

# Baylor College of Medicine®

## ANNUAL REPORT ON FINANCIAL INFORMATION AND OPERATING DATA (pursuant to continuing disclosure undertakings made in accordance with SEC Rule 15c2-12)

For the Fiscal Year ended June 30, 2017

Dated: December 11, 2017

Due: December 31, 2017

| Maturity<br>(November 15)   | Principal      | CUSIP No. | Coupon<br>Interest<br>Rate | Maturity<br>(November 15)  | Principal     | CUSIP No. | Coupon<br>Interest<br>Rate |
|---|----------------|-----------|----------------------------|--|---------------|-----------|----------------------------|
| <b>Series 2012 Medical Facilities Mortgage Bonds</b>                        |                |           |                            | <b>Series 2015 Medical Facilities<br/>Mortgage Revenue Refunding Bonds</b> |               |           |                            |
| 2046  | \$ 109,121,000 | 07284RAA0 | 5.259%                     | 2045   | \$ 75,000,000 | 414008BQ4 |                            |
| <b>Series 2012A Medical Facilities<br/>Mortgage Revenue Refunding Bonds</b> |                |           |                            | <b>Series 2016 Medical Facilities<br/>Mortgage Revenue Refunding Bonds</b> |               |           |                            |
| 2018  | \$ 2,970,000   | 414008AY8 | 5.00%                      | 2018   | \$ 6,630,000  | 414008BR2 | 5.00%                      |
| 2019  | 3,105,000      | 414008AZ5 | 5.00%                      | 2019   | 6,990,000     | 414008BS0 | 5.00%                      |
| 2020  | 3,340,000      | 414008BA9 | 5.00%                      | 2020   | 7,275,000     | 414008BT8 | 5.00%                      |
| 2021  | 3,615,000      | 414008BB7 | 5.00%                      | 2021   | 7,545,000     | 414008BU5 | 5.00%                      |
| 2022  | 4,020,000      | 414008BC5 | 5.00%                      | 2022   | 7,710,000     | 414008BV3 | 5.00%                      |
| 2023  | 4,245,000      | 414008BD3 | 5.00%                      | 2023   | 8,085,000     | 414008BW1 | 5.00%                      |
| 2024  | 4,600,000      | 414008BE1 | 5.00%                      | 2024   | 8,360,000     | 414008BX9 | 5.00%                      |
| 2025  | 4,830,000      | 414008BF8 | 3.50%                      | 2025   | 8,760,000     | 414008BY7 | 5.00%                      |
| 2026  | 5,150,000      | 414008BG6 | 5.00%                      | 2026   | 9,100,000     | 414008BZ4 | 5.00%                      |
| 2027  | 5,555,000      | 414008BL5 | 3.75%                      | 2027   | 9,395,000     | 414008CA8 | 5.00%                      |
| 2032  | 21,330,000     | 414008BH4 | 4.00%                      | 2028   | 9,635,000     | 414008CB6 | 4.00%                      |
| 2037  | 112,265,000    | 414008BJ0 | 5.00%                      | 2029   | 13,485,000    | 414008CC4 | 4.00%                      |
| 2046  | 16,000,000     | 414008BK7 | 4.75%                      | 2030   | 7,425,000     | 414008CG5 | 3.00%                      |
|   |                |           |                            | 2030   | 6,525,000     | 414008CD2 | 4.00%                      |
|   |                |           |                            | 2031   | 14,375,000    | 414008CE0 | 3.00%                      |
|   |                |           |                            | 2032   | 11,305,000    | 414008CF7 | 3.00%                      |

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The following Annual Report on Financial Information and Operating Data is filed by Baylor College of Medicine. The information in this Annual Report is provided solely to comply with contractual commitments, made in connection with the issuance of securities with the above CUSIP numbers, to provide specified information. Descriptions of the securities, the source of payment and security for the securities, and risks associated with an investment in the securities are described in the Official Statements related to the securities, as supplemented, copies of which are on file with the Municipal Securities Rulemaking Board. This Annual Report is not made in connection with a purchase or sale of securities by the College and accordingly is not intended to contain all information material to a decision to purchase or sell securities.

Any statement in this Annual Report which includes a matter of opinion, whether or not expressly so stated, is intended as such, and not as a representation of fact. The information contained in this Annual Report is provided as of the respective dates specified herein and is subject to change without notice, and the filing of this Annual Report shall not, under any circumstances, create any implication that there has been no change in the affairs of the entities referred to herein or in the other matters described herein since the date as of which such information is provided. The historical information set forth in this Annual Report is not necessarily indicative of future results or performance due to various factors, including, among others, those discussed in the Official Statements referred to above.

In its continuing disclosure undertakings, the College disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the disclosure undertakings or from any statement made pursuant to the undertakings. See "Continuing Disclosure of Information" in the Official Statements.

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## **BAYLOR COLLEGE OF MEDICINE**

### **General**

Baylor College of Medicine (the “*College*”) is one of the leading health science universities and biomedical research institutions in the United States. The College is a Texas nonprofit corporation exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “*Code*”), by reason of being an organization described in Section 501(c)(3) of the Code. The College is located in the Texas Medical Center, a 700 acre complex of more than 50 independent institutions in Houston, Texas. The College is the only private medical school in the southwestern United States.

In addition to physician education, the College offers programs and postgraduate degrees in graduate biomedical sciences, tropical medicine, and allied health fields, and offers graduate medical education in 86 specialties. The College is among the nation’s leading biomedical research institutions and consistently ranks among the top of the country’s 147 medical schools. In 2017, *U.S. News & World Report* ranked the College #21 overall among the nation’s top medical schools for research and #9 for primary care, each within the top 15% of all U.S. medical schools. In 2016, the College ranked #20 among all U.S. medical schools for National Institutes of Health funding and was ranked #2 in the nation by the National Science Foundation for research expenditures in biological science. The College received total annual research and education support of approximately \$433 million and \$426 million in each of fiscal years ending June 30, 2017 and 2016, respectively, and has more than 90 research and patient-care centers and units. See “RESEARCH” herein. The College trains more than 3,000 medical, graduate, nurse anesthesia, physician assistant, and orthotics and prosthetics students, as well as residents and postdoctoral fellows per year. See “EDUCATION” herein. Finally, the College provides extensive patient care services through the Baylor Clinic, located at the western edge of the main campus of Texas Medical Center (the “*Baylor Clinic*”) and faculty physician services provided at independently owned and operated hospitals. These affiliated hospitals serve approximately 126,000 inpatients and 4.4 million outpatients annually. See “PATIENT CARE” herein.

The hospitals’ relationship with the College is typically through affiliation agreements. Although throughout this document such hospitals may from time to time be referred to as “affiliates” and “affiliated hospitals,” the hospitals are neither owned nor controlled by the College with the exception of CHI St. Luke’s Baylor College of Medicine Medical Center (described below), which is owned and operated by a non-profit corporation jointly controlled by the College and CHI St. Luke’s Health.

### **Mission, Vision and Values**

The College is a health sciences university whose mission is to create knowledge and apply science and discoveries to further education, healthcare and community service locally and globally. Its vision is to improve health through science, scholarship and innovation. The College achieves this vision by discovering the fundamentals of human disease and health; investing in the human and technological resources necessary for innovation; reaching the community locally and globally; educating generations of life-long learners dedicated to excellence in biomedical research, patient care and education; creating the academic health delivery system of the future; translating discoveries into new diagnostics, treatments and cures; and sustaining an operationally excellent and fiscally stable platform, all while incorporating values of respect, integrity, innovation, teamwork and excellence.

### **History**

Since its founding in 1900, the College has grown into an internationally respected education, medical and research institution.

In 1903, the medical school began an affiliation with Baylor University that lasted until 1969, when the College became an independent institution. Founded in Dallas, the College moved to Houston in 1943. In 1947, the College moved into the Roy and Lillie Cullen Building, the first building completed in the new Texas Medical Center. The College became the educational cornerstone of the complex.

During the next several years, the College began its affiliation with a number of hospitals, creating training facilities for students and residents.

In 1969, the State of Texas (the “*State*”) enacted legislation pursuant to which the State began appropriating funds to offset a portion of the costs of the medical education of the State’s residents. See “EDUCATION” herein. The College has since more than doubled its enrollment and expanded its affiliation with medical and educational institutions in Houston and throughout Texas.

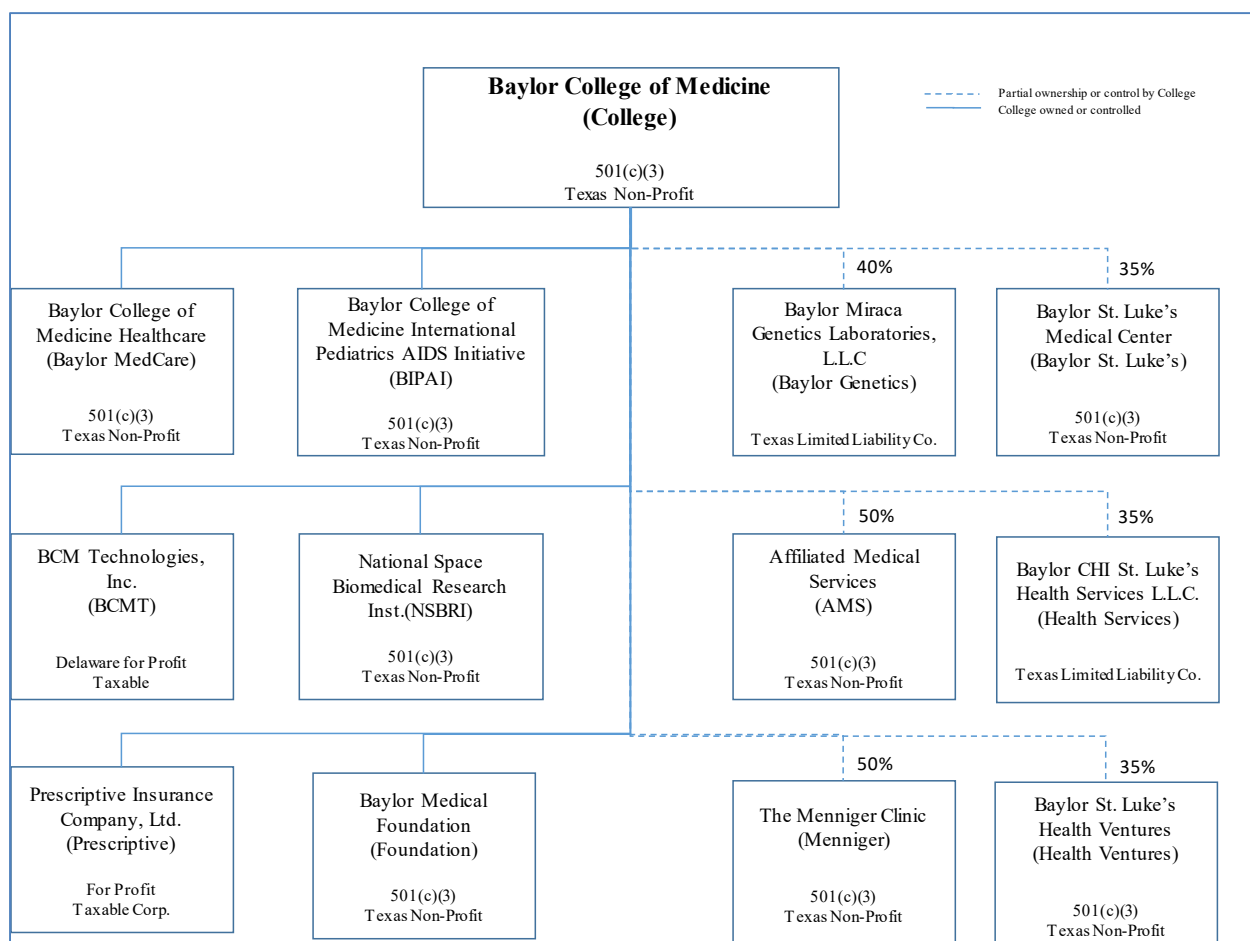
The 1970s and 1980s were a period of explosive growth in facilities and research programs at the College, establishing it as one of the world’s premier institutions for educational excellence, research achievements, and innovative patient care.

In 2007, following the expiration of its principal private adult teaching hospital affiliation, the College commenced construction of a new integrated clinic, hospital, and faculty office space, containing approximately 1.2 million gross square feet (“*GSF*”) and then known as the Baylor College of Medicine Medical Center (the “*BCM Medical Center*”), and a free-standing ambulatory care building known as the Lee and Joe Jamail Specialty Care Center (the “*Jamail Center*”). The College completed the structure and shell of the BCM Medical Center in January 2011, subsequently completed building out two floors for clinic operations, and contributed all but these floors (and three additional floors of shelled-in space) as part of the College’s membership interest in a joint venture with CHI St. Luke’s Health. The Jamail Center was completed and has been in operation since 2008.

## CORPORATE GROUP AND JOINT VENTURES

### Corporate Overview

The chart below identifies the College’s principal affiliates and joint ventures and summarizes their relationship to the College and tax status.



