Interest	<u>64,189</u>	<u>69,848</u>
Total operating expenses	<u>3,821,027</u>	<u>3,742,303</u>
Income from operations	<u>264,485</u>	<u>285,686</u>
NONOPERATING GAINS (LOSSES):		
Gains on investments, net	12,021	244,616
(Losses) gains on interest rate swap, net	(40,373)	11,446
Contributions	729	632
Equity losses in unconsolidated entities	(3,862)	(3,961)
Loss from extinguishment of debt	(2,983)	(2,513)
(Losses) gains on fixed asset disposals, net	(2,896)	1,078
Other	<u>227</u>	<u>284</u>
Total nonoperating (losses) gains	<u>(37,137)</u>	<u>251,582</u>
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES BEFORE TAXES	227,348	537,268
LESS INCOME TAX EXPENSE	<u>7,330</u>	<u>7,689</u>
REVENUE AND GAINS IN EXCESS OF EXPENSES AND LOSSES	220,018	529,579

# BAYLOR HEALTH CARE SYSTEM

## COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - continued

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Unrealized gains on investments, net	\$ 444	\$ 5,907
Net assets released from restrictions for capital expenditures	4,291	9,990
Other changes in net assets attributable to noncontrolling interests - nonredeemable	(43,587)	(60,439)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(128,071)	(106,146)
Net assets acquired	5,269	16,612
Other	<u>(6,017)</u>	<u>2,309</u>
INCREASE IN UNRESTRICTED NET ASSETS BEFORE CHANGE IN ACCOUNTING PRINCIPLE	52,347	397,812
Change in unrestricted net assets to initially apply non-profit guidance related to noncontrolling interests	<u>-</u>	<u>97,238</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>52,347</u>	<u>495,050</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	59,728	46,949
Realized gains and investment income, net	20,372	14,958
Unrealized (losses) gains on investments, net	(17,550)	19,174
Changes in value of split-interest agreements	853	91
Net assets released from restrictions for operations	(57,224)	(54,650)
Net assets released from restrictions for capital expenditures	(4,291)	(9,990)
Other	<u>2,900</u>	<u>(1,108)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>4,788</u>	<u>15,424</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	4,311	26,588
Realized gains and investment income, net	179	182
Unrealized (losses) gains on investments, net	(82)	457
Changes in value of split-interest agreements	(141)	149
Other	<u>(4,096)</u>	<u>171</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>171</u>	<u>27,547</u>
INCREASE IN NET ASSETS	57,306	538,021
NET ASSETS, beginning of year	<u>2,880,679</u>	<u>2,342,658</u>
NET ASSETS, end of year	<u>\$ 2,937,985</u>	<u>\$ 2,880,679</u>

See accompanying notes.

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# BAYLOR HEALTH CARE SYSTEM

## COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 57,306	\$ 538,021
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized losses (gains) on investments, net	89,809	(184,555)
Realized gains on sales of investments, net	(48,519)	(48,338)
Losses (gains) on interest rate swap, net	40,373	(11,446)
Contributions restricted for long-term purposes	(4,311)	(18,887)
Bad debt expense	239,666	284,051
Depreciation and amortization	209,652	201,517
Losses (gains) on sale or disposal of assets, net	10,869	(805)
Change in value of split-interest agreements	(712)	(240)
Deferred rent	3,014	5,935
Other changes attributable to noncontrolling interests	168,333	132,700
Change in unrestricted net assets to initially apply non-profit guidance related to noncontrolling interests	-	(97,238)
Changes in operating assets and liabilities (net of acquisition):		
Increase in net patient accounts receivable	(232,989)	(305,310)
Decrease (increase) in other accounts receivable	35,817	(19,460)
Increase in other assets	(31,692)	(20,058)
Increase in trade accounts payable and accrued liabilities	3,178	50,126
(Decrease) increase in other liabilities	<u>(16,022)</u>	<u>6,856</u>
Net cash provided by operating activities	<u>523,772</u>	<u>512,869</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(334,506)	(329,341)
Cash proceeds from sales of assets	10,069	2,610
Cash paid for acquisitions, net of cash received	(20,969)	(19,290)
Increase in THVG funds due from United Surgical Partners, Inc.	(316)	(2,829)
Net purchases of trading investments	(9,128)	(53,277)
Payments on interest rate swap	(15,500)	(11,250)
Increase in other than trading investments	(3,757)	(5,362)
Increase in investments of insurance subsidiaries	(37)	(223)
(Increase) decrease in invested collateral-securities lending program	(55,655)	11,086
Decrease (increase) in assets whose use is limited	<u>72,133</u>	<u>(117,865)</u>
Net cash used in investing activities	<u>(357,666)</u>	<u>(525,741)</u>

# BAYLOR HEALTH CARE SYSTEM

## COMBINED STATEMENTS OF CASH FLOWS - continued

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(In thousands)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	\$ (200,050)	\$ (363,082)
Proceeds from issuance of long-term debt	156,560	557,632
Increase (decrease) in payable under securities lending program	55,655	(11,086)
Distributions to noncontrolling interests owners	(153,434)	(135,464)
Purchases of noncontrolling interests	(5,333)	(7,837)
Sales of noncontrolling interests	12,132	15,568
Cash receipts for long-term purposes	12,037	18,887
Annuity payments to beneficiaries	<u>(588)</u>	<u>(545)</u>
Net cash (used in) provided by financing activities	<u>(123,021)</u>	<u>74,073</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	43,085	61,201
CASH AND CASH EQUIVALENTS, beginning of year	<u>218,263</u>	<u>157,062</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 261,348</u>	<u>\$ 218,263</u>
SUPPLEMENTAL CASH FLOW DATA:		
Cash paid for interest	<u>\$ 71,313</u>	<u>\$ 73,099</u>
Cash paid for income taxes	<u>\$ 7,993</u>	<u>\$ 6,493</u>
Property and equipment acquired under capital leases	<u>\$ 4,607</u>	<u>\$ 27,723</u>
Dividends declared but not paid	<u>\$ -</u>	<u>\$ 13,670</u>
Increase in accounts payable due to property and equipment received but not paid	<u>\$ 13,101</u>	<u>\$ 14,724</u>

See accompanying notes.

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# **BAYLOR HEALTH CARE SYSTEM**

## **Notes to Combined Financial Statements**

For the Years ended June 30, 2012 and 2011

### **1. ORGANIZATION**

Baylor Health Care System (BHCS) is a Texas nonprofit corporation exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. The combined financial statements include the accounts of BHCS, Baylor University Medical Center (the Medical Center), Baylor Health Care System Foundation (BHCS Foundation), All Saints Health Foundation, Irving Healthcare Foundation, twelve community and specialty medical centers located throughout the Dallas and Fort Worth metroplex, two wholly owned insurance subsidiaries and other related entities (collectively referred to as the "System"). Investments in certain related entities with 50.0% or less ownership are accounted for using the equity method. The transactions and balances for investments in certain related entities with greater than 50.0% ownership or where the System exercises board control are included in the accompanying combined financial statements with related noncontrolling interests reported in the combined financial statements. All significant intercompany accounts and transactions among entities included in the combined financial statements have been eliminated.

The following summarizes significant changes in the System in 2012 and 2011:

#### **Baylor Medical Center at Carrollton**

BRMCG Holdings, LLC is wholly owned by Baylor Regional Medical Center at Grapevine (BRMCG), an affiliate of BHCS. Effective May 1, 2011, BRMCG Holdings, LLC merged with Trinity MC, LLC (TMC), d.b.a. Baylor Medical Center at Carrollton, with TMC becoming the sole surviving entity in the merger. The membership interest in BRMCG Holdings, LLC held by BRMCG immediately prior to the effective date of the merger was cancelled and converted into 100% of the ownership interest in TMC. Each of the minority member units in TMC outstanding immediately prior to the effective date of the merger were purchased by BRMCG and cancelled. The ownership interests in TMC were 71.0% and 29.0% by BRMCG Holdings, LLC and by the Physician Members, respectively, as of June 30, 2010.

#### **Texas Health Ventures Group, LLC (THVG)**

The Medical Center 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 BHCS combined financial statements of approximately \$666,136,000 and \$578,824,000 in 2012 and 2011, respectively.



## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

THVG completed the acquisition of two outpatient centers for total consideration of approximately \$6,000,000 in fiscal year 2012. THVG completed the acquisition of six surgery centers for total consideration of approximately \$21,900,000 in fiscal year 2011. In connection with these acquisitions, THVG recorded goodwill of approximately \$6,600,000 and \$30,200,000, fixed assets of approximately \$5,000,000 and \$5,700,000 and other liabilities of approximately \$5,600,000 and \$14,000,000 in 2012 and 2011, respectively. These acquisitions expand the THVG's network of outpatient surgery centers. THVG expects to improve the results of these outpatient centers through improved managed care contracting.

