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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)

OMB No 1545-0047

2011

Open to Public Inspection

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

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 Plano

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 75201

D Employer identification number
 82-0551704

E Telephone number
 (214) 820-4135

G Gross receipts \$ 211,469,140

F Name and address of principal officer
 Jerri Garison
 4700 Alliance Blvd
 Plano, TX 75095

H(a) Is this a group return for affiliates? Yes No

H(b) Are all affiliates included? Yes No
 If "No," attach a list (see instructions)

H(c) Group exemption number

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 2002 **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 Plano, Texas and the surrounding communities since 2004		
	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
	5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	993
	6 Total number of volunteers (estimate if necessary)	6	328
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	14,400
b Net unrelated business taxable income from Form 990-T, line 34	7b	12,060	
Revenue	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)	186,233	294,248
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	198,293,251	193,596,413
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	2,171,287	1,732,725
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	0	0
Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1-3)	200,650,771	195,623,386
	14 Benefits paid to or for members (Part IX, column (A), line 4)	3,253,029	3,039,335
	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)	54,775,828	56,905,767
	b Total fundraising expenses (Part IX, column (D), line 25) ⁰	0	0
	17 Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e)	108,408,661	109,573,944
18 Total expenses Add lines 13-17 (must equal Part IX, column (A), line 25)	166,437,518	169,519,046	
19 Revenue less expenses Subtract line 18 from line 12	34,213,253	26,104,340	
Net Assets or Fund Balances	20 Total assets (Part X, line 16)	Beginning of Current Year	End of Year
	21 Total liabilities (Part X, line 26)	202,568,591	198,890,563
	22 Net assets or fund balances Subtract line 21 from line 20	90,569,101	62,690,044

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 _____ Date 2013-05-08

Deanne Kindred VP Finance/HFO
 Type or print name and title

Paid Preparer's Use Only

Preparer's signature _____ Date _____ Check if self-employed

Firm's name (or yours if self-employed), address, and ZIP + 4 _____ Preparer's taxpayer identification number (see instructions) _____

EIN _____ Phone no _____

May the IRS discuss this return with the preparer shown above? (see instructions) Yes No

Part III 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
Through our faith-based culture of caring service, we will build a healthier community by providing operational and clinical excellence to those we serve

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

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

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 \$ 147,562,534 including grants of \$ 3,039,335) (Revenue \$ 193,702,875)
See Schedule O Baylor Regional Medical Center at Plano (Baylor Plano) is a faith-based, non-profit, 140-bed acute care hospital providing exemplary patient care to Plano, Texas, and surrounding communities since 2004 Baylor Plano 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 other community services to the North Texas region Baylor Plano provides inpatient and outpatient medical services to treat individuals with diseases, illnesses and injuries of varying complexities Treatment services include scoliosis, neuroscience, orthopedics, oncology, women's services, digital imaging and rehabilitation At this quality acute care hospital, multidisciplinary interaction among physicians help provide patients with innovative methods of prevention, diagnosis, treatment, education and support Some of these clinical services are provided despite a financial loss to Baylor Plano During the fiscal year ending June 30, 2012, Baylor Plano admitted 10,003 inpatients resulting in a total of 52,689 days of care, treated 40,429 outpatients, and had 18,900 emergency department visits As part of its charitable mission, Baylor Plano is committed to providing free and/or subsidized care to both financially and medically indigent patients in the community During the year, Baylor Plano reported community benefits (as reported to the Texas Department of State Health Services and in accordance with the State of Texas Statutory methodology) of \$36,240,186 Baylor Plano provided community benefits (as reported on the IRS Form 990, Schedule H) of \$10,549,222 The Texas Annual Statement of Community Benefit Standard includes approximately \$28,406,791 of unreimbursed cost of Medicare that is not included in the IRS Form 990, Schedule H Baylor Plano has received Magnet Recognition from the American Nurses Credentialing Center (ANCC) This designation recognizes nursing excellence, patient and staff satisfaction, and superior outcomes Although the program focuses on nursing practices, the recognition and designation impacts all patients and employees of Baylor Plano Baylor Plano also participates in community health fairs and outreach programs targeting the underserved Major focus areas for these programs, determined through a comprehensive needs analysis, include diabetes, heart disease, cancer and injury prevention, which are addressed by the hospital through educational seminars and screenings to help identify individuals at risk for developing these diseases For example, "Living Well with Cancer" is a series of free informational sessions for all cancer patients and their families Focusing on nutrition, exercise and other topics of interest to cancer patients, the supportive and educational atmosphere impacts their management of their disease and provides hope for recovery The unreimbursed cost of providing these programs was \$514,245 Baylor Plano 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 Plano invested 5,298 hours in the training of 65 undergraduate nurses The unreimbursed cost of providing these nursing education programs was \$226,942