## **CHI St. Luke's Health Baylor College of Medicine Medical Center**

Effective January 1, 2014, the College and CHI St. Luke's Health, an affiliate of Catholic Health Initiatives ("CHI"), agreed to become joint members of CHI St. Luke's Baylor College of Medicine Medical Center ("Baylor St. Luke's"), formerly known as CHI St. Luke's Medical Center and St. Luke's Episcopal Hospital, which owns and operates an 850 licensed bed quaternary care hospital, known as Baylor St. Luke's Medical Center ("BSL Medical Center"), located on the main campus of the Texas Medical Center, among other properties. In consideration for its membership interest, the College contributed 25 acres of the McNair Campus, including the BCM Medical Center (but excluding the College's retained ownership of five floors of the facility), to Baylor St. Luke's. The College undertook this transaction to enable Baylor St. Luke's to complete, own and operate the BCM Medical Center to serve ultimately as a replacement for the BSL Medical Center on the Texas Medical Center's main campus and serve as the College's principal private adult teaching hospital.

**Baylor St. Luke's** Baylor St. Luke's is a Texas non-profit corporation that is exempt from federal income taxation under Section 501(a) of the Code by virtue of being an entity described in Section 501(c)(3) of the Code ("tax-exempt entity"). As a member, the College appoints and may remove 50% of the board of directors of Baylor St. Luke's, enjoys certain reserved powers, is entitled to receive 35% of any assets distributed by Baylor St. Luke's to members (and, through calendar year 2018, a minimum of \$15 million per year), and, beginning in calendar year 2019, is obligated to contribute 35% of required capital, if any, as described herein. Baylor St. Luke's other corporate member is St. Luke's Health System Corporation (n/k/a "CHI St. Luke's Health"), also a Texas non-profit corporation and tax-exempt entity, the sole member of which is CHI, a Colorado non-profit corporation and tax-exempt entity. Neither CHI St. Luke's Health nor Baylor St. Luke's is obligated to pay any of the College's obligations with respect to outstanding bonds.

In addition to the hospital on the main campus of the Texas Medical Center, Baylor St. Luke's owns other land and improvements in and near the Texas Medical Center, and ambulatory clinics located in the Texas Medical Center area, upper Kirby area, and the Tanglewood area in Houston, and Pearland, Texas. . BSL Medical Center delivers primary through quaternary health care to patients throughout the Houston metropolitan area as well as from around the world. BSL Medical Center cares for more than 23,893 inpatients and 155,187 outpatients each year. It is the College's primary private adult care teaching hospital with a medical staff of nearly 600 physicians, the majority of whom have College faculty appointments.

The financial results of operation of Baylor St. Luke's are consolidated with those of CHI. For accounting purposes, the College's investment in Baylor St. Luke's is recognized as an equity interest. Limited information about Baylor St. Luke's and BSL Medical Center can be found online in filings by CHI in the Electronic Municipal Market Access ("EMMA") System maintained by the Municipal Securities Rulemaking Board. Such filings are not incorporated by reference or otherwise in this report.

Baylor St. Luke's recorded total assets of \$1,011.2 million and \$1,028.1 million and total liabilities of \$96.2 million and \$105.9 million at June 30, 2017 and 2016, respectively, and recognized \$5.6 million and \$9.5 million of revenues in excess of expenses for the twelve months ended June 30, 2017, and June 30, 2016, respectively. The liabilities do not include any portion of the indebtedness of CHI. CHI has agreed to cause all of its consolidated affiliates to pay or transfer to CHI such amounts as are necessary to pay much of CHI's indebtedness. For the twelve months ended June 30, 2017 and 2016, respectively, the College recognized \$0.6 million and \$4.3 million in revenue under its joint venture agreement, \$12.3 million and \$0 in additional mission support payments, and \$9.2 million and \$7.6 million in other revenue from Baylor St. Luke's.

**Affiliation Agreement.** The College and Baylor St. Luke's have entered into an academic affiliation agreement, as amended from time to time, that extends through 2038. Under the agreement, the College is obligated to provide certain clinical services and programs at BSL Medical Center, including graduate medical education programs of the type and for numbers of residents and fellows of the College to be agreed to annually or, absent agreement, determined by the Baylor St. Luke's board, and the College is permitted to provide educational programs at BSL Medical Center to medical students, allied health professionals, and trainees enrolled at the College and to conduct research at BSL Medical Center. In return for these services, Baylor St. Luke's is obligated to pay the College a minimum of \$23.0 million per year in programmatic support through calendar year 2018, as adjusted each year with Baylor St. Luke's board approval to account for agreed changes in services. In FY 2017, the College received \$44.3 million associated with services and programs under this agreement. Beginning in calendar year 2019, the minimum

will adjust to an amount that is reasonable and consistent with industry fair market value standards, and adjusted for material changes to federal payments to hospitals for graduate medical education, as agreed to by the parties or determined by the Baylor St. Luke's board. Baylor St. Luke's has also agreed to pay to the College (or a third party named by it) in the five-year period ending with fiscal year 2018 (for new or expanded clinical and/ or academic programs) at least \$25 million for those programs located in the Texas Medical Center and a like amount for those located outside the Texas Medical Center. The payments described above are in addition to minimum mission support payment to be paid by Baylor St. Luke's to the College in the same period. See "—Membership Rights and Obligations" herein.

**Capital Plans.** Baylor St. Luke's was reorganized to include the College as a member, and recapitalized with contributions from the College, in order to enable Baylor St. Luke's to complete, own and operate the BCM Medical Center to serve ultimately as a replacement hospital for all or part of the BSL Medical Center and as the College's principal private adult teaching hospital. As consideration for its membership interest, the College contributed 16.8 acres of its McNair Campus outright, including the shelled-in BCM Medical Center, an additional 4.5 acres of the campus with a revisionary interest if not needed for development of the BCM Medical Center, and an option to acquire an additional 4.4 acres if needed for plant purposes, in addition to other capital commitments. (Of the 1.2 million GSF included in the contributed BCM Medical Center, 315,000 GSF of the top five floors, of which three floors are now substantially finished out, were conveyed back to the College for use in its clinical operations.)

Baylor St. Luke's has begun the build out and expansion of its portion of the BCM Medical Center and the transfer of service lines from the BSL Medical Center on the main campus of the Texas Medical Center to the BCM Medical Center (as expanded, the "*BSLMC at McNair*"). Although contracts to construct an additional bed tower and ancillary facilities and facilitate a medical office building at the BCM Medical Center were cancelled, CHI has recently stated that Baylor St. Luke's continues to move forward with a plan to expand and/or relocate certain of its operations in the Texas Medical Center to the BSLMC at McNair, while enhancing existing facilities and equipment at the BSL Medical Center. The BSLMC at McNair is located on the College's McNair Campus, which is part of the middle campus of Texas Medical Center adjacent to the Michael E. DeBakey Veterans Hospital to the east and Texas Medical Center parking facilities to the west, which Texas Medical Center intends to redevelop primarily for translational research facilities.

One bed tower was included in the shelled-in BCM Medical Center built by the College. Six of the eight floors of that bed tower (and adjacent diagnostic and procedure areas) designed for inpatient beds and owned by Baylor St. Luke's have been finished out for hospital use, and Baylor St. Luke's is currently transferring service lines to a portion of those floors. Except for completion of the initial bed tower, at this time Baylor St. Luke's has not established a timetable or developed final plans for or approved any additional construction projects at the BSLMC at McNair. Accordingly, development of the projects could be delayed, actual costs could exceed estimates, and the delays and cost overruns could be substantial.

The cost of completing and expanding the BSLMC at McNair (excluding the College's retained clinic floors) will be borne by Baylor St. Luke's. Construction to date has been funded by internally generated funds and net proceeds of property sales. Baylor St. Luke's long-term financing options include proceeds from sale of property, applying retained earnings, raising capital through fundraising, incurring debt, and inducing a private party to develop the new medical office building. Baylor St. Luke's continues to evaluate its financing options and develop a business plan. Because Baylor St. Luke's members retained responsibility for most debt incurred to finance Baylor St. Luke's existing operating assets, Baylor St. Luke's expects to be able to support a substantial amount of additional debt to finance, together with other sources, the proposed and possible BSLMC at McNair projects.

**Membership Rights and Obligations.** Baylor St. Luke's has agreed to make mission support payments to its members quarterly, in proportion to their membership interests, to the extent that sufficient funds remain after paying debt service and leases, funding (and reserving for) its capital budget, making payments to the College under its affiliation agreement, and maintaining a reasonable working capital reserve. Notwithstanding the foregoing, Baylor St. Luke's has agreed to make advanced mission support payments to the College of at least \$15 million per year on a cumulative basis through calendar year 2018.

Under its membership agreement with CHI and CHI St. Luke's Health regarding Baylor St. Luke's, the College agreed to contribute and/or spend on behalf of Baylor St. Luke's the cumulative sum of \$125 million over fiscal years 2015, 2016, and 2017, of which \$1.7 million remained to be contributed or spent as of June 30, 2017. It

is expected that most of this commitment will be met by expenditures for physician recruitment. Prior to January 1, 2019, neither of Baylor St. Luke's members is required to contribute further capital to Baylor St. Luke's. After that date, if Baylor St. Luke's requires capital that it cannot raise through internally generated funds and debt financing without causing certain of its financial ratios to fall below median levels for nonprofit health systems rated "A-" by S&P, each member would be required to contribute its share of capital based on its relative membership interest. If the College fails to pay a capital call, then its membership interest will be diluted. If its membership interest is reduced by more than half of its current 35% interest, CHI St. Luke's Health may elect to purchase the College's interest at fair value.

### **Other Affiliates and Joint Ventures**

The following entities are owned or controlled by the College or established to operate other joint ventures between the College and others. None of such entities are obligated to pay debt service on the College's obligations with respect to outstanding bonds.

***Affiliated Medical Services*** ("AMS") is a Texas nonprofit corporation and tax-exempt entity. AMS is certified by the Texas Medical Board under Section 162.001 of the Texas Occupations Code. The College and The University of Texas System are the sole members of AMS. AMS was formed in 1988 to jointly provide for physician services with the Harris Health System. Through AMS, the College and The University of Texas System supply the majority of residents and physicians to the hospitals and other health care facilities owned by the Harris Health System. See "PATIENT CARE" and "FINANCIAL INFORMATION" herein.

***Baylor CHI St. Luke's Health Services LLC*** ("*Health Services*") is a Texas limited liability company with two members: CHI St. Luke's Health, a 65% owner, and the College, a 35% owner. The two members share governance equally, with each member appointing two managers to the four-person board of managers. Health Services is organized to coordinate efforts of the two members to facilitate (a) free-standing ambulatory and outpatient care facilities, including primary care, (b) community cancer centers, (c) the necessary infrastructure and support services for CHI St. Luke's Health's clinically integrated provider network, (d) the formation or acquisition of a health plan and/or other managed care contracting organizations and the provision of management service organization services. The College contributed \$1.75 million and CHI St. Luke's Health contributed a proportionate amount to capitalize Health Services. Health Services has not yet undertaken any business activity. When Health Services begins operations, additional capital commitments will be required, capped at \$7 million for the College and \$13 million for CHI St. Luke's Health. College faculty physicians participate in the CHI St. Luke's Health's clinically integrated provider network.

***Baylor St. Luke's Health Ventures*** ("*Health Ventures*") is a Texas non-profit corporation with two members: CHI St. Luke's Health, a 65% owner, and the College, a 35% owner. The two members share governance equally, with each member appointing two managers to the four-person board of directors. Health Ventures has been organized to coordinate efforts by CHI St. Luke's Health and the College on tax-exempt activities in the community. One such activity involved the formation of a Texas certified non-profit health corporation called the Baylor St. Luke's Medical Group ("*BSLMG*"), which serves as the physician employment vehicle across the CHI St. Luke's Health system. The College employs the BSLMG physicians and "leases" them to BSLMG, which owns and operates the physician offices. This arrangement does not put the College at risk financially as the College is to be "made whole" by CHI St. Luke's for its related expenditures.

***Baylor College of Medicine Healthcare, d/b/a Baylor MedCare.*** ("*MedCare*") is a Texas nonprofit corporation and tax-exempt entity. The College is the sole member of MedCare. MedCare was formed in 1994 by the College for the purpose of centralizing the professional practices of the physicians within the academic departments of the College who see patients in private settings and contract with third parties to provide health care services within the community. MedCare currently has contracts on behalf of College physicians with health care providers, self-insured employers, health maintenance organizations, health insurers, and other managed care entities.

***Baylor College of Medicine International Pediatrics AIDS Initiative*** ("*BIPAI*") is a Texas nonprofit corporation and tax-exempt entity. The College is the sole member of BIPAI. BIPAI was formed to provide health care support for underserved children with AIDS. BIPAI currently operates clinics and programs in the following countries: Angola, Tanzania, Romania, Botswana, Lesotho, Swaziland, Malawi, Morocco, Uganda, Colombia, Papua New Guinea and the United States.