#### **BIR JV, LLP**

Effective April 1, 2011, BIR JV, LLP (BIR JV), a Texas limited liability partnership, was formed between Baylor Institute for Rehabilitation at Gaston Hospital (BIR), an affiliate of the System, and Select Physical Therapy Texas Limited Partnership (Select), a Delaware limited partnership, to provide rehabilitation services to the North Texas Region. BIR contributed a freestanding inpatient rehabilitation hospital and certain outpatient clinics located throughout the North Texas Region valued at approximately \$28,180,000 in exchange for 699 units in BIR JV. Select contributed an inpatient rehabilitation hospital and certain outpatient clinics located throughout the North Texas Region valued at approximately \$12,145,000 in exchange for 301 units in BIR JV. Pursuant to the terms of the agreement, Select purchased 189 units in BIR JV from BIR for approximately \$7,614,250 resulting in BIR holding 510 units or a 51% ownership interest and Select holding 490 units or a 49% ownership interest in BIR JV. In connection with this transaction, BIR JV recorded approximately \$17,900,000 of goodwill, \$1,700,000 of fixed assets and \$19,600,000 of other net liabilities.

Effective January 31, 2012, BIR JV acquired approximately 80% ownership interest in GlobalRehab LP (Global-Dallas), which operates a rehabilitation hospital in Dallas, Texas and GlobalRehab-Ft. Worth LP (Global-Ft. Worth), which operates a rehabilitation hospital in Ft. Worth, Texas. Additionally, BIR JV acquired 100% ownership interest in GH General LLC, (Global-General), the general partner in each of the limited partnerships. BIR JV completed these acquisitions for total consideration of approximately \$24,900,000 and recorded approximately \$23,700,000 of goodwill, \$2,000,000 of fixed assets and \$800,000 of other net liabilities.

#### **Baylor All Saints Medical Center**

Effective March 31, 2012, Baylor All Saints Medical Center (BASMC) closed the Baylor Medical Center at Southwest Fort Worth (BMC-SFW) campus, a 58 operating bed facility, and consolidated the BMC-SFW's services into the BASMC downtown campus. The transaction resulted in a one-time adjustment for asset impairment of approximately \$11,200,000 primarily recorded in other operating expenses in the accompanying statements of operations and changes in net assets for fiscal year 2012.

# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

The remaining book value of BMC-SFWF of \$3,635,000 is reported in assets held for sale in the accompanying combined balance sheets for 2012.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### Adoption of New Accounting Pronouncements

The System adopted the Financial Accounting Standards Board (FASB), Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, including an amendment to ASC 350, *Goodwill and Other Intangible Assets*, in fiscal year 2011. This Statement provides guidance on accounting for a combination of not-for-profit entities, which is a transaction or other event that results in a not-for-profit entity initially recognizing another not-for-profit entity, a business, or a nonprofit activity in its financial statements. This Statement applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity.

As prescribed by ASC 350, goodwill is assigned to reporting units and is subject to annual impairment testing. The System ceased to amortize goodwill recorded on its not-for-profit entities on July 1, 2010 as a result of the issuance of ASU 2010-07. The System completed the transitional impairment test in accordance with ASC 958, and no indication of an impairment existed. The goodwill is subject to an annual impairment test as of June 30 each year, the System's fiscal year end.

The System adopted FASB ASC 810, *Consolidation*, in fiscal year 2011. ASC 810 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the financial statements within the equity section but separate from the company's equity. It also requires the amounts of consolidated net income attributable to the parent and to the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of operations; changes in ownership interest to be accounted for as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary must be measured at fair value. The System adopted the provisions of ASC 810 effective July 1, 2009 for its entities that are controlled by for-profit parents. For the remaining for-profit entities controlled by nonprofit parents, ASC 810 became effective July 1, 2010 when ASC 958 was adopted. The adoption of ASC 958 resulted in an adjustment to unrestricted net assets of approximately \$97,238,000 as of July 1, 2010. The System now reflects noncontrolling interests in subsidiaries as either noncontrolling interests - redeemable in the mezzanine section of the combined balance sheets, or noncontrolling interests - nonredeemable in net assets in the combined balance sheets, according to ASC 810. The implementation of ASC 810 also results in the cash flow

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

impact of certain transactions with noncontrolling interests being classified within financing activities, consistent with the view that under ASC 810 transactions between the System (or its subsidiaries) and noncontrolling interests are considered to be equity transactions.

Upon the occurrence of various fundamental regulatory changes, the System could be obligated, under the terms of its investees' partnership and operating agreements, to purchase some or all of the noncontrolling interests related to the System's consolidated for-profit subsidiaries. These repurchase requirements are limited to the portions of the System's consolidated for-profit subsidiaries that are owned by physicians and would be triggered by regulatory changes making the existing ownership structure illegal. While the System is not aware of events that would make the occurrence of such a change probable, regulatory changes are outside the System's control. Accordingly, the noncontrolling interests subject to these repurchase provisions have been classified in the mezzanine, outside of net assets, on the System's combined balance sheets.

In January 2010, the FASB issued ASU 2010-06, "*Fair Value Measurements and Disclosure (Topic 820). Improving Disclosures about Fair Value Measurements*." This ASU amends the disclosure requirements of ASC 820 related to recurring and non-recurring fair value measurements. The ASU requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the ASU requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The ASU became effective for the System on July 1, 2010, except for the disclosure provisions on the roll forward activities for the Level 3 fair value measurements, which became effective for the System for fiscal years, and interim periods within those fiscal years, beginning July 1, 2011. The adoption of the disclosure provisions had no impact on the System's results of operations or financial position.

In August 2010, the FASB issued ASU 2010-23, "*Measuring Charity Care for Disclosure (Topic 954). Health Care Entities*." This ASU amends the disclosure requirements of ASC 954 related to the measurement basis used in the disclosure of charity care. The ASU requires that cost be identified as the direct and indirect costs of providing charity care. This ASU results in various techniques being used to identify charity care costs and requires disclosure of the method applied. The System applied the updated provisions of ASU 2010-23 in fiscal year 2011.

In September 2011, the FASB issued ASU 2011-08, "*Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment*." This ASU provides an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, an

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early application permitted in an entity's financial statements that have not yet been issued. The System applied the updated provisions of ASU 2011-08 in fiscal year 2012.

#### **Other Accounting Pronouncements**

In May 2011, FASB issued ASU 2011-04, *"Fair Value Measurement Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS."* Including an amendment to ASC 820, *"Fair Value Measurements"*. The amendment changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011 and interim and annual periods thereafter, with early adoption permitted. The adoption of ASU 2011-04 is not expected to have a material impact on the System's financial position.

In July 2011, The FASB issued ASU 2011-07, *"Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities"*. This ASU requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. For nonpublic entities, the amendments are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by the amendments in this Update should be provided for the period of adoption and subsequent reporting periods. The System has not yet completed the process of evaluating the impact this ASU will have on its financial statements.

In December 2011, the FASB issued ASU 2011-11, *"Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities"*. This ASU amends the disclosure requirements on

## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

offsetting as stated in Section 210-20-50 in order to more closely align the presentation of the financial statements prepared under the United States Generally Accepted Accounting Pronouncements (US GAAP) and those prepared under the International Financial Reporting Standards (IFRS). The amendments under this update require entities to disclose both gross and net information related to instruments and transactions subject to an agreement similar to a master netting arrangement. The scope of this ASU applies to derivatives, sale and repurchase arrangements, reverse sale and repurchase arrangements, securities borrowing and securities lending arrangements. The System has not evaluated all of the updated provisions, which are effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2013.

#### **Cash and Cash Equivalents**

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

#### **THVG Funds Due From United Surgical Partners, Inc.**

THVG participates in a shared services accounts payable program with USPI, wherein USPI has custody of substantially all of THVG's cash, paying THVG and its facilities interest income on the net balance at prevailing market rates. Amounts held by USPI on behalf of THVG totaled approximately \$46,854,000 and \$46,538,000 at June 30, 2012 and 2011, respectively. The funds due from USPI are available on demand. The interest income was approximately \$90,000 and \$91,000 for the years ended June 30, 2012 and 2011, respectively.

#### **Investments**

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

# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

Interest and dividends, realized gains (losses) and unrealized gains (losses) for the years ended June 30, 2012 and 2011 consisted of the following:

	June 30, 2012			
	Interest and Dividends	Realized gains	Unrealized gains (losses)	Total
	(In thousands)			
Nonoperating gains (losses)	\$ 37,731	\$ 46,911	\$ (72,621)	\$ 12,021
Other changes in unrestricted net assets	-	-	444	444
Changes in temporarily restricted net assets	18,943	1,429	(17,550)	2,822
Changes in permanently restricted net assets	-	179	(82)	97
	<u>\$ 56,674</u>	<u>\$ 48,519</u>	<u>\$ (89,809)</u>	<u>\$ 15,384</u>

	June 30, 2011			
	Interest and Dividends	Realized gains (losses)	Unrealized gains	Total
	(In thousands)			
Nonoperating gains	\$ 37,441	\$ 48,158	\$ 159,017	\$ 244,616
Other changes in unrestricted net assets	-	-	5,907	5,907
Changes in temporarily restricted net assets	14,959	(1)	19,174	34,132
Changes in permanently restricted net assets	1	181	457	639
	<u>\$ 52,401</u>	<u>\$ 48,338</u>	<u>\$ 184,555</u>	<u>\$ 285,294</u>

### Patient Accounts Receivable

Patient accounts receivable are stated at estimated net realizable value, and collateral is generally not required. Significant concentrations of patient accounts receivable at June 30, 2012 and 2011, include:

	2012	2011
Managed care providers, commercial insurers and other payors	50%	52%
Government-related programs	34%	32%
Self-pay patients	16%	16%
	<u>100%</u>	<u>100%</u>

# **BAYLOR HEALTH CARE SYSTEM**

## **Notes to Combined Financial Statements - continued**

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 that there is any unusual level of collectability risks associated with these government programs. Commercial and managed care receivables consist of receivables from various payors involved in diverse activities and subject to differing economic conditions and do not represent any concentrated collectability risks to the System.