4b (Code) (Expenses \$ including grants of \$) (Revenue \$)

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 \$ 147,562,534

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> <input checked="" type="checkbox"/>	Yes	
2	Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)? <input checked="" type="checkbox"/>	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> <input checked="" type="checkbox"/>		No
4	Section 501(c)(3) organizations. 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> <input checked="" type="checkbox"/>	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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>	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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>	Yes	
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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>	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> <input checked="" type="checkbox"/>	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> <input checked="" type="checkbox"/>		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> <input checked="" type="checkbox"/>	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?		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>		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>		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>		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>		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>		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>		No
20a	Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> <input checked="" type="checkbox"/>	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. All Form 990 filers that operated one or more hospitals must attach audited financial statements. <input checked="" type="checkbox"/>	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		No
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 Section 501(c)(3) and 501(c)(4) organizations. 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		No
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		No
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 Section 501(c)(3) organizations. 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? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

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

Table with columns for question number, question text, and Yes/No columns. Includes rows for 1a, 1b, 1c, 2a, 2b, 3a, 3b, 4a, 4b, 5a, 5b, 5c, 6a, 6b, 7, 7a, 7b, 7c, 7d, 7e, 7f, 7g, 7h, 8, 9, 9a, 9b, 10, 10a, 10b, 11, 11a, 11b, 12a, 12b, 13, 13a, 13b, 13c, 14a, 14b.

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		
1b	Enter the number of voting members included in line 1a, above, who are independent		
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?		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?		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?		No
6	Did the organization have members or stockholders?	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?	Yes	
7b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
8a	The governing body?	Yes	
8b	Each committee with authority to act on behalf of the governing body?	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		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?		No
10b	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?		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	Yes	
11b	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	Yes	
12b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	Yes	
12c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	Yes	
13	Did the organization have a written whistleblower policy?	Yes	
14	Did the organization have a written document retention and destruction policy?	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?		
15a	The organization's CEO, Executive Director, or top management official	Yes	
15b	Other officers or key employees of the organization	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?	Yes	
16b	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?	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.
 Own website Another's website 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
 Deanne Kindred
 4700 Alliance Blvd
 Plano, TX 75093
 (469) 814-2135

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) Deanne Kindred VP Finance/Hosp Fin Off	40 00			X				223,324	0	39,497
(8) Ellen Pitcher CNO/COO	40 00			X				230,891	0	25,300
(9) Jerr Garrison President	40 00			X				519,525	0	121,393
(10) William Boyd Secretary	1 00			X				0	860,104	239,979
(11) Carolann Crowell Director Acute Care	40 00					X		142,685	0	23,425
(12) Charles Toulson Medical Director	12 00					X		144,450	0	21,222
(13) Margaret Murff Director Surgical Services	40 00					X		140,323	0	22,398
(14) Rochelle Genn Clinical Pharmacist	35 00					X		148,809	0	23,988
(15) Soo Shin Clinical Pharmacist	40 00					X		139,164	0	22,387

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

Table with 6 main columns: (A) Name and Title, (B) Average hours per week, (C) Position, (D) Reportable compensation from the organization, (E) Reportable compensation from related organizations, (F) Estimated amount of other compensation.

Summary rows: 1b Sub-Total, c Total from continuation sheets to Part VII, Section A, d Total (add lines 1b and 1c) with values 1,689,171, 1,374,262, and 619,199.

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 50

Table with 3 columns: Question, Yes, No. Contains questions 3, 4, and 5 regarding compensation reporting.

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

Table with 3 columns: (A) Name and business address, (B) Description of services, (C) Compensation. Lists contractors like Baylor Health Care System, Aramark Services Inc, etc.

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 29

Part VIII Statement of Revenue

			(A)	(B)	(C)	(D)	
			Total revenue	Related or exempt function revenue	Unrelated business revenue	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	294,248				
	e	Government grants (contributions) 1e					
	f	All other contributions, gifts, grants, and similar amounts not included above 1f					
	g	Noncash contributions included in lines 1a-1f \$ _____					
	h	Total. Add lines 1a-1f	294,248				
Program Service Revenue	2a	Patient Care Revenue	621990	190,881,300	190,881,300		
	b	Rental Income	531120	1,888,083	1,873,683	14,400	
	c	Cafeteria	722210	652,650		652,650	
	d	Duplication Fees	561439	63,101	63,101		
	e	Gift Shop	453220	51,269		51,269	
	f	All other program service revenue		60,010	53,309	6,701	
	g	Total. Add lines 2a-2f		193,596,413			
Other Revenue	3	Investment income (including dividends, interest and other similar amounts)		782,338	106,462	675,876	
	4	Income from investment of tax-exempt bond proceeds					
	5	Royalties					
	6a		(i) Real				
			(ii) Personal				
		b	Less rental expenses				
		c	Rental income or (loss)				
	d	Net rental income or (loss)					
	7a		(i) Securities	16,795,641	500		
			(ii) Other				
		b	Less cost or other basis and sales expenses	15,683,506	162,248		
		c	Gain or (loss)	1,112,135	-161,748		
	d	Net gain or (loss)		950,387		950,387	
	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		195,623,386	192,977,855	14,400	2,336,883	