**Baylor Genetics Laboratories L.L.C.** (“*Baylor Genetics*”) is a Texas limited liability company organized by the College in 2014. Effective February 2, 2015, the College transferred assets comprising its then existing medical genetics laboratories (including leases, equipment, receivables, other contracts, and certain employees) into Baylor Genetics and conveyed a 60% interest in Baylor Genetics to Miraca USA, Inc., a Delaware corporation and wholly-owned subsidiary of Miraca Holdings, Inc. a Japanese corporation (“*Miraca*”), for approximately \$136 million. Miraca is dedicated to in vitro diagnostic, clinical laboratory testing and other healthcare-related businesses through its subsidiaries such as Fujirebio Inc., one of the major Japanese domestic in vitro diagnostic reagent manufacturers, and SRL, Inc., the largest clinical laboratory testing company in Japan. The College retained a 40% ownership and certain reserve rights and shared governance around aspects of Baylor Genetics’ operations that relate to the College’s tax-exempt mission. The College and Miraca agreed to discuss in good faith possible efforts to grow the clinical genetics diagnostic testing service line nationally and globally through Baylor Genetics. Neither party will be required to make any additional capital contribution to Baylor Genetics.

Baylor Genetics, like the College’s medical genetics laboratories prior to February 2, 2015, is a leading provider of diagnostic testing services with a focus on clinically relevant, high value genetic tests. Baylor Genetics offers a broad range of testing from traditional cytogenetics to chromosomal microarray analysis and next generation sequencing, with over 3,000 tests available and clients in all 50 states and in 16 countries. Through a services agreement, Baylor Genetics has contracted for access to the College’s genetics faculty members and employees involved in clinical diagnostics. Baylor Genetics is also home to the College’s educational training programs in genetics and genome sequencing through a formal academic affiliation, enabling trainees to have an opportunity to hone their laboratory diagnostic skills in an enterprise with samples coming from around the world. Baylor Genetics is headquartered in Houston, in space on the McGovern Campus in the Texas Medical Center, and as of June 30, 2017, was staffed by 197 full time employees.

**BCM Technologies, Inc.** (“*BCMT*”) is a Delaware business corporation. The College owns all shares of BCMT. BCMT was formed in 1983 for the purpose of commercializing technology and intellectual property developed by employees of the College, including investment in start-up technology companies.

**National Space Biomedical Research Institute** (“*NSBRI*”) is a Texas nonprofit corporation and tax-exempt entity. The College is the sole member of NSBRI. NSBRI was formed in 1997 to perform biomedical and related research and to conduct educational programs at the request of the National Aeronautics and Space Administration. NSBRI’s 20-year arrangement with NASA expired September 30, 2017 and the College is in the process of winding up the affairs of NSBRI and will dissolve it. The College successfully bid on NASA’s next-phase (up to 12 year) biomedical and related research and, since October 1, 2017, has undertaken this activity within the College’s Center for Space Medicine. See “RESEARCH” herein.

**Prescriptive Insurance Company, Ltd.** (“*Prescriptive*”) is a wholly-owned corporation incorporated under the laws of the Cayman Islands and licensed as an Unrestricted Class “B” Insurer under Section 4 (2) of the Cayman Islands Insurance Law of 1999. The date of incorporation was June 25, 1999. Prescriptive was principally formed by the College to provide access to reinsurance markets for medical liability insurance coverage. In addition, Prescriptive provides medical liability prior acts coverage for certain new College health care providers.

**The Menninger Clinic** (“*Menninger*”) is a Texas non-profit corporation and tax-exempt entity. Menninger operates a 120 bed inpatient psychiatric facility located in Houston, Texas. Menninger has two corporate members: the College and The Menninger Clinic Membership Foundation, a Kansas non-profit corporation. The two members share equal governance: all directors serve at the pleasure and require the continuing approval of both members. Menninger, ranked 3<sup>th</sup> nationally in the most recent *U.S. News & World Report* survey of psychiatric hospitals, is the principal private teaching hospital for the College’s Menninger Department of Psychiatry. Menninger’s medical staff is limited to faculty of the College’s Menninger Department of Psychiatry.

In addition to the foregoing entities, the College has several unincorporated operating divisions, such as the Children’s Nutrition Research Center, the Shell Center for Gene Therapy, The Center for Reproductive Medicine, The Human Genome Sequencing Center, and the Influenza Research Center. The results of operations of these centers, along with the College’s other research centers and operating divisions, are included in the summary of revenues and expenses of the College. See “FINANCIAL INFORMATION” herein.

In order to strengthen and further the College's tripartite missions of education, research and patient care, it evaluates and pursues potential arrangements, including affiliations, with third parties that can further these initiatives as a part of its overall strategic planning and development process. The College may receive offers from, or conduct discussions with, third parties about potential arrangements. Such discussions are held on an intermittent, and usually confidential, basis with other parties. These discussions include proposals to license or create joint ventures to develop patient interventions based on biomedical research conducted by the College. At this time there are no pending discussions involving such business arrangements that, if effectuated, would have a material impact on the financial condition or operations of the College.

***Baylor Medical Foundation*** (the "*Foundation*"). The College receives support from the Foundation, organized in 1945 exclusively to aid, support, and maintain the College, at that time controlled by Baylor University. The Foundation is a Texas nonprofit corporation and tax-exempt entity. Income from endowment funds held by the Foundation is dedicated to the College and, historically, each year the Foundation has transferred to the College a portion of its investment income, net of expenses. The College's interest in the net assets of the Foundation was approximately \$44.4 million as of June 30, 2017 and \$39.2 million as of June 30, 2016. The Foundation is not obligated on the College's obligations with respect to outstanding bonds.

Effective October 15, 2017, the College assumed control of the board of directors of the Foundation and now is in the process of assimilating the Foundation's approximately \$49.5 million endowment with and into the College's endowment. In the event of the Foundation's dissolution, the Foundation is required to transfer to the College any funds or property that it then owns. Thereafter, it is anticipated that Baylor Medical Foundation will be dissolved.

## MANAGEMENT OF THE COLLEGE

### Board of Trustees

The College is governed by a 50-member Board of Trustees (the "*Board*"). Members of the Board ("*Trustees*") are divided into three groups. Group One is comprised of 12 Trustees. Group One Trustees are elected by the Board of Trustees of Baylor University, which also sets the duration of their terms. Group Two, which is comprised of 36 of the Trustees, is divided into three approximately equal classes to create staggered three-year terms of office for each class. Group Two Trustees are elected by the Board. Terms end at the annual meeting each May, three years following election. There are no term limits for Group Two Trustees. Group Two Trustees are deemed to have resigned at the first annual meeting of the Board that follows the date they reach 78 years of age. Group Three is comprised of two individuals who serve at the pleasure of CHI St. Luke's Health. The College Bylaws permit Emeritus Trustees, Life Trustees and Advisory Trustees to be designated from time to time. Such persons do not have the power to vote. The College Bylaws require the Board to meet at least quarterly. Currently, the Board meets five times per year.

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The current Trustees, their offices (if any), their principal outside activity and their years of service are as follows:

| <b>Trustee</b>  | <b>Occupation</b>  | <b>Length of Service (yrs)</b> |
|---|--|--------------------------------|
| Barbara B. Allbritton   | Community Leader   | 26                             |
| John F. Anderson, M.D. <sup>3</sup>   | Senior Executive Coach, MEDI Leadership, a Navvis Company            | 6                              |
| David C. Baldwin (Board Vice Chair; Finance Committee Chair) <sup>1,2</sup> | Co-President, SCF Partners   | 6                              |
| J. Murry Bowden   | Founder, Chairman, and CEO, Hanover Company                          | <1                             |
| Gregory D. Brenneman  | Chairman, CCMP Capital Advisors, LLP                                 | 5                              |
| Robert L. Brewton   | President, Brewton Investment Corporation                            | 6                              |
| Kirbyjon Caldwell <sup>1</sup>  | Senior Pastor, Windsor Village United Methodist Church               | 16                             |
| James Y. Chao <sup>1,2</sup>  | Chairman, Westlake Chemical Corp.                                    | 11                             |
| Shauna J. Clark   | Head of Employment & Labor, U.S., Norton Rose Fulbright              | 4                              |
| Milane Duncan-Frantz  | Vice President-Investment Division and Director, Enterprise Products | 6                              |
| Ralph Eads <sup>2</sup>   | Vice Chairman, Jefferies, LLC  | 2                              |
| James C. Flores   | Chairman and CEO, Sable Minerals, Inc.                               | 14                             |
| Sarah Foshee, M.D.  | Community Leader   | 1                              |
| Melanie Gray <sup>1</sup>   | Partner, Winston & Strawn LLP  | 3                              |
| James T. Hackett  | Partner, Riverstone Partners, LLC                                    | 13                             |
| Larry P. Heard (Board Vice Chair) <sup>1</sup>                              | President and CEO, Transwestern                                      | 7                              |
| Paul W. Hobby   | Chairman and Founding Partner, Genesis Park, LP                      | 17                             |
| John R. Huff <sup>1</sup>   | Chairman, Oceaneering International                                  | 4                              |
| Jodie L. Jiles <sup>1</sup>   | Director, Business Development, Transwestern                         | 15                             |
| Elise Elkins Joseph   | Community Leader   | 5                              |
| Carolyn Dineen King (Board Vice Chair and Sec.) <sup>1,2</sup>              | Judge, U.S. Court of Appeals, Fifth Circuit                          | 10                             |
| Harold M. Korell  | Retired Chairman/CEO, Southwestern Energy                            | 4                              |
| C. Berdon Lawrence <sup>2</sup>   | Chairman, L3 Partners, LLC   | 14                             |
| Linda A. Livingstone, Ph.D.   | President, Baylor University   | <1                             |
| Fred R. Lummis (Board Chair; Executive Committee Chair) <sup>1</sup>        | Chairman and CEO, Platform Partners, LLC                             | 21                             |
| Michael MacDougall <sup>2</sup>   | Partner, TPG Capital   | 2                              |
| Jack L. Martin  | Global Chairman and CEO, Hill + Knowlton Strategies                  | 4                              |
| Mark A. McCollum <sup>3</sup>   | President and CEO, Weatherford International                         | 3                              |
| William E. Mearse (Audit Committee Chair) <sup>1,3</sup>                    | Retired COO, Accenture's Resources Group                             | 2                              |
| Trinidad Mendenhall   | Founder and Chairman, The Trini and O.C. Mendenhall Foundation       | 15                             |
| Eric Mullins <sup>2</sup>   | Co-CEO, Lime Rock Resources  | 1                              |
| John L. Nau III   | President and CEO, Silver Eagle Distributors, L.P.                   | 15                             |
| Harry M. Reasoner <sup>1</sup>  | Senior Partner, Vinson & Elkins L.L.P.                               | 25                             |
| William K. Robbins, Jr. <sup>1,2</sup>                                      | President and CEO, North American Corporation                        | 8                              |
| Corbin J. Robertson, Jr.  | President, Quintana Minerals Corporation                             | 34                             |
| Lee H. Rosenthal <sup>3</sup>   | U.S. District Judge, Southern District of Texas                      | 2                              |
| Ali A. Saberioon <sup>2</sup>   | President and CEO, Sabco Oil and Gas Corporation                     | 11                             |
| A. R. Tony Sanchez, Jr. <sup>1</sup>  | Chairman and CEO, Sanchez Oil & Gas Corporation                      | 6                              |
| Marc J. Shapiro <sup>1</sup>  | Non-executive Chairman, Chase Bank of Texas                          | 27                             |
| Glenn R. Smith  | President/Owner, Smith Production Inc.                               | 6                              |
| Lester H. Smith   | The Lester and Sue Smith Foundation                                  | 13                             |
| Leonard C. Tallerine, Jr.   | Chairman, Board of Directors, CHI St. Luke's Health System           | 3                              |
| Henry J.N. Taub II  | President, Texas Land and Cattle Company                             | 2                              |
| Kirk Townsend   | VP of International Operations, Ariel Corporation                    | 2                              |
| Robert J. Underbrink <sup>3</sup>   | President and CEO, King Ranch, Inc.                                  | 4                              |
| Christopher D. Wallis <sup>3</sup>  | CEO and CIO, Vaughan Nelson  | 1                              |
| Chuck Watson  | Chairman, Twin Eagle Resource Management LLC                         | 16                             |
| Robert J. Weil, M.D.  | SVP and Chief Medical Officer, Catholic Health Initiatives           | 1                              |
| Charles A. Williams   | President, Chaswil Ltd.  | 22                             |

<sup>1</sup> Member of the Executive Committee

<sup>2</sup> Member of the Finance Committee

<sup>3</sup> Member of the Audit Committee

## Board Committees

The Board performs many of its functions through a series of committees composed of members of the Board. In addition to the Executive Committee, which has the full authority of the Board, the Board committees include: Finance; Audit, Compliance and Risk Management; Human Resources and Compensation; Investment; Faculty Life; Buildings and Interiors; Governance and Nominating; Development; Academic Affairs; and Globalization.