The System maintains allowances for uncollectible accounts for estimated losses resulting from a payor's inability to make payments on accounts. The System assesses the reasonableness of the allowance account based on historical write-offs, cash collections, the aging of the accounts and other economic factors. Accounts are written off when collection efforts have been exhausted. Management continually monitors and adjusts its allowances associated with its receivables.

### **Securities Lending Program**

The System participates in securities lending transactions with The Northern Trust Company, investment custodian, whereby a portion of its investments is loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis of 30 to 60 days. Collateral provided by brokers is maintained at levels approximating 102.0% of the fair value of the securities on loan and is adjusted for daily market fluctuations. Cash collateral received in connection with these loans is invested in a short-term pooled fund maintained by the lending agent. As of June 30, 2012 and 2011, the fair value of securities on loan was approximately \$163,224,000 and \$107,447,000, respectively, and is included in long-term investments in the accompanying combined balance sheets. The cash collateral held for loaned securities was approximately \$165,281,000 and \$109,626,000 as of June 30, 2012 and 2011, respectively, included in invested collateral - securities lending program in the accompanying combined balance sheets. The System's obligation to repay the collateral upon settlement of the lending transactions is reported as a payable under securities lending program in the accompanying combined balance sheets.

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# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

### Property and Equipment

Property and equipment are stated at cost on the date of purchase or fair value on the date of contribution or business acquisition. Property and equipment and related accumulated depreciation and amortization are summarized below:

	<u>Useful Life</u>	<u>2012</u>	<u>2011</u>
		(In thousands)	
Land	-	\$ 136,786	\$ 120,100
Buildings and improvements	5-40 Years	1,898,641	1,804,198
Major movable equipment and other	3-20 Years	1,230,238	1,234,725
Construction-in-progress	-	<u>350,395</u>	<u>231,051</u>
		3,616,060	3,390,074
Accumulated depreciation and amortization		<u>(1,547,752)</u>	<u>(1,448,813)</u>
		<u>\$ 2,068,308</u>	<u>\$ 1,941,261</u>

Property and equipment financed under capital leases totaled approximately \$454,133,000 and \$429,216,000 at June 30, 2012 and 2011, respectively, and related accumulated amortization was approximately \$94,842,000 and \$62,348,000 at June 30, 2012 and 2011, respectively. Amortization expense is included in depreciation and amortization expense in the accompanying combined statements of operations and changes in net assets.

Depreciation and amortization expense is calculated using the straight-line method over the estimated useful lives of the property and equipment or the lease term, whichever is less. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful lives are capitalized.

### Goodwill and Intangible Assets

Goodwill and intangible assets recorded in connection with acquisitions completed by the System are accounted for under ASC 350, *"Intangibles – Goodwill and Other."* Goodwill consists of costs in excess of tangible and intangible net assets acquired. Intangible assets consist of management service contract rights and other intangibles. Most of these intangible assets have indefinite lives. Goodwill and indefinite lived intangible assets are tested for impairment annually or more frequently if changing circumstances warrant. No impairments were identified for the years ended June 30, 2012 and 2011. Prior to July 1, 2010, the System amortized goodwill over periods estimated to be benefited, with the period not to exceed forty years. Beginning July 1, 2010, ASC 958 required the System to cease amortization of goodwill and test for impairment annually. The System performed an initial impairment test as of July 1, 2010 in accordance with the guidance. No impairments were identified as of this date. This guidance made effective ASC 350 for nonprofit subsidiaries, which previously only applied to the System's for-profit subsidiaries. The System amortizes intangible assets



## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

with definite useful lives over their respective useful lives to the estimated residual values and reviews them for impairment in the same manner as property and equipment discussed below.

At June 30, 2012 and 2011, intangible assets and goodwill consisted of the following (in thousands):

	2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Finite-lived intangible assets	\$ 2,906	\$ (79)	\$ 2,827
Indefinite-lived intangible assets	<u>7,466</u>	<u>-</u>	<u>7,466</u>
Total intangible assets	10,372	(79)	10,293
Goodwill	<u>244,224</u>	<u>(3,985)</u>	<u>240,239</u>
Total intangible assets and goodwill	<u>\$ 254,596</u>	<u>\$ (4,064)</u>	<u>\$ 250,532</u>

	2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Finite-lived intangible assets	\$ 2,877	\$ (97)	\$ 2,780
Indefinite-lived intangible assets	<u>7,038</u>	<u>-</u>	<u>7,038</u>
Total intangible assets	9,915	(97)	9,818
Goodwill	<u>211,858</u>	<u>(3,985)</u>	<u>207,873</u>
Total intangible assets and goodwill	<u>\$ 221,773</u>	<u>\$ (4,082)</u>	<u>\$ 217,691</u>

#### 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 cash flows. In the event of impairment, measurement of the amount of impairment may be based on appraisal, fair values of similar assets or estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. No impairment was identified in 2012 or 2011, except for the BMC-SWFS property (see Note 1).

# **BAYLOR HEALTH CARE SYSTEM**

## **Notes to Combined Financial Statements - continued**

### **Physician Income Guarantees**

The System has entered into multiple physician recruiting agreements whereby the hospital provides financial assistance to a physician who is relocating his or her medical practice into the hospital's service area and community under which the System supplements physician income to a minimum amount over a period of time, typically one year, while the physicians establish themselves in the community. As part of the agreements, the physicians are required to continue to provide medical services in the community for a period of time after the initial start up year, typically three years.

The System records an asset and liability for the estimated fair value of the minimum revenue guarantees. The asset and liability represent the maximum amount of all unpaid minimum revenue guarantees, net of physician drawdowns, and is reported in other long-term assets and other long-term liabilities. As of June 30, 2012 and 2011, the System had recorded approximately \$4,824,000 and \$3,175,000, respectively.

### **Income Taxes**

Due to their organizational structure, certain of the System's entities are taxable under the Internal Revenue Code and some entities are tax exempt but are required to pay income taxes for unrelated business activities. The overall impact of federal income taxes to the System's combined financial statements is not significant. In addition, certain of the System's entities file partnership income tax returns in the U.S. federal jurisdiction and franchise tax returns in the State of Texas.

The Texas franchise tax applies to certain of the System's entities for any tax reports filed on or after January 1, 2008. The tax is calculated on a margin base and is therefore reflected in the System's combined statements of operations and changes in net assets for the years ended June 30, 2012 and 2011 as income tax expense.

The System follows the provisions of ASC 740 "*Income Taxes*." As of June 30, 2012 and 2011, the System had no material gross unrecognized tax benefits.

### **Insurance**

BHCS provides for the basic self-insured retention limits for hospital professional liability and general liability coverage through the Self Insurance Retention Trust (SIRT).

Excess policies that covered claims that exceeded \$10,000,000 per incident and \$50,000,000 in the aggregate for hospital professional liability and claims that exceeded \$2,000,000 per incident and \$7,000,000 in the aggregate for general liability were provided by Health Care Insurance Company of Texas (HICIT), a wholly owned insurance company of BHCS domiciled in the Cayman Islands.

## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

The excess policies were reinsured by ACE Limited, Lexington Insurance Company, Beazley Group Plc, Barbican Syndicate, Catlin Group, Chaucer Plc, Alterra Insurance Europe Limited, and Swiss Re in both 2012 and 2011.

BHCS provides for the basic self-insured retention limits for professional liability coverage for physicians in HealthTexas Provider Network, a wholly owned subsidiary of BHCS, through the SIRT. An excess policy that covered claims for physician liability that exceeded \$750,000 per incident and \$15,000,000 in the aggregate in 2012 and 2011 was provided by HCICT and reinsured by ACE Limited in both years for limits of \$250,000 per medical incident and \$7,000,000 in the aggregate.

To minimize its exposure to credit risk associated with reinsurance, the System continuously evaluates and monitors the financial condition of its reinsurers. At June 30, 2012, the System's reinsurers had an A.M. Best rating of at least A- ("Excellent"). Management does not anticipate any material losses as a result of these concentrations. All of the System's insurance business comprises insurance of certain risks of the System and affiliates who are all engaged in the provision of medical and health care services. Accordingly, the System's underwriting risks are not diversified.