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	3,039,335	3,039,335		
2	Grants and other assistance to individuals in the United States See Part IV, line 22				
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	1,240,401		1,240,401	
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	44,496,873	43,934,131	562,742	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	1,518,461	1,456,099	62,362	
9	Other employee benefits	6,342,569	6,264,246	78,323	
10	Payroll taxes	3,307,463	3,216,310	91,153	
11	Fees for services (non-employees)				
a	Management	104,901	104,901		
b	Legal	92,525		92,525	
c	Accounting				
d	Lobbying				
e	Professional fundraising See Part IV, line 17				
f	Investment management fees				
g	Other	34,515,177	18,829,093	15,686,084	
12	Advertising and promotion	2,935,238	122,110	2,813,128	
13	Office expenses	3,076,429	2,640,065	436,364	
14	Information technology	5,257,412	5,257,412		
15	Royalties				
16	Occupancy	8,741,492	8,740,744	748	
17	Travel	73,230	66,640	6,590	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings	47,546	42,441	5,105	
20	Interest				
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	10,016,583	10,016,583		
23	Insurance	55,970		55,970	
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	35,089,007	35,089,007		
b	Bad Debt	8,525,671	8,525,671		
c	Recruiting	773,043	93,502	679,541	
d	Federal Income Tax	3,732		3,732	
e					
f	All other expenses	265,988	124,244	141,744	
25	Total functional expenses. Add lines 1 through 24f	169,519,046	147,562,534	21,956,512	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	3,308	1	2,671
	2 Savings and temporary cash investments		2	
	3 Pledges and grants receivable, net		3	
	4 Accounts receivable, net	13,040,084	4	7,670,872
	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	1,450,922	7	1,698,534
	8 Inventories for sale or use	4,192,974	8	4,624,643
	9 Prepaid expenses and deferred charges	2,578,105	9	184,268
	10a Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	190,493,347		
	b Less accumulated depreciation	64,870,798	125,558,321	10c 125,622,549
	11 Investments—publicly traded securities	34,289,242	11	35,201,722
	12 Investments—other securities See Part IV, line 11		12	
	13 Investments—program-related See Part IV, line 11	19,250,907	13	19,716,493
	14 Intangible assets	523,213	14	2,840,643
	15 Other assets See Part IV, line 11	1,681,515	15	1,328,168
16 Total assets. Add lines 1 through 15 (must equal line 34)	202,568,591	16	198,890,563	
Liabilities	17 Accounts payable and accrued expenses	4,850,814	17	4,667,019
	18 Grants payable		18	
	19 Deferred revenue	1,613,299	19	669,976
	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		23	
	24 Unsecured notes and loans payable to unrelated third parties		24	59,107
	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	84,104,988	25	57,293,942
	26 Total liabilities. Add lines 17 through 25	90,569,101	26	62,690,044
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	111,602,017	27	135,845,347
	28 Temporarily restricted net assets	397,473	28	355,172
	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	111,999,490	33	136,200,519	
34 Total liabilities and net assets/fund balances	202,568,591	34	198,890,563	

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	195,623,386
2	Total expenses (must equal Part IX, column (A), line 25)	2	169,519,046
3	Revenue less expenses Subtract line 2 from line 1	3	26,104,340
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	111,999,490
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-1,903,311
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	136,200,519

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)

Public Charity Status and Public Support

OMB No 1545-0047

2011

Open to Public Inspection

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.

Department of the Treasury
Internal Revenue Service

Name of the organization
Baylor Regional Medical Center at Plano

Employer identification number

82-0551704

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 Total. 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 Public Support. 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 33 1/3% support test—2011. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization <input type="checkbox"/>		
b 33 1/3% support test—2010. 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 stop here. The organization qualifies as a publicly supported organization <input type="checkbox"/>		
17a 10%-facts-and-circumstances test—2011. 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 stop here. Explain in Part IV how the organization meets the "facts and circumstances" test. The organization qualifies as a publicly supported organization <input type="checkbox"/>		
b 10%-facts-and-circumstances test—2010. 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 stop here. Explain in Part IV how the organization meets the "facts and circumstances" test. The organization qualifies as a publicly supported organization <input type="checkbox"/>		
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions <input type="checkbox"/>		

Part 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 stop here <input type="checkbox"/>						

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 **stop here**. 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 **stop here**. 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)

Political Campaign and Lobbying Activities

OMB No 1545-0047

2011

Open to Public Inspection

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.