## Conflict of Interest Policy

The Board of the College has adopted a formal conflict of interest policy to facilitate the identification and resolution of conflicts of interest. Some of the Trustees of the College may be associated with, or are investors in, businesses or firms with which the College has, from time to time, entered into transactions to provide goods or services. In these instances, under the conflicts of interest policy, the Trustee involved must fully disclose the relationship to the Audit, Compliance and Risk Management Committee of the Board and abstain from voting on any motion before any committee or the Board that relates to a transaction or proposed transaction with or involving such other entity.

## Executive Leadership

President and Chief Executive Officer Paul E. Klotman, M.D. and his administration conduct the day-to-day operations of the College. Biographies of Dr. Klotman and principal executives in the College's administration follow:

**Paul Klotman, M.D.** (67) has served as President, CEO and Executive Dean of the College since Sept. 1, 2010. He received a Bachelor of Science degree from the University of Michigan and a medical degree from Indiana University School of Medicine. He completed medicine and nephrology training at Duke University Medical Center. He stayed at Duke as a faculty member, rising to the rank of Associate Professor of Medicine before moving to the National Institute of Health ("NIH") in 1988, where he became Chief of the Molecular Medicine Section in the Laboratory of Developmental Biology. In 1993, he became Chief of the Viral Pathogenesis Laboratory in the NIDR/NIH. In 1994, he moved to Mount Sinai School of Medicine as the Irene and Dr. Arthur M. Fishberg Professor of Medicine and the Chief, Division of Nephrology. In 2001, he was selected to be the Chairman of the Samuel Bronfman Department of Medicine at Mount Sinai. Dr. Klotman is a noted scientist whose work has included both basic and clinical research in molecular virology and AIDS pathogenesis. He has been an active clinician, teacher, and mentor.

**Alicia D.H. Monroe, M.D.** (66) has served as Provost and Senior Vice President of Academic and Faculty Affairs since February 2014. Dr. Klotman conceived of this position to provide overarching leadership for all four schools of the College. Dr. Monroe previously served as the chief academic officer and vice dean of educational affairs at University of South Florida Morsani College of Medicine and as a professor of family medicine. She received her bachelor's degree in biology from Brown University in 1973 and her medical degree from Indiana University School of Medicine in 1977. She completed residency training in family practice at Methodist Hospital Graduate Medical Center in Indianapolis and an internship in psychiatry from Georgetown University Medical Center.

**Kimberly David, C.P.A., M.B.A.** (50) is Senior Vice President and Chief Business Officer of the College. She served as the Senior Vice President of Finance and Chief Financial Officer of the College from 2009 through January 2015. Prior to 2009, Ms. David served as Vice President of Finance and Planning for the College. She joined the College in 1998 as Assistant Vice President of Finance. Ms. David previously served in a number of accounting and management positions for Arthur Andersen LLP. She graduated from Oklahoma State University with a Bachelor of Science in Accounting and was awarded her Master of Business Administration from Rice University in 2004.

**Robert F. Corrigan Jr., J.D.** (57) is the Senior Vice President, General Counsel, and Corporate Secretary of the College. Mr. Corrigan received a Bachelor of Arts degree from Rice University and a law degree from Vanderbilt University School of Law. Before joining the College in early 2011, Mr. Corrigan was a partner in Fulbright & Jaworski L.L.P. (n/k/a Norton Rose Fulbright US LLP), where, for 23 years, he concentrated his practice on the representation of health care systems, including non-profit corporations. Mr. Corrigan is licensed to practice law in Texas and the District of Columbia.

**Adam Kuspa, Ph.D.** (57) is the Senior Vice President and Dean of Research at the College. He also serves as Interim Dean of the Graduate School. Previously, he served as Chair of the Verna and Marrs McLean Department of Biochemistry from March 2006 to April 2011. A professor of biochemistry and molecular biology, he joined the College faculty in 1993 as an assistant professor of biochemistry. Prior to joining the College, Dr. Kuspa was an Assistant Research Biologist at the University of California, San Diego. He received his doctorate in biochemistry from Stanford University and served a postdoctoral fellowship at the University of California at San Diego. In 2005, Dr. Kuspa received a Michael E. DeBakey, M.D. Excellence in Research Award and was elected Fellow of the American Association for the Advancement of Science.

**James McDeavitt, M.D.** (56) is Senior Vice President and Dean of Clinical Affairs and is responsible for leading clinical business development, development of the health network, growth of Baylor St. Luke's and referrals. He joined the College in 2014 as Chair of Physical Medicine & Rehabilitation, a position he continues to hold. Prior to joining the College, he was with the Carolinas HealthCare System, one of the largest and most comprehensive systems in the country, where he served as chief academic officer and senior vice president for education and research. Dr. McDeavitt's responsibilities included all aspects of the academic enterprise: undergraduate and graduate medical education, continuing medical education, research from bench to clinical implementation and allied health education. He received his medical degree from the Bowman Gray School of Medicine of Wake Forest University and completed his residency training in physical medicine and rehabilitation at Thomas Jefferson University Hospital in Philadelphia.

**E. Joe Doty** (46) became Vice President and Chief Operating Officer of the College, effective in March 2016, and was appointed Senior Vice President and Chief Operating Officer in September 2016. Prior to joining Baylor, he served as Vice Chair, Administration for the Department of Medicine at Duke University. Mr. Doty's responsibilities for the College include streamlining and improving administrative operations with initial focus on academic department administration, compensation planning, budgeting, clinical operations, and research administration. Over the past 20 years, Mr. Doty has held administrative leadership positions at Duke, Northwestern, Tulane, and the University of Memphis. Mr. Doty graduated from Drury University with a Bachelor of Arts degree in Accounting and Business Administration and was awarded his Master of Science degree in Accounting and Management Control from Old Dominion University in 1996.

**Julie Nickell, C.P.A., M.B.A.** (49) was appointed Vice President and Chief Financial Officer in January 2015 after serving as Vice President of Finance and Planning of the College since 2011. Before joining the College, Ms. Nickell was the Chief Operations Officer and Chief Compliance Officer for Hines Real Estate Securities, Inc., a FINRA member firm involved in the wholesale distribution of public, non-traded Real Estate Investment Trusts. Ms. Nickell graduated from the University of Louisiana at Monroe with a Bachelor of Business Administration in Accounting and began her career in public accounting with Arthur Andersen LLP. She was awarded her Master of Business Administration from Rice University in 2014.

**Randy Langenderfer, C.P.A., M.B.A., C.I.S.A.** (60) joined the College in January 2013 as Vice President and Chief Compliance and Audit Officer. Previously, he served in a global compliance and audit role for Veyance Technologies, Inc., a spinoff of Goodyear Tire and Rubber Company owned by The Carlyle Group, a private equity firm. From 1997 to 2008, he held a variety of roles within University Hospitals Health System (UHHS) in Cleveland, Ohio including the Chief Compliance and Audit roles while starting those functions. Mr. Langenderfer also served as the Audit Director for ProMedica Health Systems prior to joining UHHS.

**Robert J. McLaughlin, Ph.D.** (63) serves as the Dean of the School of Allied Health Sciences, a position he was appointed to in 2015. Dr. McLaughlin is serving in the interim role while a search for a new Dean is completed. Dr. McLaughlin joined the College in 1983 and was named Assistant Dean in 2011. He received his undergraduate degree in 1975 from the University of Iowa and his Ph.D. from The University of Texas at Austin in 1983 and completed postgraduate training at the College.

**Peter J. Hotez, M.D., Ph.D.** (59) is the founding dean of the National School of Tropical Medicine at the College. In addition, he holds the Texas Children's Hospital Endowed Chair of Tropical Pediatrics and serves as President of the Sabin Vaccine Institute where he leads the new Sabin vaccine development program at Texas Children's Hospital and the College. He moved to the College in 2011 from George Washington University, where he previously served as a Distinguished Research Professor and the Walter G. Ross Professor and Chair of the Department of Microbiology, Immunology and Tropical Medicine.

**Lorie Tabak, M.P.H. (46)**, is the Chief of Staff for the President's Office, a position she has held since joining the College in 2010. She received a Bachelor of Science degree from McGill University in Montreal and a Master of Public Health Administration from Columbia University. Prior to joining the College, she was Executive Director of Operations for the Department of Medicine at Mount Sinai School of Medicine. In that position she managed the comprehensive affairs of the department of more than 250 full-time faculty, 500 staff members and an annual budget in excess of \$100 million. Before accepting that post in 2006, Ms. Tabak served for five years as the director of operations for the Department of Medicine at Mount Sinai. Earlier positions at Mount Sinai included Administrative Manager of the Division of Nephrology and Administrative Manager for the Division of Infectious Diseases. She joined Mount Sinai in 1997.

**Claire Bassett (58)** is Vice President for Communications and Community Outreach for the College, a position she was appointed to in 2014. Prior to that, she served as Vice President for Communications since 1998. She oversees the areas of media relations, communications, and institutional web management. Ms. Bassett also serves as the crisis coordinator for the College. She served as the College's Senior Director of Communications from 1990 until her appointment as Vice President. A 1981 graduate of The University of Texas at Dallas, she joined the College's public affairs staff in 1982.

**Lee Leiber, MS, MBA (43)** is Vice President of Information Technology and CIO for the College. He earned a Bachelor of Electrical Engineering degree from University of Delaware, a Master of Science in Information Systems Technology from George Washington University and a Master of Business Administration degree from University of Wisconsin-Whitewater. He has prior experience as a researcher in applied research and significant IT experience in the non-profit healthcare and education areas. He joins BCM from the Association of American Medical Colleges in Washington, DC.

**Dane Friend, J.D. (48)** is Vice President of Human Resources for the College. He received a Bachelor's of Science degree from Houston Baptist University and a law degree from South Texas College of Law. He has been a member of the Texas Bar since 1999. He served in the U.S. Navy from 1988 to 1995, and also served in the Judge Advocate General's Corps. He has prior experience in hospital risk management and as an attorney for the Fort Bend Independent School District. He joined the College in 1999, and has served in both the human resources and the general counsel offices.

**Tom Kleinworth (66)** is Vice President of Government Relations for the College, overseeing both state and federal government relations. A graduate of The University of Texas at Austin, he worked as a reporter and editor for The Commercial Appeal, the morning newspaper in Memphis, Tennessee, and then served five years as a legislative aide to State Senator Chet Brooks (D-Pasadena), Chairman of the Senate Health and Human Resources Committee. Prior to joining the College, Mr. Kleinworth served as Director of Communications for the Texas Pharmacy Association.

## **HISTORICAL ACHIEVEMENTS AT THE COLLEGE**

### **Selected Achievements**

The following are selected historical achievements in education, research and patient care at the College:

- 1949 • Dr. Michael E. DeBakey begins a program of innovative cardiovascular surgery.
- 1952 • Dr. DeBakey performs the first successful removal and graft replacement of aneurysms of the aorta and obstructive lesions in major arteries.
- 1953 • Dr. DeBakey invents the Dacron graft.
  - Dr. Roger Guillemin discovers hormones are produced in the brain, a finding that leads to his Nobel Prize 24 years later.
- 1955 • The College's affiliated hospital residency program is created.
- 1961 • The World Health Organization Collaborating Center for Virus Reference and Research is established at the College.

- 1964 • Dr. DeBakey performs the first successful coronary artery bypass operation.
- 1971 • The College begins a Physician Assistant Program to train students focused on a career in the allied health profession.
- 1974 • The College designates the National Influenza Research Center and the National Heart and Blood Vessel Research and Demonstration Center.
- 1977 • The College begins the MD/PhD program for students interested in medicine and research.
- 1978 • The nation's first Children's Nutrition Research Center opens in collaboration with the U.S. Department of Agriculture and Texas Children's Hospital.
- 1980 • The Michael E. DeBakey Center for Biomedical Education and Research building opens.
- 1983 • BCM Technologies, Inc. is established to take faculty research developments to the marketplace.
- 1991 • The College is designated as a national Human Genome Sequencing Center to complete the mapping of the human genome.
- 1993 • The gene for Severe Combined Immune Deficiency disease (i.e. Bubble Boy) is discovered by a consortium of scientists at the College and NIH.
- Drs. Stephen Elledge and Wade Harper elucidate the mechanisms by which cells regulate division, heralded as the most dramatic discovery of the year.
- 1994 • The College is designated as a site for the national Women's Health Initiative, the first large scale study of women's health issues.
- 1996 • Dr. Mary Estes, professor of molecular virology and microbiology, finds that rotavirus produces a protein that acts as an enterotoxin, unraveling a mystery as to how viruses cause diarrhea and other stomach disorders.
- The Baylor Human Genome Sequencing Center is established as the National Human Genome Research Institute, designating the College as one of the six pilot programs for the final phase of the Human Genome Project.
- 1997 • The National Space Biomedical Research Institute is established with the College serving as the lead of the consortium of 12 institutions.
- 1998 • Surgeons in Germany implant the first MicroMed Ventricular Assist Device developed by Dr. DeBakey.
- 1999 • The gene that causes Rett Syndrome, a language and mental function disease, is discovered at the College.
- The College opens a comprehensive Breast Center for clinical care and research.
- Baylor Human Genome Sequencing Center was chosen as one of three sites from the pilot program to complete the final phase of the Human Genome Project, which enabled the eventual completion of the genome.
- 2001 • The Vannie Cook Children's Cancer Center, a joint project of the College and Texas Children's Hospital, opens in McAllen, Texas.
- Baylor International Pediatric AIDS Initiative provides care to children in third world countries.
- 2003 • Dr. Lawrence Chan develops the first successful gene therapy for diabetes in mice.
- 2004 • Creation of Alliance for NanoHealth with five other Texas institutions.
- 2005 • Baylor Clinic opens to provide a comprehensive approach to outpatient care and diagnostic testing by the College's physicians.
- 2006 • The College is awarded a four-year \$114 million grant for gene sequencing.
- The College is awarded the first and only NIH quantum grant for stroke research.
- The Dan L. Duncan Cancer Center established with a \$100 million, multi-year gift.
- 2007 • Nobel Laureate Dr. James Watson receives his personal genome completed by 454 Life Sciences, verified and annotated by scientists at the College.
- The Dan L. Duncan Center receives official designation from the National Cancer Institute as a cancer center.
- Texans NFL football team owner Robert McNair's \$100 million gift establishes the McNair Scholars program to recruit rising stars in research.