#### **Reserves for Losses and Loss Adjustment Expenses**

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

Liabilities for outstanding claims, including estimates for claims incurred but not reported, as well as reported claims pending settlement, are actuarially determined and discounted using an interest rate of 2% in 2012 and 2011. Total undiscounted reserves for losses and loss adjustment expenses were approximately \$53,797,000 and \$63,959,000 at June 30, 2012 and 2011, respectively. Discounted reserves for losses and loss adjustment expenses at an approximate seventy percent confidence level including margin were approximately \$55,574,000 and \$71,235,000 at June 30, 2012 and 2011, respectively.

# **BAYLOR HEALTH CARE SYSTEM**

## **Notes to Combined Financial Statements - continued**

### **Contributions and Gifts**

When received or pledged, unrestricted gifts are reported as contributions to unrestricted net assets, and donor-restricted items are reported as contributions to temporarily or permanently restricted net assets. These donor-restricted contributions are restricted as to use and, when applicable, are transferred from temporarily restricted net assets to unrestricted net assets when the restrictions are satisfied.

Appropriations from the Baptist General Convention of Texas of approximately \$172,000 and \$178,000 in 2012 and 2011, respectively, are included in other operating revenue in the accompanying combined statements of operations and changes in net assets.

### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets consist of contributions and pledges received and receivable. These assets are donor restricted as to use and are transferred from temporarily restricted net assets to unrestricted net assets when the restrictions are satisfied. Temporarily restricted net assets are primarily available for patient care, education, and research.

Permanently restricted net assets consist of contributions received and receivable with donor restrictions that the principal be invested in perpetuity and only the income from the investments be expended for designated purposes. Income on endowment funds restricted for specified purposes is reported in the accompanying combined statements of operations and changes in net assets as temporarily restricted realized investment income and unrealized gain (loss) on investments.

Income on endowment funds which is required by donors to be invested in perpetuity is reported in the accompanying combined statements of operations and changes in net assets as permanently restricted realized investment income and unrealized gain (loss) on investments.

### **Revenue and Gains in Excess of Expenses and Losses**

The combined statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Other changes in unrestricted net assets which are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include unrealized gains (losses) on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, transactions related to noncontrolling interests, and net assets released from restrictions for capital expenditures.

### **Derivative Financial Instruments**

ASC 815, "*Derivative and Hedging*" requires that all derivative financial instruments be recognized in the 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 either in operations or in other changes in unrestricted net assets.

# **BAYLOR HEALTH CARE SYSTEM**

## **Notes to Combined Financial Statements - continued**

depending on whether the investments qualify for hedge accounting. The System's policy is to not hold or issue derivatives for trading purposes and to avoid derivatives with leverage features.

### **Use of Estimates**

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

### **Reclassifications**

Certain reclassifications were made to the 2011 financial statements to conform to the 2012 presentation

## **3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

### **Fair value measurements**

As defined in ASC 820, 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.

## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

The carrying values of cash and cash equivalents, THVG funds due from United Surgical Partners, Inc., patient accounts receivable, other receivables, assets held as collateral – securities lending program, investments of insurance subsidiaries, accounts payable, accrued liabilities, and estimated third-party payer settlements payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

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

In conjunction with the acquisition of TMC, BHCS purchased \$46,000,000 of Metrocrest Hospital Authority (MHA) bonds. The bonds mature five years after issuance and bear an interest rate of 12.0% payable monthly. Payments will be interest only for the first five years and the bonds are collateralized by a first and prior liens on unencumbered assets owned by MHA having an aggregate value of \$46,000,000. The bonds are reported in unrestricted long-term investments in the accompanying combined balance sheets.

#### **Alternative Investments**

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

## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

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

#### **Beneficial Interest**

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

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

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# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

The tables below set forth, by level, the financial assets and liabilities that were measured at fair value on a recurring basis as of June 30, 2012 and 2011 (in thousands):

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash	\$ 241,362	\$ 241,362	\$ -	\$ -
Money market funds	49,299	49,299	-	-
Restricted cash	37,542	37,542	-	-
Mutual funds	70,298	70,293	-	5
Equity securities	515,229	348,588	166,641	-
Fixed income securities	266,883	107	266,606	170
U.S. government securities	118,452	-	118,190	262
Mortgage-backed securities	166,730	-	166,730	-
Municipal bonds	46,000	-	46,000	-
Alternative investments	581,362	-	227,920	353,442
Common funds, held at Baptist Foundation of Texas (BFT)				
Group investment fund	35,849	-	35,849	-
Group mortgage and real estate fund	788	-	-	788
Group bond fund	2,277	-	2,277	-
Group equity fund	4,867	-	4,867	-
Other funds	769	-	-	769
Real estate and oil and gas interests	378	-	-	378
Beneficial interests in split-interest agreements	15,171	-	-	15,171
Invested collateral – securities program	165,281	165,281	-	-
Other	6,236	4,579	568	1,089
Total assets at fair value	<u>\$2,324,773</u>	<u>\$ 917,051</u>	<u>\$1,035,648</u>	<u>\$ 372,074</u>
Liabilities:				
Interest rate swap agreements, net of collateral	<u>\$ 91,477</u>	<u>\$ -</u>	<u>\$ 91,477</u>	<u>\$ -</u>
Total liabilities at fair value	<u>\$ 91,477</u>	<u>\$ -</u>	<u>\$ 91,477</u>	<u>\$ -</u>



# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

	June 30, 2011			
Assets:	Total	Level 1	Level 2	Level 3
Cash	\$ 86,648	\$ 86,648	\$ -	\$ -
Money market funds	155,801	155,801	-	-
Restricted cash	119,040	119,040	-	-
Mutual funds	70,886	70,886	-	-
Equity securities	582,000	367,563	198,356	16,081
Fixed income securities	374,500	8	374,492	-
U.S. government securities	68,112	-	67,742	370
Mortgage-backed securities	44,914	-	44,914	-
Municipal bonds	46,000	-	46,000	-
Alternative investments	436,639	-	136,447	300,192
Common funds, held at Baptist Foundation Of Texas (BFT)				
BHCS fund	160,914	-	160,914	-
Group investment fund	38,487	-	38,487	-
Group mortgage and real estate fund	789	-	-	789
Group bond fund	2,359	-	2,359	-
Group equity fund	5,480	-	5,480	-
Other funds	677	-	-	677
Real estate and oil and gas interests	196	-	-	196
Beneficial interests in split-interest agreements	14,282	-	-	14,282
Invested collateral – securities program	109,626	109,626	-	-
Other	6,995	5,147	341	1,507
Total assets at fair value	<u>\$2,324,345</u>	<u>\$ 914,719</u>	<u>\$1,075,532</u>	<u>\$ 334,094</u>
Liabilities:				
Interest rate swap agreements	\$ 66,604	\$ -	\$ 66,604	\$ -
Total liabilities at fair value	<u>\$ 66,604</u>	<u>\$ -</u>	<u>\$ 66,604</u>	<u>\$ -</u>

# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

The following tables are a roll forward of the combined balance sheet amounts for financial instruments classified by the System within Level 3 of the valuation hierarchy defined above for fiscal years 2012 and 2011 (in thousands):

	June 30, 2012						
	Private Equity	Real Estate	Hedge Funds	Other Funds	Split-Interest Agreements	Common Investment Funds	Total
Beginning balance at July 1	\$ 136,075	\$ 41,832	\$ 138,367	\$ 370	\$ 14,282	\$ 3,168	\$ 334,094
Realized gains (losses), net	11,738	2,696	(1,068)	15	1,436	-	14,817
Unrealized (losses) gains, net	(3,682)	2,078	6,024	7	(534)	(628)	3,265
Purchases, issuances and settlements, net	(5,489)	32,648	83,697	40	(13)	489	111,372
Transfers to level 2	-	-	(91,474)	-	-	-	(91,474)
Balance at June 30, 2012	<u>\$ 138,642</u>	<u>\$ 79,254</u>	<u>\$ 135,546</u>	<u>\$ 432</u>	<u>\$ 15,171</u>	<u>\$ 3,029</u>	<u>\$ 372,074</u>

	June 30, 2011						
	Private Equity	Real Estate	Hedge Funds	Other Funds	Split-Interest Agreements	Common Investment Funds	Total
Beginning balance at July 1	\$ 116,752	\$ 19,030	\$ 81,570	\$ -	\$ 14,570	\$ 5,713	\$ 237,635
Realized gains (losses), net	14,296	357	(1,666)	-	(2,480)	-	10,507
Unrealized gains (losses), net	7,991	5,492	26,758	-	2,192	(1,627)	40,806
Purchases, issuances and settlements, net	(2,964)	16,953	60,017	370	-	(918)	73,458
Transfers to level 2	-	-	(28,312)	-	-	-	(28,312)
Balance at June 30, 2011	<u>\$ 136,075</u>	<u>\$ 41,832</u>	<u>\$ 138,367</u>	<u>\$ 370</u>	<u>\$ 14,282</u>	<u>\$ 3,168</u>	<u>\$ 334,094</u>

Alternative investments recorded at net asset value at June 30, 2012 and 2011, consisted of the following (in thousands):

	Fair Value		Redemption Frequency If	Redemption Notice Hedge
	2012	2011	Currently Eligible	Funds*
Hedge Funds*	\$ 353,471	\$ 264,622	Monthly to annually	30-90 days
Collective investment funds held at BFT for BHCS Foundation	<u>1,567</u>	<u>1,475</u>	Twice a month	N/A
	<u>\$ 355,038</u>	<u>\$ 266,097</u>		

\*This category includes all investments in hedge funds, except for approximately \$10,370,000 and \$10,379,000 at June 30, 2012 and 2011, respectively, which are valued at total market value. The other hedge funds are actively managed commingled investment vehicles that include strategies such as distressed debt, merger arbitrage, relative value, and long-short equity strategies. The fair values of the investments in this category have been estimated using

# **BAYLOR HEALTH CARE SYSTEM**

## **Notes to Combined Financial Statements - continued**

the net asset value per share of the investments. Investments in this category often have initial "lock-up" restrictions that do not allow investors to seek redemption ranging from one to three years. Following the initial lock-up period, liquidity is generally available monthly, quarterly, or annually following a redemption request which requires 30 to 90 days written notice.