Department of the Treasury Internal Revenue Service

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 Plano

Employer identification number

82-0551704

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?
4a Was a correction made?
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 function 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?
5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments

Table with 5 columns: (a) Name, (b) Address, (c) EIN, (d) Amount paid from filing organization's funds, (e) Amount of political contributions received and promptly and directly delivered to a separate political organization.

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 border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">If the amount on line 1e, column (a) or (b) is:</th> <th style="width: 50%;">The lobbying nontaxable amount is:</th> </tr> </thead> <tbody> <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> </tbody> </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
1 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			
a Volunteers?		No	
b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?	Yes		
c Media advertisements?		No	
d Mailings to members, legislators, or the public?		No	
e Publications, or published or broadcast statements?		No	
f Grants to other organizations for lobbying purposes?	Yes		4,176
g Direct contact with legislators, their staffs, government officials, or a legislative body?	Yes		39,686
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i Other activities? If "Yes," describe in Part IV		No	
j Total lines 1c through 1i			43,862
2a Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b If "Yes," enter the amount of any tax incurred under section 4912			
c If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d 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).		
a Current year	2a	
b Carryover from last year	2b	
c Total	2c	
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 1. 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 Plano ("BRMCP") 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. BRMCP has established relationships with persons and industry associations that often communicate BRMCP's positions on major health care issues. These contacts may include direct contact, telephone conversations and/or letters. Also, BRMCP may attempt to educate the local community on certain legislative initiatives that may impact BRMCP'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. BRMCP has not intervened in any political campaign.

SCHEDULE D (Form 990)

OMB No 1545-0047

Supplemental Financial Statements

2011

Open to Public Inspection

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.

Department of the Treasury Internal Revenue Service

Name of the organization Baylor Regional Medical Center at Plano

Employer identification number 82-0551704

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.

Table with 2 columns: (a) Donor advised funds, (b) Funds and other accounts. Rows 1-4: Total number at end of year, Aggregate contributions to (during year), Aggregate grants from (during year), 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?
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?

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, Protection of natural habitat, Preservation of open space, Preservation of an historically important land area, Preservation of a certified historic structure.

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

Table with 2 columns: Description, Held at the End of the Year. Rows 2a-2d: Total number of conservation easements, Total acreage restricted by conservation easements, Number of conservation easements on a certified historic structure included in (a), 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?

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)?

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

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

Table with 2 columns: Label (1c-1f) and Amount

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.

Table with 6 columns: Label (1a-1g), (a) Current Year, (b) Prior Year, (c) Two Years Back, (d) Three Years Back, (e) Four Years Back

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

Table with 3 columns: Label (3a(i), 3a(ii), 3b), Yes, No

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.

Table with 5 columns: Description of property, (a) Cost or other basis (investment), (b) Cost or other basis (other), (c) Accumulated depreciation, (d) Book value

Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) 125,622,549

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
Other		
Total. <i>(Column (b) should equal Form 990, Part X, col (B) line 12.)</i>		

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Investment in Controlled Partnerships	19,091,493	F
(2) Investment in Baylor Quality Alliance	625,000	C
Total. <i>(Column (b) should equal Form 990, Part X, col (B) line 13.)</i>	19,716,493	

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
Total. <i>(Column (b) should equal Form 990, Part X, col.(B) line 15.)</i>	

Part X Other Liabilities. See Form 990, Part X, line 25.

1 (a) Description of Liability	(b) Amount
Federal Income Taxes	
Physician Guarantee Liability	972,996
Note Payable to Related Organization	56,320,946
Total. <i>(Column (b) should equal Form 990, Part X, col (B) line 25.)</i>	57,293,942

2. Fin 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740)

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

Complete if the organization answered "Yes" to Form 990, Part IV, question 20. 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 Plano

Employer identification number 82-0551704

Part I Charity Care and Certain Other Community Benefits at Cost

1a Did the organization have a charity care policy? 1b If "Yes," is it a written policy? 2 If the organization had multiple hospitals... 3a Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing free care? 3b Did the organization use FPG to determine eligibility for providing discounted care? 4 Did the organization's policy provide free or discounted care to the "medically indigent"? 5a Did the organization budget amounts for free or discounted care... 5b If "Yes," did the organization's charity care expenses exceed the budgeted amount? 5c If "Yes" to line 5b... 6a Did the organization prepare a community benefit report... 6b If "Yes," did the organization make it available to the public?

7 Charity Care and Certain Other Community Benefits at Cost

Table with 7 columns: (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. Rows include Charity Care and Means-Tested Government Programs (a-d) and Other Benefits (e-k).