- 2008 • The College opens its first clinical building on the McNair Campus.
- The NIH designates the Diabetes and Endocrinology Research Center, one of just 17 in the nation.
- The Federal Agency for Healthcare Quality Research and Quality grants \$6.8 million for the national John M. Eisenberg Clinical Decisions and Communications Science Center.
- 2009 • The College participates in national H1N1 vaccine clinical trials.
- 2010 • Sequencing the genome of Dr. James Lupski, Vice Chair of molecular and human genetics, uncovers the mutation that causes forms of Charcot-Marie Tooth disease.
- The Dan L. Duncan Institute for Clinical and Translational Research is established.
- 2011 • Sequencing twins' genome provides diagnosis and fine-tunes treatment, proving values of personal genomes.
- The College establishes National School of Tropical Medicine under leadership of Dr. Peter J. Hotez.
- 2012 • The College is the first U.S. medical school to offer space medicine track.
- Orthotics and Prosthetics Program is established at the School of Allied Health Sciences.
- 2013 • The College enters into an affiliation with The Children's Hospital of San Antonio.
- 2014 • The College opens a clinic in the BCM Medical Center building on the McNair Campus in January.
- The College enters into a joint venture with CHI St. Luke's Health around Baylor St. Luke's, including the BSL Medical Center and BCM Medical Center.
- 2015 • The College enters into a joint venture with Miraca Holdings around its medical genetics laboratories business.
- The College and Rice University agree to a framework for joint faculty appointments, research, and degree programs now existing or as further agreed.
- The Dan L Duncan Cancer Center is awarded NCI Comprehensive Status.
- New pediatric residency program begins at Children's Hospital of San Antonio.
- 2016 • The College and Baylor Scott & White Health enter into an agreement to collaborate on research
- Baylor St. Luke's breaks ground for Bed Tower 2 of BCM Medical Center.
- The College's Human Genome Sequencing Center receives a four-year \$60 million grant to focus on the genomics of heart and blood vessel and metabolic diseases as well as neuropsychiatric disorders.
- 2017 • National Institutes of Health designates Baylor one of eight mapping centers that will help lead the next four-year phase of its Encyclopedia of DNA Elements (ENCODE) Project to identify all of the functional elements contained in the human genome.
- The National Heart Lung and Blood Institute's Trans-Omics for Precision Medicine Program names Baylor Human Genome Sequencing Center as a participant in half-billion dollar program to bring whole genome sequencing, and other "omic" technologies that monitor the expression of the genome in response to the environment, to the forefront of clinical research.
- Baylor College of Medicine selected as one of three initial sites to conduct a Phase II Zika vaccine trial.

### **Nobel Laureate Honors**

Dr. Roger Guillemin, a distinguished professor, won the Nobel Prize in 1977 for discoveries at the College that laid the foundation for brain hormone research. His work brought to light an entire new class of substances shown to be important for the regulation of growth, development, reproduction and responses to stress. The impact of Guillemin's studies has been profound for a variety of diseases and disorders, including thyroid diseases, problems of infertility, diabetes and several types of tumors.

### **Other Honors**

The College faculty includes nine members of the National Academy of Sciences, and the College employs two Howard Hughes Medical Investigators. Additionally, the College faculty currently includes 8 members of the National Academy of Sciences, 2 members of Howard Hughes, 13 members of the National Academy of Medicine, and 23 elected member physicians of the Association of American Physicians.



## PHYSICAL PLANT

### Main Campus

The College's 15-acre current main campus began in 1947 with the construction of The Roy and Lillie Cullen Building (the "*Cullen Building*") and today includes 1.7 million GSF of buildings. The main campus is restricted by deed to nonprofit medical education, patient care, and research. The Cullen Building served as the center for education, research and many outpatient clinics for almost 20 years. Today, the Cullen Building serves as the primary location for the College's administrative offices and also houses departmental offices and research facilities. Basic research laboratories and departmental offices are also housed in Anderson Hall, Jones Hall, and the Jewish Institute. In 1982, a new Cullen Building main entry, including the Alkek Fountain and circular drive, was constructed.

The Jesse H. Jones Hall, MD Anderson Hall and the Jewish Institute for Medical Research were added to the Cullen Building in 1964. The adjoining Michael E. DeBakey Center for Biomedical Education and Research was occupied in 1980. The DeBakey Center is divided between basic science teaching facilities for medical students and research laboratories. Teaching facilities include modern anatomy laboratories, two 300-seat auditoriums, multidisciplinary teaching labs, classrooms, and a learning resources center.

The Ben Taub Research Center, completed in 1986, and the Vivian and Bob Smith Medical Research Building, dedicated in 1989, are twin nine-story research towers joined to the Cullen Building complex. The Ben Taub Research Center and the Vivian and Bob Smith Medical Research Building house facilities primarily dedicated to biomedical research. The Smith Building houses one of the nation's three federally funded Human Genome Centers.

Construction of the 16-story Albert B. Alkek Graduate School building was substantially completed in 1997, with completion of build-outs in 2002, and includes the Graduate School of Biomedical Sciences, Office of Admissions, the Office of Scholarships & Student Financial Planning, numerous research laboratories, lecture rooms, and a 176-seat auditorium. During the years 1997 through 2003, eleven floors of the building were built out for basic science laboratory use.

The Margaret M. Alkek Building for Biomedical Research was completed and occupied in January 2008. The research tower is eight stories high with 170,000 GSF for research and research support facilities.

### McNair Campus

The 33 acre McNair Campus includes the approximately 1.2 million GSF BCM Medical Center, the exterior of which was constructed between the years 2007-2011 to house a hospital and faculty medical clinic (including one level for parking below-grade and eleven levels above grade), as well as the Jamail Center, an approximately 160,000 GSF medical office building which opened in 2008. The College contributed the portion of the McNair Campus south of Butler Boulevard, including the BCM Medical Center, to Baylor St. Luke's at the end of 2013. See "CORPORATE GROUP AND JOINT VENTURES—CHI St. Luke's Baylor College of Medicine Medical Center—Capital Plans" herein. The College retained ownership of the land north of Butler Boulevard, including the Jamail Center, and 315,000 GSF in the sixth through the tenth floors of the BCM Medical Center through a condominium agreement with Baylor St. Luke's. The College currently occupies the clinic and office space on the ninth and tenth floors of the BCM Medical Center. Build out of the eighth floor is substantially complete in anticipation of servicing clinic patients beginning in January 2018. Floors six and seven remain as shelled-in space awaiting future development and occupancy.

See "FINANCIAL INFORMATION—Capital Plans" herein. Ophthalmology, Dermatology, Psychiatry, Plastic Surgery, Otolaryngology, and Medical Genetics physicians serve patients at the Jamail Center. Baylor St. Luke's has leased space in the Jamail Center for ambulatory surgery center operations.

### Other Facilities

Apart from the main campus and McNair Campus, the College has operations in an additional 2.3 million GSF of satellite facilities located throughout the Texas Medical Center.

The Neurosensory Center is jointly owned by the College and Houston Methodist Hospital. Dedicated in 1977, the Neurosensory Center is an eleven-story (429,000 GSF) research, teaching, and patient-care facility that serves the Departments of Ophthalmology, Neurology, and Otolaryngology and Communicative Sciences.

The National Children's Nutrition Research Center ("CNRC"), established in 1979, is operated by the College in cooperation with Texas Children's Hospital in a building owned by the United States Department of Agriculture ("USDA"). The CNRC establishes the nutritional requirements of children from infancy through adolescence, as well as those of pregnant and nursing women.

In addition to patient activities at the BSL Medical Center and the portion of the Baylor Clinic located on the McNair Campus, College faculty members currently serve patients at another portion of the Baylor Clinic located at 6620 Main Street. The facilities at that location are leased from an affiliate of Texas Children's Hospital, which purchased the building at 6620 Main and the O'Quinn Medical Tower for cash in the third calendar quarter of 2016. Those faculty members who are involved in service lines associated with transplant and other complicated surgical procedures will remain in this leased space until the earlier of June 30, 2020 or when the service lines are transferred in order to be conveniently located near the affiliated hospitals at which the services are provided.

## EDUCATION

### Medical School Education

More than 15,000 physicians have received all or part of their training, either as students or residents, at the College. These alumni are in private practice, serve on the faculty of medical schools, or conduct research throughout the 50 states and 37 foreign countries.

In 1969, the Texas Legislature enacted legislation that authorizes the Texas Higher Education Coordinating Board (the "*Coordinating Board*") to contract with the College for the administration, direction, and performance of services and the provision, maintenance, operation, and repair of buildings, facilities, structures, equipment, and materials necessary to the education, training, preparation or instruction of Texas resident undergraduate medical students. From 1969 to 2017, subject to an appropriation from the Legislature, the Coordinating Board each year disbursed to the College an amount based on two factors: the number of Texas medical students enrolled at the College, and the average, per-student, general revenue appropriation to the University of Texas medical schools in Galveston and Dallas.

In 2012, the Texas Health and Human Services Commission (the "*HHSC*") determined that the funds appropriated to the Coordinating Board for the benefit of the College, if re-directed, would qualify as matching public funds under the Texas Health Care Transformation and Quality Improvement Program, also known as the "1115 Waiver," and thus could be used to draw down Federal funding that could be used to improve the quality of health care in Texas. Because of the structure of the 1115 Waiver, the College may not be a major direct recipient of these funds; only hospitals and certain physician groups are able to receive most of the payments that the 1115 Waiver makes available. In July 2012, with the College's encouragement, the Coordinating Board entered into an Interagency Agreement with HHSC providing for the transfer to HHSC of funds appropriated for the benefit of the College, to the extent that they can be used under the 1115 Waiver. Under the Interagency Agreement, the funds transferred to HHSC are used to provide payments to hospitals that are academic affiliates of the College. The transfers and payments have allowed increased mission support payments to the College from hospital academic affiliates in amounts in excess of the appropriated amounts. (See "FINANCIAL INFORMATION – Sources of Revenue" herein.) In 2017, the Legislature appropriated \$38.5 million and \$37.6million for these payments in the State's fiscal years ending August 31, 2018 and 2019, respectively, and \$7.7 million for direct payments to the College in support of graduate medical education for each of the State fiscal years ending August 31, 2018 and 2019. There are substantial rumors that earlier this year, the federal Centers for Medicare and Medicaid Services agreed to extend Texas' 1115 Waiver for five years, through December 31, 2022. However, as of the date of publication of this notice, the State of Texas had not released the specific terms and conditions associated with the 1115 Waiver. Consequently, the College cannot ascertain at this time whether the extension will occur and will provide comparable benefit to the College. If, after the terms and conditions are publicized, the College determines it cannot participate in the 1115 Waiver, then funding in excess of biennial State appropriations, if any, could be lost.

The College's reputation and teaching facilities consistently attract many of the best medical students from all areas of the United States. The College received 7,620 applications for 185 positions in the medical class that entered in July 2017, 7,587 applications for 186 positions in the medical class that entered in July 2016, and 7,600 applications for 186 positions in the medical class that entered in July 2015. The average grade point averages for these entering classes are 3.88, 3.86, and 3.86, respectively. The 736 total medical students in attendance in the current academic year represent more than 70 undergraduate schools.

The College has been ranked #1 by *U.S. News & World Report* in each of the last three years as being the least expensive private medical school with regard to average cost of tuition and fees. In addition, as reported by the *U.S. News & World Report* 2017 ranking of private medical schools, the College's medical school graduates left with the lowest average indebtedness among Texas schools and the fourth lowest nationally.

### **Graduate Medical Education**

Top medical school graduates from the United States and many foreign countries also are attracted to the College for advanced training in the Graduate Medical Education (GME) program. With 1,044 resident physicians and more than 494 clinical postdoctoral fellows, the College's GME program is one of the largest in the country and offers training in 90 Accreditation Council for Graduate Medical Education programs and more than 40 Texas Medical Board approved fellowships.