### **Long-term Debt**

The System's long-term debt obligations, excluding capital leases, are reported in the accompanying combined balance sheets at carrying value which totaled approximately \$879,504,000 and \$901,925,000 at June 30, 2012 and 2011, respectively. The fair value of these obligations at June 30, 2012 and 2011, as estimated based primarily on quoted market prices for related bonds, totaled approximately \$925,557,000 and \$931,093,000, respectively.

### **4. ENDOWMENTS**

The System's endowments consist of donor restricted and management-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 "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as not requiring the maintaining of purchasing power of permanently restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure of 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 Foundation 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 organization
- 7) The investment policies of the organization

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

Endowment net asset composition by type of fund as of June 30, 2012 and 2011 follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2012</u>
Donor-restricted endowment funds	\$ (1,876)	\$ 53,137	\$ 165,475	\$ 216,736
Board-designated endowment funds	<u>3,094</u>	<u>-</u>	<u>-</u>	<u>3,094</u>
Total endowment funds	<u>\$ 1,218</u>	<u>\$ 53,137</u>	<u>\$ 165,475</u>	<u>\$ 219,830</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>
Donor-restricted endowment funds	\$ (1,846)	\$ 53,185	\$ 165,202	\$ 216,541
Board-designated endowment funds	<u>1,116</u>	<u>-</u>	<u>-</u>	<u>1,116</u>
Total endowment funds	<u>\$ (730)</u>	<u>\$ 53,185</u>	<u>\$ 165,202</u>	<u>\$ 217,657</u>

Changes in endowment net assets for the years ended June 30, 2012 and 2011 follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2012</u>
Endowment net assets, beginning of year	\$ (730)	\$ 53,185	\$ 165,202	\$ 217,657
Investment income and realized gains	445	16,881	359	17,685
Net appreciation and unrealized gains	244	(12,709)	-	(12,465)
Gifts	-	142	4,089	4,231
Appropriation of endowment assets for expenditure	(726)	(6,824)	-	(7,550)
Additions to endowments related to matured trusts	-	-	310	310
Other	<u>1,985</u>	<u>2,462</u>	<u>(4,485)</u>	<u>(38)</u>
Endowment net assets, end of year	<u>\$ 1,218</u>	<u>\$ 53,137</u>	<u>\$ 165,475</u>	<u>\$ 219,830</u>

# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>
Endowment net assets, beginning of year	\$ (5,493)	\$ 35,539	\$137,519	\$ 167,565
Investment income and realized gains	1	10,519	121	10,641
Net appreciation and unrealized gains	5,046	14,347	-	19,393
Gifts	-	57	26,493	26,550
Appropriation of endowment assets for expenditure	(287)	(7,535)	-	(7,822)
Additions to endowments related to matured trusts	-	-	863	863
Other	<u>3</u>	<u>258</u>	<u>206</u>	<u>467</u>
Endowment net assets, end of year	<u>\$ (730)</u>	<u>\$ 53,185</u>	<u>\$165,202</u>	<u>\$ 217,657</u>

### Permanently Restricted Net Assets:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by State of Texas UPMIFA follows (in thousands):

	<u>2012</u>	<u>2011</u>
Restricted for education	\$ 29,914	\$ 34,275
Restricted for patient care	89,221	85,882
Restricted for research	<u>46,340</u>	<u>45,045</u>
Total endowment assets classified as permanently restricted net assets	<u>\$ 165,475</u>	<u>\$ 165,202</u>

### Endowment Funds with Deficits:

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 (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were approximately \$149,000 and \$390,000 as of June 30, 2012 and 2011, respectively. These deficits resulted from unfavorable market fluctuations and authorized appropriation that was deemed prudent.

### 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.

# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

Actual returns in any given year may vary from this amount. 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 primarily determines the appropriation of endowment funds for expenditure through an annual budgeting. A distribution policy for primarily all of the endowments governs the amount of endowment funds that may be appropriated during this process. In establishing this policy, the System considered the long-term expected return on primarily all of its endowments. Accordingly, over the long-term, the System expects the current distribution policy 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. The budgeted and approved allocations are distributed at the end of each month from the current net total or accumulated net total investment returns for individual endowment funds. Over the long term, the System expects its endowment to grow consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

## 5. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
	(In thousands)	
Baylor Health Care System -		
Series 2000 Taxable Notes (Auction Rate Securities) -		
Serial Notes, variable interest (0.18% at June 30, 2012), payable monthly, principal payable 2019 through 2025	\$ 19,700	\$ 19,700
Series 2001A Revenue Bonds -		
Serial Bonds, fixed interest rate (5.125%, at June 30, 2012), payable semi-annually, principal Payable 2020 through 2025	-	50,000

# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

	<u>2012</u>	<u>2011</u>
	(In thousands)	
Series 2002A Revenue Bonds -		
Serial Bonds, fixed interest rate ranging from 5.00% to 5.75%, payable semiannually, principal payable through 2023	\$ 64,040	\$ 65,815
Series 2006A Revenue Bonds -		
Serial Bonds, variable interest (0.14% at June 30, 2012), payable weekly, principal payable through 2013	26,965	38,835
Series 2009 Revenue Bonds -		
Serial Bonds, fixed interest rate of 5.00%, payable semi-annually, principal payable through 2019	15,595	17,385
Series 2009 Revenue Bonds -		
Term Bonds, fixed interest rate of 5.75%, payable semi-annually, principal payable 2020 through 2024	52,555	52,555
Series 2009 Revenue Bonds -		
Term Bonds, fixed interest rate of 6.25%, payable semi-annually, principal payable 2025 through 2029	140,290	140,290
Series 2011A Revenue Bonds -		
Term Bonds, fixed interest rate ranging from 2.00% to 5.00%, payable semi-annually, principal payable 2025 through 2029	98,865	98,865
Series 2011B Revenue Bonds -		
Windows variable rate demand bonds, variable interest (0.31% at June 30, 2012) payable monthly, principal payable 2032 through 2050	50,000	50,000
Series 2011C, D & E Revenue Bonds -		
Windows variable rate demand bonds, variable interest (0.16% at June 30, 2012) payable weekly, principal payable 2032 through 2050	135,355	135,355
Series 2011F & G Revenue Bonds -		
Floating Rate Note, variable interest rates ranging from (0.81% to 0.84% at June 30, 2012) payable monthly, principal payable 2032 through 2040	75,000	75,000

# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

	<u>2012</u>	<u>2011</u>
	(In thousands)	
Term Loan -		
Term loan, variable interest priced every 90 days (1.37% at June 30, 2012) payable quarterly, principal payable through 2031	\$ 91,655	\$ -
Taxable Bank Line of Credit -		
Revolving bank line of credit, variable interest priced at LIBOR plus 0.60% at June 30, 2012	65,000	15,000
Promissory Note – Baxley Property		
Fixed interest rate at 6.00% payable monthly, principal payable through 2020	-	2,110
Building Lease - Crutcher Annex		
Interest at 2.85% payable monthly, principal and interest payments through May 2025	14,292	15,032
HRT Properties of Texas, Ltd., Building Leases -		
Interest at 4.88%, payable monthly, principal and interest payments through September 2017	11,855	12,642
Baylor University Medical Center -		
Series 1998 Revenue and Refunding Bonds –		
Serial Bonds, fixed interest rate ranging from 5.00% to 5.38%, payable semiannually, Principal payable through 2017	-	49,715
Term bonds, fixed interest at 5.00%, payable semi- Annually, principal payable 2018 through 2019	-	41,940
Baylor Medical Center at Irving - Capital Lease		
Building Lease - interest at 3.70% payable monthly, principal and interest payments through March 2045	167,880	172,299
The Heart Hospital Baylor Plano -		
Term Loan - Interest at 5.42%, payable quarterly, principal payable quarterly to 2013	2,500	3,571



# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

	<u>2012</u>	<u>2011</u>
	(In thousands)	
BMCC -		
Building Lease - Interest at 9.50%, payable monthly, principal and interest payments through December 2033	\$ 60,387	\$ 61,208
Irving-Coppell Surgical Hospital -		
Equipment Notes Payable -		
Interest ranging from 4.88% to 8.32%, payable monthly, principal and interest payments through January 2015	1,686	2,276
Texas Health Ventures Group (THVG) –		
Equipment Notes Payable -		
Interest ranging from 4.9% to 8.0%, payable monthly, principal and interest payments through December 2018	27,651	40,334
Progress Payment Payable -		
Promissory note of up to \$12,475,000, interest ranging from 4.9% to 6.4%, payable monthly, note payable through 2016	11,968	3,101
THVG Capital Leases -		
Frisco Medical Center, LLP, Building Lease -		
Interest at 11.52%, payable monthly, principal and interest payments 2013 through June 2027	56,785	56,786
Arlington Ortho Building Lease -		
Interest at 8.61%, payable monthly, principal and interest payments through January 2030	23,450	23,678
Dallas Uptown Building Lease –		
Interest Rate at 9.30%, payable monthly, principal and interest payments through January 2031	23,534	23,672
Fort Worth Surgical Partners Building Lease -		
Interest at 10.89%, payable monthly, purchased in 2012	-	9,814

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

	<u>2012</u>	<u>2011</u>
	(In thousands)	
Lewisville Surgicare Building Lease - Interest at 11.39%, payable monthly, principal and interest payments through December 2022	\$ 5,236	\$ 5,462
Grapevine Surgicare Partners Building Lease - Interest at 12.66%, payable monthly, principal and interest payments through October 2021	4,053	4,207
Other - Interest ranging from 1.69% to 12.00%, payable monthly, principal and interest payments through May 2029	15,826	14,032
Other System Capital Leases and Long-Term Debt	<u>8,944</u>	<u>5,439</u>
	1,271,067	1,306,118
Unamortized original issue premium	2,480	1,700
Current maturities	(37,519)	(43,955)
Long-term debt subject to short-term remarketing arrangements	<u>(50,000)</u>	<u>(50,000)</u>
	<u>\$ 1,186,028</u>	<u>\$ 1,213,863</u>

The Revenue Bonds issued by BHCS, the Series 2000 Taxable Notes issued by BHCS, and the Taxable Bank Line of Credit issued by BHCS, are entitled to the benefit of a Master Indenture of Trust and Security Agreement (MIT) dated May 1, 1998, under which the BHCS Obligated Group, which includes BHCS; the Medical Center: Baylor All Saints Medical Center (BASMC); the Baylor Medical Centers at Garland, Waxahachie; and the Baylor Regional Medical Centers at Grapevine and Plano, is obligated for payment. BASMC, the Baylor Medical Centers at Garland, Waxahachie, and Baylor Regional Medical Centers at Grapevine and Plano became members of the BHCS Obligated Group in January 2008.

In March 2008, BHCS entered into a three-year taxable revolving line of credit with Bank of America, N.A. and JP Morgan Chase Bank, N.A. In June 2011, this facility was expanded to \$275,000,000 with the addition of two new banks. Under this line of credit, BHCS may borrow at variable rates through June 13, 2014. As of June 30, 2012 there was \$65,000,000 borrowed under this line of credit.

In June 2011, BHCS issued \$359,220,000 Hospital Revenue Bonds through the Tarrant County Cultural Education Facilities Finance Corporation. Proceeds net of underwriter's discount, totaling approximately \$364,815,000 were used to repay \$75,000,000 in borrowings

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

under the taxable revolving line of credit and refund \$150,000,000 of Series 2006B and 2006C Revenue Bonds. Bond proceeds have been used for capital projects totaling approximately \$83,133,000 and \$19,707,000 in 2012 and 2011, respectively. The remaining bond proceeds are deposited into the fund's general account for costs of issuance and future project expenditures.

Included in the 2011 issuance were Windows variable rate demand bonds. These bonds are subject to long-term amortization periods and may be put to the System 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, 2012, the principal amount of such bonds has been classified as a current obligation in the accompanying combined balance sheets. Management believes the likelihood of a material amount of bonds being put to the System to be remote. However, to address this likelihood, management has taken steps to provide various sources of liquidity in the event any bonds would be put.

On July 15, 2011, the System entered into a term loan agreement with Bank of America and the proceeds were used to redeem the Baylor University Medical Center Series 1998 Revenue and Refunding Bonds and Baylor University Medical Center Term Bonds totaling approximately \$91,655,000. A loss on extinguishment of debt of approximately \$1,314,000 was recorded upon the redemption of the 1998 Series bonds.

On September 15, 2011, the System provided notice of redemption on the outstanding 2001A Series Bonds. The bonds were redeemed on October 17, 2011 for a redemption price of approximately \$51,100,000. A loss on extinguishment of debt of approximately \$1,669,000 was recorded upon the redemption of the 2001A Series Bonds.

Future maturities of long-term debt and capital lease obligations, net of unamortized original issue discount, as of June 30, 2012, are shown below (in thousands):

	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>	<u>Total</u>
2013	\$ 79,593	\$ 38,316	\$ 117,909
2014	92,767	38,096	130,863
2015	26,275	38,046	64,321
2016	27,510	38,032	65,542
2017	22,491	37,915	60,406
Thereafter	<u>633,348</u>	<u>601,152</u>	<u>1,234,500</u>
	881,984	791,557	1,673,541
Less imputed interest	<u>-</u>	<u>399,994</u>	<u>399,994</u>
	<u>\$ 881,984</u>	<u>\$ 391,563</u>	<u>\$ 1,273,547</u>

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

BHCS has entered into interest rate swap agreements to manage interest rate risk. All of BHCS's swaps were entered into in order to convert existing or planned future variable rate debt to a fixed rate mode. Dislocations in the credit markets have caused management to reconsider its debt management plans, and as a result, management believes that some of the BHCS swaps no longer meet their planned purpose. As a result, some of these swaps may be terminated or restructured in the future as market conditions evolve.

In conjunction with the refunding of the Series 2006B and 2006C Revenue Bonds in 2011, BHCS paid \$11,250,000 to terminate two interest rate swaps with a notional value of \$100 million. Prior to its termination, the swaps were in an unrealized loss position with all changes in value flowing through unrealized gains or losses in the non-operating section of the statement of operations and changes in net assets.

None of BHCS's swaps are designated as hedging instruments. Net cash payments during the years ended June 30, 2012 and 2011 totaled approximately \$14,422,000 and \$16,666,000, respectively. The mark to market increase in value of the swap portfolio for the fiscal year ended June 30, 2011 was \$11,446,000 including the swaps terminated in June 2011.

The following table summarizes the fair value of interest rate swaps as of June 30, 2012 and 2011 (in thousands):

	2012 Interest Rate Agreements	Notional* Amount	Fair Value		Change in Fair Value	
			2012	2011	2012	2011
Fixed Payer Swaps	13	\$ 468,985	\$(106,977)	\$(66,773)	\$(40,204)	\$ 22,732
Variable Basis Swaps	-	-	-	169	(169)	(36)
Total		<u>\$ 468,985</u>	<u>\$(106,977)</u>	<u>\$(66,604)</u>	<u>\$(40,373)</u>	<u>\$ 22,696</u>

\*Notional Amount is the face value of a financial instrument used in the calculation of interest. Because this amount does not actually change hands, it is referred to as notional.

BHCS's swaps were originally executed with two counterparties, Goldman Sachs Mitsui Marine Derivative Products, L. P. (Goldman) and Merrill Lynch Capital Services, Inc (MLCS). During fiscal year 2011, MLCS novated four of their five swaps to an affiliate, Bank of America, National Association (BANA). BHCS has no collateral posting requirements with Goldman. However, BHCS is required to post collateral with MLCS and BANA in the event the negative fair value of the swaps exceeds \$25,000,000. As of June 30, 2012, BHCS has posted \$15,500,000 in collateral to meet the requirements with MLCS or BANA.

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

The following table summarizes the fair value of interest rate swap, by counterparty as of June 30, 2012 and 2011 (in thousands):

	Notional* <u>Amount</u>	2012 <u>Fair Value</u>	2011 <u>Fair Value</u>
Goldman	\$ 281,232	\$ (61,717)	\$ (40,735)
MLCS	41,590	(4,995)	(3,689)
BANA	<u>146,163</u>	<u>(40,265)</u>	<u>(22,180)</u>
Total interest rate swap liability	468,985	(106,977)	(66,604)
Less: interest rate swap collateral	<u>-</u>	<u>15,500</u>	<u>-</u>
Total interest rate swap liability, net	<u>\$ 468,985</u>	<u>\$ (91,477)</u>	<u>\$ (66,604)</u>

\*Notional Amount is the face value of a financial instrument used in the calculation of interest. Because this amount does not actually change hands, it is referred to as notional

### 6. 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 now reflects noncontrolling interests in subsidiaries as either noncontrolling interests – redeemable in the mezzanine section of the combined balance sheets, or noncontrolling interests – nonredeemable in net assets in the combined balance sheets, according to ASC 810.