Part III 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						
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						

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 Healthcare Financial Management Association Statement No. 15?	Yes	
2	Enter the amount of the organization's bad debt expense		9,950,451
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy		537,324
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	62,421,792
6	Enter Medicare allowable costs of care relating to payments on line 5	6	90,025,833
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7	-27,604,041
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?	Yes	
9b	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.	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 Texas Heart Hospital of the Southwest LLP	Patient Care	50.050 %	0 %	49.950 %
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest)

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

Name and address

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)
1	Baylor Regional Medical Ctr at Plano 4700 Alliance Blvd Plano, TX 75093	X	X				X	X		
2	Texas Heart Hospital of Southwest LLP 1100 Allied Drive Plano, TX 75093	X	X					X		

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 Medical Ctr at Plano

Name of Hospital Facility: _____

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

	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)	1	
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)		
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)	5	
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)		
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		
8 Did the hospital facility have in place during the tax year a written financial assistance policy that 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 <u>200 000000000000</u> % 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?	10	Yes	
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			
11 Explained the basis for calculating amounts charged to patients?	11	Yes	
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)			
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?	13	Yes	
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)			

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?	16		No
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)			
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?	Yes	
	If "No," indicate why		
	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 its 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?		No
	If "Yes," explain in Part VI		
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?		No
	If "Yes," explain in Part VI		

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)

Texas Heart Hospital of Southwest LLP

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)	1	
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)		
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)	5	
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)		
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		
8 Did the hospital facility have in place during the tax year a written financial assistance policy that 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 <u>200 000000000000</u> % 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

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

- a** The hospital facility did not provide care for any emergency medical conditions
- b** The hospital facility's policy was not in writing
- c** The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)
- d** Other (describe in Part VI)

	Yes	No
18	Yes	

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** The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged
- b** The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged
- c** The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged
- d** 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

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

19		
20		No
21		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? 8

Name and address	Type of Facility (Describe)
1 Center for Advanced Cardiovascular Care 4716 Alliance Blvd Suite 300 Plano, TX 75093	Cardiovascular Center
2 Elizabeth Jekot MD Breast Imag Ctr 3301 E Renner Rd Suite 100 Richardson, TX 75082	Radiology Center
3 Baylor Imaging Ctr at Craig Ranch 8080 Hwy 121 Suite 210A McKinney, TX 75070	Radiology Center
4 Women's Imag Ctr at Baylor Plano 4716 Alliance Blvd Suite 100 Plano, TX 75093	Radiology Center
5 Center for Advanced Cardiovascular Care 5236 West University Drive Suite 4400 McKinney, TX 75071	Cardiovascular Center
6 Baylor Behavioral Health Center 4708 Alliance Blvd Suite 801 Plano, TX 75093	Behavioral Health Center
7 Baylor Scoliosis Center 4708 Alliance Blvd Suite 800 Plano, TX 75093	Scoliosis Center
8 Baylor Weight Loss Surgery Ctr 4708 Alliance Blvd Suite 830 Plano, TX 75093	Bariatric Center
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
		<p>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 \$2,896,455 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 Part I, Line 7k, Column (f) The amount reported on Schedule H, Line 7b, column (f) results in a negative percentage The Form 990 instructions require the organization to put zero instead of a negative percentage However, this causes the tax software to incorrectly calculate the total community benefit expense percentage on Line 7k, column (f) which should be 4.7%</p>

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 \$8,525,671

Identifier	ReturnReference	Explanation
		<p>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 organization's 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.</p>

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 \$33,068,218, which is \$5,464,177 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 balance due, the same collection policy and procedures are applied equally to all patient types

Identifier	ReturnReference	Explanation
Baylor Regional Medical Ctr at Plano		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
Texas Heart Hospital of Southwest, LLP		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 Medical Ctr at Plano		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
Texas Heart Hospital of Southwest, LLP		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 Medical Ctr at Plano		<p>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</p>

Identifier	ReturnReference	Explanation
Texas Heart Hospital of Southwest, LLP		<p>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</p>

Identifier	ReturnReference	Explanation
Baylor Regional Medical Ctr at Plano		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
Texas Heart Hospital of Southwest, LLP		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 Question Part V, Line 19ac

Identifier	ReturnReference	Explanation
		<p>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.</p>

Identifier	ReturnReference	Explanation
		<p>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:</p> <ol style="list-style-type: none"> 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. 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. <p>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.</p>