### **Graduate School for Biomedical Sciences**

With an enrollment of 603, the College's Graduate School for Biomedical Sciences attracts outstanding students who seek advanced degrees in the biomedical sciences. The Graduate School's 12 Ph.D. programs and three interdepartmental programs focus on training and research in the basic sciences for students seeking to pursue research-focused careers, as well as teaching careers in higher education. A joint M.D./Ph.D. program is also available to selected students pursuing academic careers. Currently, 96 students are enrolled in this program.

### **Postdoctoral Research and Training**

The College has approximately 594 students enrolled in its postdoctoral research and training programs. These programs offer postdoctoral fellowships to outstanding students who have received advanced degrees and want to pursue research at a higher level.

In addition, the College offers joint graduate programs including the following:

**M.D./M.P.H. Program.** The College has joined with The University of Texas School of Public Health to jointly sponsor a five-year M.D./M.P.H. degree program. Students accepted into the program spend their first three years at the College.

**M.D./M.B.A. Program.** The College has joined with Rice University to offer a joint M.D./M.B.A. program to meet the growing need for professionals who are trained in health care and life sciences management. The five-year program is sponsored jointly by the Jones School of Management at Rice University and the College. Students spend the first two years at the College, then 1.5 years at Rice, and another 1.5 years at the College finishing medical school.

**M.D./J.D. Program.** The College has joined with the University of Houston Law Center ("UHLC") to offer a dual M.D./J.D. Program. Program participants can expect to earn both degrees in about six years. The first two years are spent at the College, the second two years focus on the study of law at UHLC, and the final two years are again at the College to complete medical school simultaneously with legal electives.

**M.D./Ph.D. Program.** The College offers a physician scientist training program by integrating medical and graduate education. Students in the program receive a M.D. degree from the College and a Ph.D. degree in one of the 12 graduate programs in the Graduate School of Biomedical Sciences or Rice University's bioengineering graduate program. All students in the program complete 18 months of pre-clinical basic science curriculum and six months of clinical rotations at the College prior to entering their Ph.D. graduate training. After completing graduate training

and receiving their Ph.D., the students return to medical school to complete the last 17 months of their MD clinical curriculum.

### **Other Educational Programs**

The College sponsors Continuing Medical Education (CME) courses. These courses provide physicians with the latest information in their medical specialties. The College offered 118 CME activities representing 1,330 activity credits to 43,067 learners in the 2015-2016 academic year.

The College offers a Master of Science degree in Physician Assistant Studies that is ranked #13 in the nation by *U.S. News & World Report*. The Physician Assistant program prepares students to be part of the health care team and provide care to individuals and communities in a broad range of settings. The Graduate Program in Nurse Anesthesia, ranked #2 by *U.S. News & World Report*, provides a comprehensive graduate learning experience for registered nurses in the practice of administering all forms of anesthesia in preparation for assuming roles as qualified nurse anesthetists and culminates in a Doctor of Nursing Practice degree. Enrollment in these degree programs for the allied health professions has been stable and highly competitive.

In 2012, the College announced the creation of a new Master of Science in Orthotics and Prosthetics degree program through the School of Allied Health Sciences. This program teaches students the scientific knowledge and clinical and technological skills to formulate orthotic and/or prosthetic solutions to problems. Such problems include altered limb function and/or appearance due to a congenital condition, body part loss, or disease or injury resulting in reduced capabilities or comfort in performing activities of daily living. The first class of students graduated in December 2015.

The Medical Scholars Program, established jointly by the College and Rice University, accepts a number of outstanding high school graduates entering Rice University each year. After satisfactorily completing the broad-based undergraduate degree requirements at Rice University, these students are automatically accepted as medical students at the College. Similar programs exist with Baylor University, the University of Houston, and The University of Texas-Rio Grande Valley.

The College maintains a program with the school districts in Houston, Mercedes, Corpus Christi, and Laredo, Texas to sponsor high schools and a middle school for students with career interests in medicine and science.

### **The National School of Tropical Medicine**

The National School of Tropical Medicine at the College was established in 2011 and is the first national school of tropical medicine in the United States committed to addressing diseases of poverty by developing solutions against the world's most pressing tropical disease issues globally.

Since inception, 218 learners enrolled in the School's diploma course of which 73 participated in BIPAI and attended only selected lectures. The intensive diploma course consists of four modules (two online and two face-to-face). Participants who complete the diploma course are eligible to apply for the American Society of Tropical Medicine and Hygiene Certificate of Knowledge Examination (provided additional examination application criteria are met). The modules for the program include: epidemiology, public health and health systems, tropical bacteriology, emerging tropical diseases, neglected tropical diseases, parasitology, and clinical applications of tropical medicine abroad.

Health care professionals who complete the course are able to address and treat neglected tropical diseases, providing them with an added benefit to their daily practice.

### **Student Enrollment**

The College receives many more applications than there are available positions due to classroom and clinical space constraints, and is able to be highly selective in the admissions process. With certain exceptions, the available positions annually include approximately 186 medical students, 80 allied health students (40 physician assistant students, 24 orthotics and prosthetics students, and 16 nurse practitioner students) and 110 graduate students. *U.S. News and World Report* ranks the College as #20 in the nation for student selectivity among medical schools. The

following table enumerates applications, acceptances, and admissions for the academic year beginning in the fall of the year indicated.

| <b>Medical Students</b>                  | <b>Academic Year Beginning in</b> |             |             |
|--|-----------------------------------|-------------|-------------|
|  | <b>2017</b>                       | <b>2016</b> | <b>2015</b> |
| Applicants                               | 7,620                             | 7,587       | 7,600       |
| Accepted                                 | 311                               | 309         | 310         |
| % Admitted (of Applied)                  | 4.1%                              | 4.1%        | 4.1%        |
| Enrolled                                 | 185                               | 186         | 186         |
| % Enrolled (of Admitted)                 | 59.5%                             | 60.2%       | 60.0%       |
| Mean MCAT Score <sup>(1)</sup>           | -                                 | -           | 11.49       |
| Mean New MCAT Total Score <sup>(1)</sup> | 517                               | 514         | -           |
| <b>Graduate Students</b>                 |                                   |             |             |
|  | <b>2017</b>                       | <b>2016</b> | <b>2015</b> |
| Applicants                               | 1,028                             | 1,040       | 1,084       |
| Accepted                                 | 210                               | 202         | 221         |
| % Admitted (of Applied)                  | 20.4%                             | 19.4%       | 20.4%       |
| Enrolled                                 | 103                               | 106         | 102         |
| % Enrolled (of Admitted)                 | 49.0%                             | 52.5%       | 46.2%       |
| <b>Allied Health Students</b>            |                                   |             |             |
|  | <b>2017</b>                       | <b>2016</b> | <b>2015</b> |
| Applicants                               | 1,524                             | 1,843       | 1,568       |
| Accepted                                 | 97                                | 91          | 93          |
| % Admitted (of Applied)                  | 5.9%                              | 4.9%        | 5.9%        |
| Enrolled                                 | 84                                | 83          | 75          |
| % Enrolled (of Admitted)                 | 86.6%                             | 91.2%       | 80.6%       |

- 
- (1) The mean MCAT Score is for students admitted. Starting with the academic year beginning in 2016, the MCAT exam construct and scoring methodology changed to one consisting of four sections each with a maximum score of 132 and an overall maximum of 528. The national mean for matriculants was 517 for 2017 and 508.7 for 2016. For the prior academic years, the MCAT was given in three parts. The maximum score for each part was 15 points. Scores were computed as an average of the three parts. For the 2015 academic year MCAT exam, the national mean for matriculants was 10.46.

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## Faculty

As of June 30, 2017, the College employed 2,819 full-time faculty members and 669 part-time faculty members. The following table depicts the number of faculty members in each position at June 30, 2017, 2016, and 2015:

|                                       | <b>June 30,</b> |              |              |
|---------------------------------------|-----------------|--------------|--------------|
|                                       | <b>2017</b>     | <b>2016</b>  | <b>2015</b>  |
| Professor – Tenured                   | 310             | 356          | 358          |
| Professor –Non-Tenured                | 118             | 81           | 77           |
| Associate Professor – Tenured         | 191             | 200          | 190          |
| Associate Professor –Tenure Track     | 28              | 11           | 16           |
| Associate Professor –Non-Tenured      | 358             | 351          | 326          |
| Assistant Professor –Tenure-Track     | 498             | 471          | 467          |
| Assistant Professor –Non-Tenure-Track | 1,286           | 1,098        | 1,067        |
| Senior Faculty and Instructors        | 699             | 547          | 545          |
| <b>TOTAL</b>                          | <b>3,488</b>    | <b>3,115</b> | <b>3,046</b> |

The increase in faculty is primarily being driven by the addition of clinical practices from the Greater Houston Metro region.

## Accreditation

The College is accredited by:

- The Liaison Committee on Medical Education, joint committee representing American Medical Association and Association of American Medical Colleges,
- The Southern Association of Colleges and Schools Commission on Colleges,
- The Accreditation Review Commission on Education for the Physician Assistant, Inc.,
- The Commission on Accreditation of Allied Health Education Programs,
- The Council on Accreditation of Nurse Anesthesia Educational Programs,
- The Accreditation Council for Continuing Medical Education, and
- The Accreditation Council for Graduate Medical Education.

The College's accreditation by the Liaison Committee on Medical Education was made probationary in the summer of 2014, pending remediation of primarily administrative deficiencies identified in the Committee's most recent review. After the College proposed and completed a remediation plan, the Committee lifted the College's probationary status in February 2016. The College experienced no decline in the number or quality of applications for admission during its probation.

## RESEARCH

### General

The College's long history as a national leader in biomedical research has paralleled the growth in total research dollars at the College, from \$17 million in its 1971 fiscal year to \$433.0 million of direct and indirect awards during fiscal year 2017 (including \$325.6 million from federal sources). The College has consistently ranked in the top 10% of the 141 U.S. medical schools in competitive research grants to faculty. In early 2017, Blue Ridge Institute for Medical Research ranked the College #20 in funding received from the NIH based on NIH's 2016 fiscal

year. When including contracts for future funding, the College ranked #19. Six of the College's departments rank in the top 15 in the country for NIH funding, with the Department of Molecular and Human Genetics ranking #1, the Department of Molecular and Cellular Biology ranking #4 and the Departments of Pediatrics and Neuroscience ranking #6. The College ranks #1 among medical schools in Texas in NIH funding.

Two members of the College's faculty have received the National Medal of Science from the U.S. President – Dr. Michael E. DeBakey, a faculty member until his death, and Dr. Bert W. O'Malley, a current faculty member – for contributions to the advancement of science. Thirteen of the College's current faculty members have been elected to the prestigious National Academy of Medicine – Drs. Bobby R. Alford, Arthur L. Beaudet, Dennis M. Bier, Malcolm Brenner, William R. Brinkley, C. Thomas Caskey, Mary K. Estes, Richard A. Gibbs, Peter J. Hotez, James R. Lupski, Bert W. O'Malley, Cheryl Walker and Huda Y. Zoghbi. Eight are members of the National Academy of Sciences – Drs. Dora Angelaki, Beaudet, Caskey, Estes, Martin Matzuk, O'Malley, Salih Wakil, and Zoghbi. Two of the College researchers, Drs. Bellen and Zoghbi, are among the top flight scientists chosen for support by the Howard Hughes Medical Institute, the premier private funder of biomedical research in the United States. They have made significant discoveries in a host of genetic, bone, and neurologic diseases.

## Research Centers

The College's research centers and joint research programs in which it participates include:

- The ***Alkek Center for Metagenomics and Microbiome Research*** has been at the forefront of the International Human Microbiome Project. The Center's work focuses on organisms that exist on and within the human body and how they influence human health. The research also seeks to reach out across the globe to understand how the microbiome differs with geography and culture.
- The ***Alkek Center for Molecular Discovery*** capitalizes on the College's considerable expertise in genomics and proteomics to explore the world of metabolomics. The Center focuses on major health issues such as obesity, diabetes, heart disease and cancer by looking at the metabolic pathways within a cell and the metabolites they produce.
- The ***Baylor Human Genome Sequencing Center*** ("HGSC") is ranked among the top three genome sequencing centers in the nation. Established in 1996 under the direction of Dr. Gibbs, the HGSC was among three chosen nationally to complete the genetic sequence of the human genome. Since 2003, HGSC has led the field in sequencing the genomes of model organisms, food animals, insects, and pathogens.
- The ***Center for Cell and Gene Therapy*** at the College, Texas Children's Hospital, Houston Methodist Hospital, and the Shell Center for Gene Therapy has developed translational cutting edge treatments. The Center has developed methods to use modified T-cells to strengthen the immune system's ability to attack cancer cells and to protect against virus-induced dysplasia and cancer in patients whose immune systems are compromised.
- The ***Center for Medical Ethics and Health Policy*** is a joint program of the College and Rice University that was founded in 1982. The Center provides training, leadership and support for many hospital ethics boards in the Texas Medical Center. The Center is nationally recognized for its research in the ethical issues that arise from sequencing human genomes and providing that information in public and private databases.
- The ***Center for Precision Environmental Health*** seeks to increase understanding of how environment influences health and risk for disease. The Center focuses on how early life exposures to certain environmental factors permanently change the body's physiological processes to increase risk for cancer and metabolic diseases.
- The ***Center for Reproductive Medicine*** seeks to advance reproductive health through research, training, outreach and collaboration. The Center brings together scientists in a variety of areas related to reproductive health including reproductive development, fertility preservation/oncology, reproductive

disease, female and male infertility, aging/andropause/menopause, and maternal-fetal health to develop new treatments for these conditions.