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# BAYLOR HEALTH CARE SYSTEM

## Notes to Combined Financial Statements - continued

The activity for unrestricted net assets presented as controlling and noncontrolling interest for the years ended June 30, 2012 and 2011 are summarized below (in thousands):

	<u>Controlling Interests</u>	<u>Noncontrolling Interests Nonredeemable</u>	<u>Unrestricted Net Assets Total</u>
Balances as of June 30, 2010	\$ 2,047,550	\$ 15,545	\$ 2,063,095
Change in unrestricted net assets to initially apply non-profit guidance related to noncontrolling interest	-	97,238	97,238
Revenue and gains in excess of expenses and losses	490,032	39,547	529,579
Unrealized gains on investments, net	5,907	-	5,907
Net assets released from restrictions for capital expenditures	9,990	-	9,990
Distributions to noncontrolling interests	-	(36,412)	(36,412)
Purchases of noncontrolling interests	-	(293)	(293)
Sales of noncontrolling interests	-	10,152	10,152
Other changes in controlling interest	(22,521)	(11,365)	(33,886)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(106,146)	-	(106,146)
Net assets acquired	16,612	-	16,612
Other	2,309	-	2,309
Change in unrestricted net assets	<u>396,183</u>	<u>98,867</u>	<u>495,050</u>
Balances as of June 30, 2011	2,443,733	\$ 114,412	2,558,145
Revenue and gains in excess of expenses and losses	173,891	46,127	220,018
Unrealized gains on investments, net	444	-	444
Net assets released from restrictions for capital expenditures	4,291	-	4,291
Distributions to noncontrolling interests	-	(42,432)	(42,432)
Purchases of noncontrolling interests	-	(880)	(880)
Sales of noncontrolling interests	-	2,714	2,714
Other changes in controlling interest	(2,989)	-	(2,989)
Revenue and gains in excess of expenses and losses attributable to noncontrolling interests - redeemable	(128,071)	-	(128,071)
Net assets acquired	5,269	-	5,269
Other	(6,017)	-	(6,017)
Change in unrestricted net assets	<u>46,818</u>	<u>5,529</u>	<u>52,347</u>
Balances as of June 30, 2012	<u>\$ 2,490,551</u>	<u>\$ 119,941</u>	<u>\$ 2,610,492</u>

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

The activity for noncontrolling interests-redeemable for the years ended June 30, 2012 and 2011 is summarized below (in thousands):

Balance as of June 30, 2010	\$ 33,498
Change in unrestricted net assets to initially apply non-profit guidance related to noncontrolling interests	46,315
Net income attributable to noncontrolling interests	106,146
Distributions to noncontrolling interests	(99,051)
Purchases of noncontrolling interests	(7,544)
Sales of noncontrolling interests	5,415
Purchase accounting of opening balance sheet	<u>36,051</u>
Balance as of June 30, 2011	120,830
Net income attributable to noncontrolling interests	128,071
Distributions to noncontrolling interests	(111,002)
Purchases of noncontrolling interests	(4,789)
Sales of noncontrolling interests	9,419
Purchase accounting of opening balance sheet	<u>5,479</u>
Balance as of June 30, 2012	<u>\$ 148,008</u>

### 7. NET PATIENT CARE REVENUE

BHCS has agreements with third-party payors that provide for payments to BHCS at amounts different from its established rates. Payment arrangements include prospectively determined rates per case, reimbursed costs, discounted charges, and per diem payments. Net patient care revenue (exclusive of charity care – see Note 8) is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated contractual adjustments under reimbursement agreements with third-party payors.

Contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. These contractual adjustments are related to the Medicare and Medicaid programs and managed care contracts. The System offers a 35.0% discount to uninsured patients.

Net patient care revenue from the Medicare and Medicaid programs accounted for approximately 29.0% and 30.0% of total net patient care revenue in 2012 and 2011, respectively. Net patient care revenue from managed care contracts accounted for approximately 66.0% and 64.0% of total net patient care revenue in 2012 and 2011, respectively.

Federal Regulations require the submission of annual cost reports covering medical costs and expenses associated with services provided to program beneficiaries. Medicare and Medicaid

## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

cost report settlements are estimated in the period services are provided to beneficiaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change by a material amount as interpretations are clarified and cost reports are settled.

These initial estimates are revised as needed until the final cost report is settled. Net patient care revenue from the Medicare and Medicaid programs increased approximately \$16,631,000 and \$10,151,000 in 2012 and 2011, respectively, due to changes in allowances previously estimated for amounts due to Medicare and Medicaid, as a result of changes in regulations and final settlement of numerous cost reports.

During fiscal years 2012 and 2011, BHCS (on behalf of certain Baylor hospitals) and certain other Baylor hospitals individually participated in the State Medicaid Private Hospital Upper Payment Limit Program (UPL Program) and in its replacement program, the Section 1115 Demonstration entitled "Texas Healthcare Transformation and Quality Improvement Program" (Waiver Program). BHCS and BHCS hospitals participated in the UPL Program and the Waiver Program through four indigent care affiliation agreements, the Dallas and Neighboring Counties Indigent Care Affiliation Agreement (Dallas Affiliation), the Tarrant County Affiliation Agreement (Tarrant Affiliation), the Somervell County Indigent Care Affiliation Agreement (Somervell Affiliation), and the Ellis County Indigent Care Affiliation Agreement (Ellis Affiliation).

The following BHCS hospitals Baylor University Medical Center, Baylor Medical Center at Irving, Baylor Medical Center at Garland, Our Children's House at Baylor, Baylor Specialty Hospital, Baylor Regional Medical Center at Plano, Baylor Medical Center at Waxahachie, Baylor Heart and Vascular Center are parties to the Dallas Affiliation. Baylor All Saints Medical Center and Baylor Regional Medical Center at Grapevine are parties to the Tarrant Affiliation. Baylor University Medical Center is a party to the Somervell Affiliation. Baylor Medical Center at Waxahachie is a party to the Ellis Affiliation.

Through participation in the UPL Program and the Waiver Program, these Baylor hospitals are subject to extensive federal and state laws, regulations, and conditions of participation and certification requirements. Under various professional services agreements between the indigent care corporations (established by the participating private hospitals) or Baylor hospitals and other providers, the indigent care corporations and Baylor hospitals are obligated to pay for services furnished to indigent patients irrespective of supplemental payments made or not made to the Baylor hospitals. The aggregate compensation paid by the indigent care corporations and Baylor hospitals to the providers under the professional services agreements is set advance and must be consistent with fair market value and commercially reasonable for the services provided by the providers. The affiliation agreements and their underlying arrangements were structured considering these laws, regulations, and conditions of participation and certification requirements.



## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

For fiscal years 2012 and 2011, BHCS hospitals as a result of participating in the aforementioned UPL Program and Waiver Program recognized approximately \$65,711,000 and \$84,393,000, respectively. For fiscal years 2012 and 2011, BHCS hospitals incurred approximately \$34,538,000 and \$32,952,000 for services performed under various services agreements which are recorded as other operating expenses in the combined statements of operations and changes in net assets.

#### **8. CHARITY CARE**

The System provides care to patients who lack financial resources and are deemed medically or financially indigent. Because the System does not pursue collection of amounts determined to qualify as charity care, these amounts have been removed from net patient care revenue as described in Note 7. The charges related to this care along with estimates for possible future charity care write-offs related to current accounts receivable totaled approximately \$422,616,000 and \$307,802,000 in 2012 and 2011, respectively. The estimated direct and indirect cost of providing these services, calculated using the ratio of patient care cost to charges, was \$151,899,000 and \$117,959,000 in 2012 and 2011, respectively. In addition, the System provides services through government-sponsored indigent health care programs (such as Medicaid) to other indigent patients.

The System 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 10.

#### **9. RETIREMENT BENEFITS**

Effective January 1, 2002, a 401(k) defined contribution plan that was administered by ING was made available to all eligible employees. Effective January 1, 2011, AON Hewitt became the plan administrator of the 401(k) defined contribution plan. Employees are eligible to contribute to the plan immediately with no minimum service or age requirement.

The System matches amounts contributed by employees, up to 5.0% of the employee's base compensation. Employees gradually vest in the System's matching contribution over five years. Retirement benefits equal the amounts accumulated to the employee's individual credit at the date of retirement. Effective December 19, 2011, the BHVH Retirement Savings Plan and THHSW Retirement Savings Plan was merged into the Baylor Administrative Services 401(k) Plan.

The System's contributions to the 401(k) plan totaled approximately \$40,285,000 and \$38,163,000 for 2012 and 2011, respectively, which are included in salaries, wages, and employee benefits expenses in the accompanying combined statements of operations and changes in net assets.

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

ASC 715, "*Compensation – Retirement Benefits*," requires the System to recognize the funded 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 combined balance sheets with a corresponding adjustment to unrestricted net assets. 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 and are not recognized as net periodic pension cost in the same periods are recognized as other changes in unrestricted net assets. Those amounts are recognized as a component of net periodic cost.