Identifier	ReturnReference	Explanation
		<p>Part VI, Line 4 Located in Collin County, the organization's service area includes parts of the urban/suburban North Texas area including Allen, Carrollton, Dallas and Richardson The population is estimated to be approximately 1,910,173 The average household income is \$90,938 with 6.6 percent of the population having household incomes below the Federal Poverty Level (FPL) The population is made up of 56.8 percent white non-Hispanic, 22.1 percent Hispanic, 9.4 percent black non-Hispanic, 9.0 percent Asian and Pacific Islanders Non-Hispanic and 2.7 percent other The organizations service area payer mix is comprised of 43.9 percent Managed Care, 13.4 percent Medicaid, 32.7 percent Medicare and 9.6 percent Self-pay/Charity and 0.4 percent other There are approximately 34 other hospitals located within the organization service area The organizations service area contains multiple medically underserved areas or populations</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 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. The organization participates in major community health fairs targeted at the underserved and supports local not-for-profit organizations as part of its community benefit efforts. The community assessment revealed that key areas of focus include diabetes, cardiac health/ stroke, chronic respiratory disease, Alzheimer's disease, and cancer. These areas have been addressed by the hospital via educational seminars and material, support groups, monetary grants, and screenings that help identify those at risk. The organization has been named one of the nation's top performers on key quality measures by The Joint Commission, the leading accreditor of health care organizations in America. This recognition was based on data reported about evidence-based clinical processes that are shown to improve care for certain conditions, including heart attack, heart failure, pneumonia, surgical care and children's asthma. The organization is one of only 405 U.S. hospitals and critical access hospitals earning the distinction of top performer on key quality measures for attaining and sustaining excellence in accountability measure performance. Inclusion on the list is based on an aggregation of accountability measure data reported to The Joint Commission during the previous calendar year. For example, this first recognition program is based on data that were reported for 2010. To be recognized as a top performer on key quality measures an organization must meet two 95 percent performance thresholds. First they must achieve a composite performance of 95 percent or above after the results of all the accountability measures for which they report data to The Joint Commission. Accountability measures were factored into a single score, including measures that had less than 30 eligible cases or patients. Second, they must meet or exceed a 95 percent performance target for every single accountability measure for which they report data, excluding any measures with less than 30 eligible cases or patients. The Organization 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 the Systems relationships with fifteen North Texas schools of nursing, the Organization maintains strong affiliations with schools of nursing. In the fiscal year ending June 30, 2012, the Organization invested in training 65 nurses. Total unreimbursed cost of these programs was \$226,942. 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 ensure consistency across the System</p>

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

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

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.

Department of the Treasury
Internal Revenue Service

Name of the organization
Baylor Regional Medical Center at Plano

Employer identification number

82-0551704

Part I Questions Regarding Compensation

- 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 type="checkbox"/> Housing allowance or residence for personal use |
| <input type="checkbox"/> Travel for companions | <input type="checkbox"/> Payments for business use of personal residence |
| <input checked="" type="checkbox"/> Tax indemnification and gross-up payments | <input type="checkbox"/> Health or social club dues or initiation fees |
| <input checked="" type="checkbox"/> Discretionary spending account | <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

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?

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 type="checkbox"/> Written employment contract |
| <input checked="" type="checkbox"/> Independent compensation consultant | <input checked="" type="checkbox"/> Compensation survey or study |
| <input type="checkbox"/> Form 990 of other organizations | <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?
- b** Participate in, or receive payment from, a supplemental nonqualified retirement plan?
- c** Participate in, or receive payment from, an equity-based compensation arrangement?
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?
- b** Any related organization?
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?
- b** Any related organization?
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

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

9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

	Yes	No
1b	Yes	
2	Yes	
4a		No
4b	Yes	
4c		No
5a		No
5b		No
6a		No
6b		No
7	Yes	
8		No
9		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

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

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other 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 reportable compensation				
(1) 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
(2) Deanne Kindred	(i)	186,150	36,864	310	9,559	29,938	262,821	0
	(ii)	0	0	0	0	0	0	0
(3) Ellen Pitcher	(i)	193,322	36,779	790	9,724	15,576	256,191	0
	(ii)	0	0	0	0	0	0	0
(4) Jerri Garison	(i)	311,563	147,717	60,245	102,435	18,958	640,918	45,259
	(ii)	0	0	0	0	0	0	0
(5) 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
(6) Carolann Crowell	(i)	116,200	26,075	410	5,970	17,455	166,110	0
	(ii)	0	0	0	0	0	0	0
(7) Charles Toulson	(i)	144,450	0	0	7,223	13,999	165,672	0
	(ii)	0	0	0	0	0	0	0
(8) Margaret Murff	(i)	114,853	24,604	866	6,085	16,313	162,721	0
	(ii)	0	0	0	0	0	0	0
(9) Rochelle Genn	(i)	138,427	10,000	382	5,219	18,769	172,797	0
	(ii)	0	0	0	0	0	0	0
(10) Soo Shin	(i)	128,832	10,000	332	4,735	17,652	161,551	0
	(ii)	0	0	0	0	0	0	0

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. 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. One of the persons listed in the Form 990, Part VII, Section A, received this benefit during the tax year.
	Part I, Line 4b	In order to recruit and retain key talent, Baylor Health Care System ("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 which 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: Jerri Garison (\$45,259), Paul Madeley, M.D. (\$42,772), 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 guidelines 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: Jerri Garison (\$53,598) and William Boyd (\$115,038).
	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.