- The ***Center for Space Medicine*** (“CSM”) was established at the College in 2008. The CSM is the first academic entity of its kind in the world and brings together faculty residents, students, and staff from multiple departments to contribute cutting-edge advances to science, technology, medicine, and education. The CSM is a collaborative enterprise involving multiple College departments and centers, NASA, Rice University, Texas Medical Center institutions, and other academic, industry and government organizations nationally and internationally. The CSM relocated to the Rice University Bioscience Research Collaborative in 2011.

The CSM received a grant from NASA in 2016 for \$246 million over twelve years to develop the ***Translational Research Institute*** focused on finding new ideas and treatments that can benefit long-duration space flight missions, including NASA’s journey to Mars. The institute launched Oct. 1, 2016. Other partners in the new institute include MIT and California Institute of Technology

- The ***Children’s Nutrition Research Center*** (“CNRC”) is a unique, eleven-story research facility cooperative venture among the College, Texas Children’s Hospital and the U.S. Department of Agriculture (USDA)/Agricultural Research Service (“ARS”). It is one of six USDA/ARS human nutrition research centers in the country and focuses its attention on the nutritional needs of children from birth to adulthood.
- The ***Computational, Integrative, Biomedical Research Center*** (“CIBR”) brings together many of the College’s top experts in biomedical informatics, clinical specialties, genomics, and stem cells in collaboration with their counterparts at MD Anderson Cancer Center, Rice University, Houston Methodist Hospital, the University of Houston, and the University of Texas Health Science Center at Houston. The CIBR’s mission is to address the complex analyses necessary to deal with high volumes of data generated by high throughput methodologies.
- The ***Dan L Duncan Comprehensive Cancer Center*** at the College, a National Cancer Institute Comprehensive Cancer Center, includes eight programs of excellence, including two National Cancer Institute-funded Special Programs of Research Excellence, breast cancer, and lymphoma.
- The ***Dan L Duncan Institute for Clinical and Translational Research*** brings together expertise from nine Texas Medical Center institutions to foster translational research by reaching out to a variety of populations, training a diverse group of scientists and young physicians, and fostering collaborations across disciplines. The Institute is focused on shortening the time between discoveries and delivering new treatments in the clinical setting.
- The ***Diabetes and Endocrinology Research Center*** at the College, under the direction of Dr. Lawrence Chan, seeks to understand the mechanisms behind development of both type 1 and type 2 diabetes. New findings in the Center have led to hopes for new and targeted treatments of both diseases.
- The ***Huffington Center on Aging*** focuses on basic research into the factors involved in aging as well as how our cells and DNA affect that process.
- The ***Lester and Sue Smith Breast Center*** is comprised of the Breast Care Center and the Breast Research Program. The Breast Care Center offers expertise in areas of same day breast cancer screening and diagnosis, as well as breast cancer risk assessment, genetic testing, counseling, prevention, and a breast cancer treatment clinic. The Breast Research program brings together internationally recognized physicians and scientists to carry out basic and clinical research in understanding and treating breast cancer.
- The ***National Center for Macromolecular Imaging*** (“NCMI”) at the College is a national facility primarily supported by the NIH National Center for Research Resources.



- The ***Respiratory Pathogens Research Center*** (formerly the Baylor College of Medicine Influenza Research Center) was established as a federal center at the College in 1974 and has been a leader in several notable vaccine evaluations, including the 2009 effort to develop a vaccine against the H1N1 influenza pandemic.
- The ***Rolanette and Berdon Lawrence Bone Disease Program of Texas*** is a collaborative research and clinical program of the College and The University of Texas MD Anderson Cancer Center at the College's Center for Skeletal Medicine and Biology. It seeks to improve the prevention, diagnosis, and treatment of all metabolic and genetic bone diseases.
- The ***Texas Gulf Coast Digestive Diseases Center*** is a federally funded center designed to serve basic and clinical scientists at institutions within the Texas Medical Center (the College, The University of Texas Health Science Center at Houston) and at the University of Texas Medical Branch in Galveston. The Center enhances and promotes collaboration between basic and clinical scientists performing translational research.
- The ***Cardiovascular Research Institute*** ("CVRI") at the College is built on a legacy of cardiovascular research. Today, physicians and scientists of the CVRI provide state-of-the-art medical care and perform groundbreaking research in cardiovascular research and surgery. The CVRI serves as an avenue for increased collaborative research efforts, development of cutting edge cardiovascular clinical technologies, and enhanced CV educational programs.
- The ***Center for Drug Discovery*** ("CDD") is focused on ways to quickly advance small molecules and other therapies to clinical trials, with the ultimate goal of developing novel drug and treatment options for a wide variety of health care concerns. The CDD is a resource for investigators in all of the College's departments and complements efforts in the Department of Pharmacology, the Gulf Coast Consortia, and the Institute for Clinical and Translational Research, as well as other departments and centers at the College. The CDD is integral to the Experimental Therapeutics initiative at the College.
- The ***Pituitary Center*** at the College offers comprehensive and expert care for all pituitary-related disorders, including all tumors of the pituitary and sellar region. Pituitary disorders are often complex, and successful diagnosis and treatment can be a challenge. The Center is one among few centers in the United States that offer an integrated multi-disciplinary team of pituitary experts, a surgical team highly skilled in minimally invasive endoscopic pituitary surgery, and experts in CyberKnife® stereotactic radiosurgery.

### Nationally Ranked Departmental Research

The basic science and clinical departments at the College rank among the top in the nation, and the College's faculty are highly successful in competing for both federal and private research funding. The College's scientists are committed to research that will unravel the mysteries of the human body, and identify new ways to cure disease and improve health.

In early 2017, the Blue Ridge Institute for Medical Research released the NIH Funding Rank of US Medical Schools and departments based on federal fiscal year 2016 funding, the most current information available. The College is ranked 20<sup>th</sup> among all medical schools in NIH funding and has six departments that rank in the top 15 in the country for NIH funding. They include the following:

- The ***Department of Molecular and Human Genetics*** is ranked #1 for the third consecutive year. The Institute for Molecular Genetics was created in 1985 and renamed the Department of Molecular and Human Genetics in 1994. The department offers a variety of research, clinical, and training programs in genetics to graduate, medical, and postdoctoral students.
- The ***Department of Molecular and Cellular Biology***, ranked #4, is recognized internationally for research in regulation of gene expression, hormone action, cancer biology, molecular genetics, and gene therapy. Specific areas of research focus on reproductive biology, developmental biology, neurobiology,

and general translational cancer biology. Our approach is to utilize molecular biological analyses in relation to the intact cell and organ physiology.

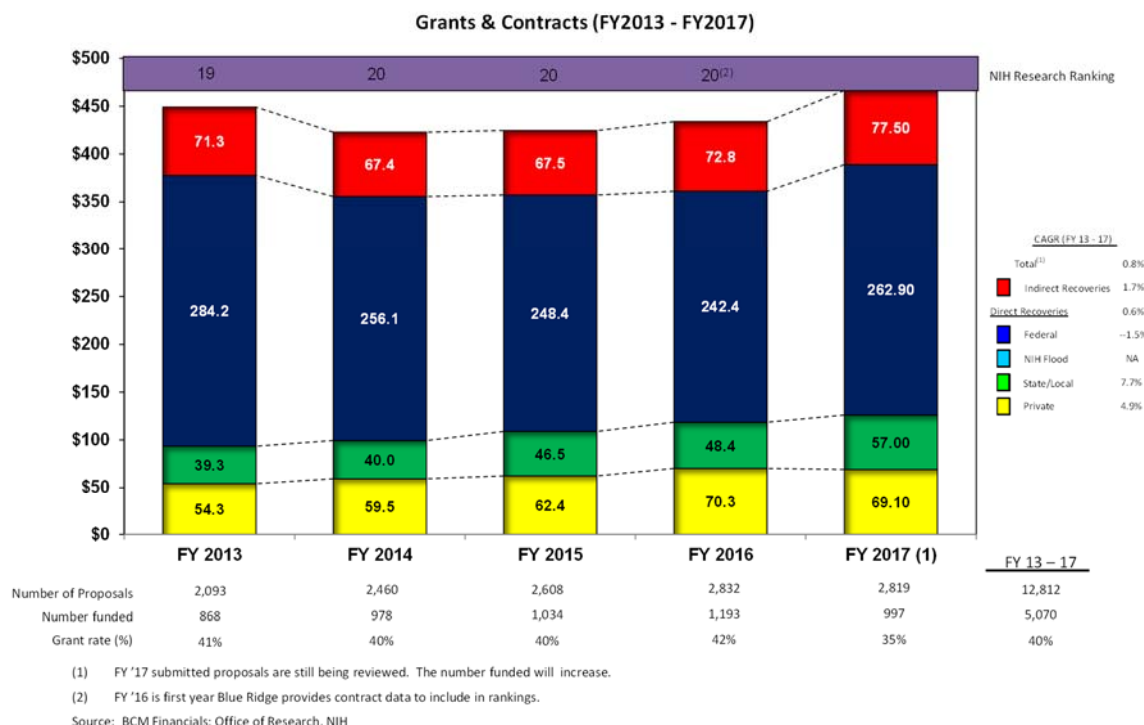
- The ***Department of Pediatrics***, ranked #5, is one of the nation's largest, most diverse, and most successful pediatric programs in the country. The department has a long history of commitment to excellence in pediatric patient care, research, and education. The department has more than 350 trainees in general pediatrics and every recognized pediatric subspecialty.
- The ***Department of Neuroscience***, ranked #6, is home to one of the largest neuroimaging laboratories in the country. Faculty members focus on research into the function of the central nervous system through experimentation in molecular neurobiology, neuroanatomy, neurodevelopment, neural systems analysis, biophysics, imaging, and computer-assisted neural system modeling. The Department is also home into the College's Memory and Behavior Research Center.
- The ***Verna and Marrs McLean Department of Biochemistry & Molecular Biology***, ranked #12, is a center for outstanding research in the life sciences. The Department is at the forefront of scientific discovery — from structure at the molecular level to systems biology and transgenics. The Department has associated faculty in the Departments of Molecular and Human Genetics, Virology and Microbiology, Medicine, Molecular and Cellular Biology, Ophthalmology, Neuroscience, and Pharmacology, which provides an outstanding environment for interdepartmental research.
- The ***Scott Department of Urology***, ranked #13, is a leader among the College's clinical departments in its commitment to research activities. Members of the department are involved in research in basic science laboratories, translational research, and clinical research. The research faculty has worked with clinicians to introduce diagnostic tools and to develop treatments such as gene therapy for prostate cancer, and prostate cancer tumor marker tests designed for use with a treatment program.

The research enterprise at the College is robust and well-funded with new investigators coming on board each year. The established investigators and scientific leaders at the College have continued to draw support not only from the federal government (i.e., the NIH, DOD, USDA, NSF and others) but also from both local and national philanthropy. Research funding continued to rise even during economic adversity and in recent years has held steady. See the chart on the next page.

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## Research Funding by Source

The following table shows research funding dollars earned or to be earned by the College under accepted proposals submitted in each fiscal year by source since fiscal year 2013 (\$ in millions).



## PATIENT CARE

### Affiliated Hospitals

The College's undergraduate medical students and resident physicians in the Graduate Medical Education training program learn and work primarily in eight independently owned teaching hospitals with which the College has affiliation agreements to provide residents and physicians. Through its affiliation agreements with these hospitals, the College contracts to provide physician services in exchange for pre-determined payments. The teaching hospitals have a combined total of more than 4,000 licensed beds. Their facilities provide the College's students and residents unsurpassed educational surroundings for clinical and research training.

The College's physicians, students, and residents see inpatients and outpatients each year in the affiliated teaching hospitals and their clinics. Set forth below is a list of the teaching hospitals with which the College has affiliation agreements to supply physicians and services. Information in the following descriptions is derived from the websites of the respective institutions and other public information.

**Baylor St. Luke's Medical Center** ("BSL Medical Center"). BSL Medical Center is an 850 licensed-bed nonprofit hospital that delivers primary through quaternary health care to patients throughout the Houston metropolitan area as well as from around the world. It is the College's principal private adult teaching hospital. See "CORPORATE GROUP AND JOINT VENTURES—CHI St. Luke's Baylor College of Medicine Medical Center" herein.