The System 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, 2012 and 2011.

The following table sets forth the benefit obligations, plan assets and funded status of the Best Plan (in thousands):

	<u>2012</u>	<u>2011</u>
Benefit obligation at end of year	\$ (22,122)	\$ (18,462)
Fair value of plan assets at end of year	<u>387</u>	<u>375</u>
Funded status	<u>\$ (21,735)</u>	<u>\$ (18,087)</u>

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.

The following table sets forth the benefit obligations, plan assets and funded status of the All Saints Plan (in thousands):

	<u>2012</u>	<u>2011</u>
Benefit obligation at end of year	\$ (27,007)	\$ (23,086)
Fair value of plan assets at end of year	<u>16,708</u>	<u>17,576</u>
Funded status	<u>\$ (10,299)</u>	<u>\$ (5,510)</u>

The overall long-term investment objective for the All Saints Plan is to meet plan funding obligations by achieving the annual return targets established for the plan, specifically to earn an annualized rate of return of 7.0% over a full market cycle, defined as three to five years, and outperform customized indices. Actual returns in any given year may vary from these

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

amounts. To accomplish such objective, a balanced investment approach is employed, with target allocation for plan assets that places greater emphasis on equity-based investments within prudent risk constraints. Investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends).

Plan assets are measured at fair value and classified using the fair value hierarchy as previously described in Note 3.

The table below presents the financial assets in the All Saints Plan as of June 30, 2012 and 2011 measured at fair value on a recurring basis based on the valuation hierarchy (in thousands):

<u>June 30, 2012</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 493	\$ 493	\$ -	\$ -
Equity securities (a)	<u>16,215</u>	<u>16,215</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,708</u>	<u>\$ 16,708</u>	<u>\$ -</u>	<u>\$ -</u>
<u>June 30, 2011</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 1,091	\$ 1,091	\$ -	\$ -
Equity securities (a)	10,063	10,063	-	-
Fixed income securities (b):				
Corporate bonds	3,671	-	3,671	-
U.S. Treasuries	<u>2,751</u>	<u>2,751</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 17,576</u>	<u>\$ 13,905</u>	<u>\$ 3,671</u>	<u>\$ -</u>

(a) No more than 5.0% of equity assets at cost are invested in any one security within one equity portfolio.

(b) No more than 5.0% of the total portfolio assets are invested in the securities of any one issuer, except for debt issued or guaranteed by the United States of America or agencies thereof. Foreign fixed income securities, including foreign sovereign debt, will not exceed 10.0% of the assets at market value. There were no such foreign securities at June 30, 2012.

The composition of the All Saints Plan assets as of June 30 is as follows:

	<u>2012</u>	<u>2011</u>
Equity securities	97%	57%
Debt securities	-	37%
Cash and cash equivalents	<u>3%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

## BAYLOR HEALTH CARE SYSTEM

### Notes to Combined Financial Statements - continued

The System provides retiree life insurance and medical benefits to a number of qualifying retirees. The accrued benefit cost for the retiree life and medical benefits was approximately \$113,000 in both 2012 and 2011 and is included in other liabilities in the accompanying combined balance sheets. No advance funding is required for either program

#### 10. FUNCTIONAL EXPENSES

The System provides general health care services to residents within its geographic area. Expenses related to providing these services are as follows for the years ended June 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Patient care	\$ 2,638,697	\$ 2,556,631
Medical education	30,547	28,738
Research	47,203	44,284
General and administrative	943,261	918,321
Other	<u>161,319</u>	<u>194,329</u>
	<u>\$ 3,821,027</u>	<u>\$ 3,742,303</u>

Other includes expenses related to BHCS's construction activities, professional office building management, and fundraising.

#### 11. COMMITMENTS AND CONTINGENCIES

The System leases various equipment and property under operating leases. These payments are due monthly through December 2035. Future minimum lease commitments under operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows as of June 30, 2012 (in thousands):

2013	\$ 62,468
2014	59,060
2015	50,982
2016	45,399
2017	41,871
Thereafter	<u>232,761</u>
	<u>\$ 492,541</u>

The System has incurred rental expense for both cancelable and noncancelable equipment and space leases totaling approximately \$83,485,000 and \$77,253,000 in 2012 and 2011, respectively.

## **BAYLOR HEALTH CARE SYSTEM**

### **Notes to Combined Financial Statements - continued**

The Irving Hospital Authority ("Authority") entered into a Master Agreement ("Master Agreement") with Baylor Medical Center at Irving (Irving) and BHCS and a Lease Agreement ("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 20 years, beginning August 1, 1995, with an option to renew the lease for two additional 10 year terms. The Lease Agreement has been accounted for as an operating lease with annual base rent payments of \$7,000,000 per year. An Amended and Restated Lease Agreement ("Revised 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 Revised Lease Agreement is accounted for as a capital lease with (a) fixed rent payments of approximately \$8,825,000 per year, as adjusted by a September 24, 2010 amendment to the Revised 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 Revised Lease Agreement. Irving has accrued \$3,045,000 at June 30, 2012 for the contingent rent payment due to the Authority on November 1, 2012.

BHCS signed a Limited Joinder to evidence its agreement with the BHCS obligations included in the Revised Lease Agreement and to covenant that BHCS will pay the rent and the early termination fee/liquidated damages if Irving fails to pay those obligations. During the initial six year term of the Revised Lease Agreement, Irving pays BHCS a management fee, based on a percentage of the excess operating cash flow, as defined in the Revised Lease Agreement. BHCS continues to be required to contribute \$100,000 per year to Irving, to be matched by the Irving Healthcare Foundation, for community health projects, which are mutually agreed upon by BHCS and Irving. BHCS contributed \$100,000 directly to Irving in 2012 and 2011, respectively. At the end of the lease term the leased facilities will be surrendered to the Authority. At June 30, 2012, no liability under the Revised Lease Agreement was recorded as no amount can be reasonably estimated.

In November 1998, BHCS renewed the affiliation agreement with Hopkins County Memorial Hospital (HCMH) for an additional term of five years. In 2003, BHCS notified HCMH that the renewal would be continued on a year to year basis. Under the affiliation agreement, BHCS will provide certain services which include, but are not limited to, physician recruiting, managed care strategies, information systems, facilities development, community needs assessment, financial and tax services, marketing, and public relations for an agreed-upon fee.

In February 2009, BHCS signed an affiliation agreement with Wise Regional Health System for an initial term of five years. Under the affiliation agreement, the System will provide

# **BAYLOR HEALTH CARE SYSTEM**

## **Notes to Combined Financial Statements - continued**

certain services including continuing education, legal consulting, physician recruiting and group purchasing for an agreed-upon fee.

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

## **12. SUBSEQUENT EVENTS**

### **EBD, JV, LLP**

Effective May 9, 2012 EBD JV, LLP, a Texas limited liability partnership, was formed between the Medical Center and Emerus Investment Company II, LLC for the purpose of owning, operating and managing licensed hospitals focused on providing high quality and cost effective emergency medical care services to patients in North Texas Region as part of an integrated health care delivery system affiliated with BHCS. Pursuant to a contribution agreement, capital contributions to the partnership were made effective July 1, 2012.

### **Baylor Medical Center at McKinney**

In July 2012, the System opened Baylor Medical Center at McKinney, a 95 bed full-service medical center and surrounding medical office campus dedicated to serving the residents of McKinney and surrounding communities.

The System has performed an evaluation of subsequent events through November 5, 2012, which is the date the financial statements were available to be issued



REPORT OF INDEPENDENT AUDITORS  
ON ACCOMPANYING INFORMATION

To The Board of Trustees  
Baylor Health Care System

We have audited the combined financial statements of Baylor Health Care System and subsidiaries as of June 30, 2012 and 2011 and for the years then ended and our report thereon appears on page one of this document. The audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying supplementary combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The supplementary combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary combining information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The supplementary combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

The accompanying other community benefits information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

*PrattwaterhouseCoopers LLP*

November 5, 2012

## **BAYLOR HEALTH CARE SYSTEM**

### **OTHER COMMUNITY BENEFITS - UNAUDITED**

Nonprofit hospitals are required to report community benefits under the requirements of Texas Health and Safety Code Chapter 311. BHCS reports its required community benefits as a hospital system which includes all BHCS nonprofit hospitals with the exception of Baylor University Medical Center (the Medical Center), Baylor All Saints Medical Center (BASMC) and Our Children's House at Baylor (OCH) which are reported separately as these hospitals, due to their Medicaid Disproportionate Share status, are excluded and deemed by the State of Texas to be in compliance with the requirements of 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); and the unreimbursed cost of government-sponsored health care (i.e., Medicare), medical education, and other community benefits and services. The amount of community benefits reportable for Texas state law purposes by all BHCS nonprofit hospitals, including the Medical Center, BASMC and OCH, totaled approximately \$548,938,000 and \$502,866,000 in 2012 and 2011, respectively.