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 Plano

Employer identification number

82-0551704

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

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	<p>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.</p>

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	<p>Process for making governing documents, conflict of interest policy, & financial statements available to the public</p> <p>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.</p>

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) Roy Lamkin (10 Hours) Paul Madeley, M.D. (40 Hours) Walker Harman (10 Hours) Tim Owens (10 Hours)

Identifier	Return Reference	Explanation
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 5	Net unrealized losses on investments -1,916,920 Change in Net Assets Held at BHCS Foundation -42,301 Transfer to/from BHCS-Liability Reserve 55,910 Total to Form 990, Part XI, Line 5 -1,903,311

Identifier	Return Reference	Explanation
	Supplemental Information Section 6038 Statement	Baylor Plano 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 Plano by IRC Section 6038 and the regulations thereunder with respect to HCIC. Therefore, pursuant to Treasury Regulation Sec. 1.6038-2(j)(2), Baylor Plano is excepted from providing such information. BHCS files its Return of Organization Exempt from Income Tax in Ogden, Utah.

**SCHEDULE R
(Form 990)**

Related Organizations and Unrelated Partnerships

OMB No 1545-0047

2011

Open to Public Inspection

▶ **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.**

Department of the Treasury
Internal Revenue Service

Name of the organization
Baylor Regional Medical Center at Plano

Employer identification number
82-0551704

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

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	Yes	
1k	Yes	
1l	Yes	
1m		No
1n		No
1o	Yes	
1p		No
1q	Yes	
1r	Yes	

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)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

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

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income(related, unrelated, excluded from tax under sections 512- 514)	(e) Are all partners section 501(c)(3) organizations?		(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		Yes	No	

Part VII Supplemental Information

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

Identifier**Return Reference****Explanation****Schedule R (Form 990) 2011**

Software ID:
Software Version:
EIN: 82-0551704
Name: Baylor Regional Medical Center at Plano

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	
						Yes	No
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 Grapevine 2001 Bryan Street Suite 2200 Dallas, TX 75201 75-1777119	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

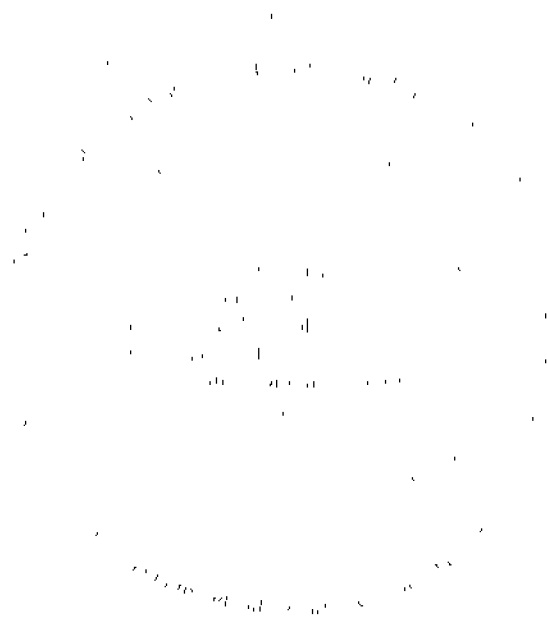
(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal Domicile (State or Foreign Country)	(d) Direct Controlling Entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income (\$)	(g) Share of end-of-year assets (\$)	(h) Percentage ownership
Baylor Health 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	N/A	C			
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	96,563	638,052	12 500 %

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) Baylor University Medical Center	B	1,059,963	GAAP
(2) Baylor Health Care System Foundation	C	294,248	GAAP
(3) Texas Heart Hospital of the Southwest LLP	R	17,217,535	GAAP
(4) HealthTexas Provider Network	A	106,027	GAAP
(5) Texas Heart Hospital of the Southwest LLP	K	401,166	GAAP
(6) Baylor Health Care System	L	24,183,357	GAAP
(7) Baylor University Medical Center	L	228,507	GAAP
(8) HealthTexas Provider Network	L	2,050,231	GAAP
(9) MEDCO Construction LLC	L	4,465,390	GAAP
(10) Texas Heart Hospital of the Southwest LLP	L	526,166	GAAP
(11) Baylor Health Care System	O	236,666	GAAP
(12) Baylor Health Care System	Q	3,607,714	GAAP
(13) BIR JV LLP	L	1,415,169	GAAP
(14) Baylor All Saints Medical Center	J	86,290	GAAP
(15) Baylor Health Care System	R	55,910	GAAP
(16) BIR JV LLP	A	1,004,333	GAAP
(17) Baylor Quality Health Care Alliance LLC	B	625,000	GAAP



**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	<u>2012</u>	<u>2011</u>	LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:			CURRENT LIABILITIES:		
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	<u>118,156</u>	<u>99,775</u>	Other	<u>126,059</u>	<u>111,416</u>
Total current assets	<u>1,073,498</u>	<u>997,397</u>	Total current liabilities	<u>768,981</u>	<u>693,419</u>
LONG-TERM INVESTMENTS:			LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current maturities		
Unrestricted	1,440,238	1,473,908		1,186,028	1,213,863
Restricted	<u>273,709</u>	<u>263,463</u>	OTHER LONG-TERM LIABILITIES:		
Total long-term investments	<u>1,713,947</u>	<u>1,737,371</u>	Self insurance and other insurance liabilities	57,574	71,235
ASSETS WHOSE USE IS LIMITED.			Interest rate swap liability, net	91,477	66,604
Other designated assets	7,633	6,663	Other	<u>126,505</u>	<u>124,896</u>
Self insurance retention trust	66,016	57,561	Total other long-term liabilities	<u>275,556</u>	<u>262,735</u>
Funds held by bond trustee	<u>37,345</u>	<u>118,903</u>	Total liabilities	<u>2,230,565</u>	<u>2,170,017</u>
Total assets whose use is limited	<u>110,994</u>	<u>183,127</u>	COMMITMENTS AND CONTINGENCIES		
ASSETS HELD FOR SALE	3,635	-	NONCONTROLLING INTERESTS - REDEEMABLE		
PROPERTY AND EQUIPMENT, net	2,068,308	1,941,261		148,008	120,830
CONTRIBUTIONS RECEIVABLE, net	51,252	54,234	NET ASSETS:		
INVESTMENTS OF INSURANCE SUBSIDIARIES	2,163	2,126	Unrestricted - attributable to BHCS	2,490,551	2,443,733
OTHER LONG-TERM ASSETS:			Unrestricted - noncontrolling interests-nonredeemable	<u>119,941</u>	<u>114,412</u>
Equity investments in unconsolidated entities	9,057	13,100	Total unrestricted net assets	2,610,492	2,558,145
Goodwill and intangible assets, net	250,532	217,691	Temporarily restricted	152,209	147,421
Other	<u>33,172</u>	<u>25,219</u>	Permanently restricted	<u>175,284</u>	<u>175,113</u>
Total other long-term assets	<u>292,761</u>	<u>256,010</u>	Total net assets	<u>2,937,985</u>	<u>2,880,679</u>
Total assets	<u>\$ 5,316,558</u>	<u>\$ 5,171,526</u>	Total liabilities and net assets	<u>\$ 5,316,558</u>	<u>\$ 5,171,526</u>

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>
CASH FLOWS FROM OPERATING ACTIVITIES:		
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>
CASH FLOWS FROM INVESTING ACTIVITIES:		
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)

	2012	2011
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	(588)	(545)
Net cash (used in) provided by financing activities	(123,021)	74,073
NET INCREASE IN CASH AND CASH EQUIVALENTS	43,085	61,201
CASH AND CASH EQUIVALENTS, beginning of year	218,263	157,062
CASH AND CASH EQUIVALENTS, end of year	\$ 261,348	\$ 218,263
SUPPLEMENTAL CASH FLOW DATA:		
Cash paid for interest	\$ 71,313	\$ 73,099
Cash paid for income taxes	\$ 7,993	\$ 6,493
Property and equipment acquired under capital leases	\$ 4,607	\$ 27,723
Dividends declared but not paid	\$ -	\$ 13,670
Increase in accounts payable due to property and equipment received but not paid	\$ 13,101	\$ 14,724

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-SFWW) campus, a 58 operating bed facility, and consolidated the BMC-SFWW'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-SFWW 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			Total
	Interest and Dividends	Realized gains	Unrealized gains (losses)	
(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			Total
	Interest and Dividends	Realized gains (losses)	Unrealized gains	
(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.

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	\$ 91,477	\$ -	\$ 91,477	\$ -
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			
	Total	Level 1	Level 2	Level 3
Assets:				
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

	2012	2011
	(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

	2012	2011
	(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

	2012	2011
	(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

	2012	2011
	(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	8,944	5,439
	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	(50,000)	(50,000)
	<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	<u>2,309</u>	<u>-</u>	<u>2,309</u>
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	<u>(6,017)</u>	<u>-</u>	<u>(6,017)</u>
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):

June 30, 2012	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 493	\$ 493	\$ -	\$ -
Equity securities (a)	<u>16,215</u>	<u>16,215</u>	-	-
Total	<u>\$ 16,708</u>	<u>\$ 16,708</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2011	Total	Level 1	Level 2	Level 3
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>	-	-
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:

	2012	2011
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.

PricewaterhouseCoopers 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.