**Texas Children's Hospital** ("TCH"), licensed for 642 beds, is one of the nation's largest pediatric hospitals. Its physicians treat infants, children, and adolescents, and its units specialize in the diagnosis and treatment of rare disorders. Almost all of the geographically based physicians at Texas Children's Hospital are members of the

College's full-time faculty. More than forty medical and surgical outpatient services are available to children. In 2012, TCH opened a new Pavilion for Women, designed to be a center for women that integrates fetal and newborn health.

***Ben Taub Hospital*** ("Ben Taub"), part of the Harris Health System, has garnered respect both locally and worldwide as an outstanding acute care facility and an elite Level I trauma center. This 586 licensed-bed hospital houses the Ginny and Richard Mithoff Trauma Center, which cares for more than 100,000 emergency patients each year and is known to save the lives of some of the most critically injured. Nearly 40% of the College's resident physicians are trained at Ben Taub and in nine Community Health Centers.

***Children's Hospital of San Antonio*** ("CHoSA") is the first free-standing hospital in San Antonio solely dedicated to the care of children. Located in the heart of downtown San Antonio, CHoSA is owned and operated by CHRISTUS Santa Rosa Health System. The College began an affiliation with CHoSA in 2013 and recruits, employs, and oversees physicians at the hospital. CHoSA also serves as a training site for pediatric residents.

***The Michael E. DeBakey Veteran's Affairs Medical Center*** ("MEDVAMC") has been affiliated with the College since 1949. Today, with 460 acute care, medical, intermediate medicine, and surgical beds and a 120-bed nursing home, it is one of the Veteran's Affairs largest hospitals, serving Harris County and 27 surrounding counties. Department leaders and top administrators from the College serve on the Deans Committee at MEDVAMC to set medical care standards and advise on education and research programs at MEDVAMC. The committee recommends measures to assure that the highest quality of medical care is delivered to the veteran patients. Members of the College's faculty serve as medical service chiefs at the hospital. Almost all of the geographically based physicians at the MEDVAMC are members of the College's full-time faculty.

***Houston Methodist Hospital*** ("Methodist") is one of the nation's largest private, nonprofit hospital. Ranked by *U.S. News & World Report* as #1 hospital in Houston, TX and is nationally ranked in 8 adult specialties. College programs include ear, nose & throat, cell and gene therapy, psychiatry, medical ethics, and urology.

***The Menninger Clinic*** ("Menninger") is one of the nation's leading inpatient psychiatric hospitals and this year was ranked #3 in the nation for difficult psychiatric cases by *U.S. News & World Report* in 2015, 2016 and 2017. Menninger moved to Houston in 2003 and is the College's primary affiliated teaching hospital for psychiatry. Menninger is dedicated to treating individuals with complex mental illness, including severe mood, personality, anxiety, and addictive disorders. Menninger is also a training site for the College's residents in the Menninger Department of Psychiatry. All of the physicians at Menninger are members of the College's full-time faculty.

***The University of Texas MD Anderson Cancer Center*** is one of the world's most respected centers devoted exclusively to cancer patient care, research, education, and prevention. It has ranked among the nation's top two cancer hospitals in *U.S. News & World Report's* "America's Best Hospitals" survey since the survey's inception 20 years ago. Joint programs include neurosurgery and the bone center.

***Memorial Hermann – The Institute for Rehabilitation and Research*** ("TIRR") is a 119-bed rehabilitation hospital located in the Texas Medical Center, with associated outpatient services in the community. One of the top five rehabilitation facilities in the country, TIRR focuses on providing care to individuals who have experienced catastrophic injuries or illnesses. Approximately 50% of the physicians based at TIRR are full-time College faculty.

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The following table shows the number of residents and fellows of the College who were approved by affiliated hospitals to receive clinical training at the hospitals in the academic years beginning in the fall of the years indicated.

| <b>Hospital Name</b>               | <b>Residents &amp; Fellows</b> |              |              |
|------------------------------------|--------------------------------|--------------|--------------|
|                                    | <b>2017</b>                    | <b>2016</b>  | <b>2015</b>  |
| Texas Children's Hospital          | 524                            | 509          | 478          |
| Harris Health System               | 390                            | 390          | 390          |
| BSL Medical Center                 | 212                            | 202          | 202          |
| MEDVAMC                            | 250                            | 247          | 249          |
| Houston Methodist Hospital         | 20                             | 23           | 25           |
| The Menninger Clinic               | 6                              | 6            | 6            |
| MD Anderson Cancer Center          | 35                             | 34           | 34           |
| Memorial Hermann TIRR              | 5                              | 5            | 5            |
| Children's Hospital of San Antonio | 42                             | 25           | 12           |
| <b>Total</b>                       | <b>1,484</b>                   | <b>1,441</b> | <b>1,401</b> |

The following table provides each teaching hospital's total admissions and outpatient visits for fiscal year ending June 30, 2017.

| <b>Hospital Name</b>               | <b>Total Admissions</b> | <b>Outpatient Visits</b> |
|------------------------------------|-------------------------|--------------------------|
| Texas Children's Hospital          | 33,366                  | 705,176                  |
| Ben Taub Hospital                  | 21,083                  | 220,471                  |
| BSL Medical Center                 | 23,893                  | 155,187                  |
| MEDVAMC                            | 13,230                  | 1,691,288                |
| The Menninger Clinic               | 712                     | 4,566                    |
| MD Anderson Cancer Center          | 27,391                  | 1,404,329                |
| Memorial Hermann TIRR              | 1,296                   | 136,931                  |
| Children's Hospital of San Antonio | 5298                    | 89,332                   |

Source: Teaching hospitals' records.

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In its fiscal year ended June 30, 2017, affiliated hospital contract revenues for GME and affiliated services comprised 47% of the College's consolidated operating revenues. (See "FINANCIAL INFORMATION—Sources of Revenue" herein.) The following table shows the approximate percentages of such revenue from each affiliated hospital for these services as well as from Baylor Genetics for the fiscal years ended June 30, 2017, 2016, and 2015.

| Hospital Name                                  | Fiscal Year Ended June 30, |               |               |
|--|----------------------------|---------------|---------------|
|  | 2017                       | 2016          | 2015          |
| Texas Children's Hospital (TCH) <sup>(1)</sup> | 54.6%                      | 55.6%         | 58.1%         |
| Ben Taub Hospital                              | 18.8%                      | 21.9%         | 21.6%         |
| BSL Medical Center                             | 11.4%                      | 6.1%          | 5.8%          |
| Children's Hospital of San Antonio             | 4.3%                       | 3.8%          | 4.8%          |
| MEDVAMC  | 2.4%                       | 2.7%          | 2.6%          |
| Houston Methodist Hospital                     | 3.0%                       | 3.3%          | 1.6%          |
| Baylor Genetics                                | 1.4%                       | 1.7%          | 0.7%          |
| The Menninger Clinic                           | 1.2%                       | 1.5%          | 1.6%          |
| Memorial Hermann TIRR                          | 0.2%                       | 0.2%          | 0.3%          |
| Other  | 2.8%                       | 3.2%          | 2.9%          |
| <b>Total</b>                                   | <b>100.0%</b>              | <b>100.0%</b> | <b>100.0%</b> |

(1) Includes payments for medical services provided by College physicians, the fees for which are retained by TCH. Fees for medical services by College physicians provided at other affiliated hospitals are paid to the College and excluded from the revenue used to compute the percentages shown in this table.

Affiliated hospital revenue is determined by affiliation agreements between the College and the respective hospitals. Currently, the agreements have various remaining terms. The affiliation agreement with Texas Children's Hospital expires in 2033, but the corresponding operating agreement (which establishes the extent of services provided by and compensation to the College) expires September 30, 2021. The affiliation agreement for Ben Taub Hospital is between Affiliated Medical Services, a non-profit corporation jointly governed by the College and the University of Texas, and Harris County Clinical Services, Inc., a subsidiary of Harris Health. This agreement had an original six-year term expiring on June 30, 2013, which automatically renews for an additional year (preserving a five-year term) each year unless terminated by either party. For a description of the College's affiliation agreement with Baylor St. Luke's for the BSL Medical Center, see "CORPORATE GROUP AND JOINT VENTURES—CHI St. Luke's Baylor College of Medicine Medical Center—Affiliation Agreement" herein.

### Programs at Affiliated Hospitals

The College has collaborated with affiliated hospitals on a number of programs, including the following.

***Baylor College of Medicine Lung Institute at Baylor St. Luke's Medical Center.*** The Lung Institute was founded in July 2014 under the direction of Dr. David Sugarbaker, an internationally renowned leader in the care of pleural mesothelioma. The comprehensive, multi-specialty Institute offers advanced technology and individualized treatment, backed by the College's top-ranked genetics program, to patients from all over the world who are dealing with diseases of the lung – from asthma to lung cancer. The specialties that are working together in the Lung Institute include medical oncology, pulmonary medicine, radiation oncology and radiology. It is based at BSL Medical Center.

***Undiagnosed Diseases Network.*** The College and Texas Children's Hospital are part of a national network of clinicians and scientists joining forces to address prolonged undiagnosed medical conditions as part of a newly awarded \$7.3 million, four-year NIH grant. The network was established to help address the rarest and difficult-to-solve medical cases from around the country and develop effective approaches to diagnose them. It will focus on undiagnosed diseases that are rarely seen and often unrecognized. Dr. Brendan Lee, professor and chair of molecular and human genetics at the College, will lead the College-Texas Children's participation, which hosts a designated sequencing site as a result of the College's advanced resources and expertise in clinical genetics and genomics research. The program is a collaborative effort of the Departments of Molecular and Human Genetics, Pediatrics, Medicine, and Neurology at Baylor. The network will address both childhood and adult cases. Other institutions with Undiagnosed Disease Network clinical sites that are a part of the network include: the National Institutes of Health in Bethesda, MD; Harvard Teaching Hospitals in Boston; Duke University in Durham, N.C.; Stanford University, in

Palo Alto, Calif.; The University of California in Los Angeles; and Vanderbilt University Medical Center in Nashville, Tenn.

### **Other Cooperating Patient Care Institutions**

In addition to the affiliated teaching hospitals described above, the College's students, residents, and physicians also provide health care services to other hospitals, private hospitals, and sub-acute facilities, including the following:

|                               |                                     |
|-------------------------------|-------------------------------------|
| Community Health Centers      | Harris Health System                |
| Cullen Bayou Place            | Park Plaza Hospital                 |
| DePelchin Children's Center   | Quentin Mease Hospital              |
| Houston Child Guidance Center | Seven Acres Jewish Geriatric Center |
| Jewish Family Service         | Shriners Hospital for Children      |
| Kelsey-Seybold Clinic         | The Women's Hospital of Texas       |

### **Patient Service Records**

The College has been enhancing its electronic medical records system for patients served by its faculty practice group. The system has been certified as Stage 6 compliant by the Healthcare Information and Management Society, and efforts to achieve Stage 7 compliance are in progress.

## **FINANCIAL INFORMATION**

Selected financial data for the College for fiscal years ended June 30, 2017, 2016, and 2015 included below were derived from College's audited financial statements. The summary financial information of such dates and for the year's then ended included below should be read in conjunction with the College's audited financial statements for such years (including the notes thereto). The financial data for these periods included in the tables below should also be read in conjunction with the section headed "Management's Discussion and Analysis" herein. See "FINANCIAL STATEMENTS" herein.

The financial information included in this section is presented on a consolidated basis for the College and its controlled affiliates. Only the College is and will be obligated on the College's obligations with respect to outstanding bonds. As of June 30, 2017 and for the fiscal year then ended, the College alone accounted for substantially all of the consolidated assets, 98% of the consolidated liabilities, 97% of the consolidated operating revenues, and 96% of the consolidated expenses of the College and its controlled affiliates.

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## Sources of Revenue

The College's mission focuses on education, research, patient care, and community services. The following chart shows the approximate percentages of unrestricted operating revenues from these activities for the three fiscal years ended June 30, 2017, 2016, and 2015, as derived from audited financial statements.

|                                     | Fiscal Year Ended June 30, |             |             |
|-------------------------------------|----------------------------|-------------|-------------|
|                                     | 2017                       | 2016        | 2015        |
| Education                           | 2%                         | 3%          | 1%          |
| Research                            | 25%                        | 25%         | 26%         |
| Medical Services <sup>(1)</sup>     | 16%                        | 16%         | 16%         |
| Affiliated Hospitals <sup>(1)</sup> | 47%                        | 44%         | 44%         |
| Other                               | 10%                        | 12%         | 13%         |
| <b>TOTAL</b>                        | <b>100%</b>                | <b>100%</b> | <b>100%</b> |

<sup>(1)</sup> Payments for medical services provided by College physicians at TCH, the fees for which are retained by TCH, are recognized as Affiliated Hospitals revenue. Fees for medical services by College physicians provided at other affiliated hospitals are paid to the College and recognized as Medical Services revenue.

Revenues derived from education represent tuition, fees, and state appropriations through a contract with the Texas Higher Education Coordinating Board. (See "EDUCATION – Medical School Education" herein.) Revenues derived from research are from unrestricted grants and awards from federal, state, and private sources. (See "RESEARCH—Research Funding by Source" herein.) Revenues derived from medical services are fees paid to the College by patients or third party payers for medical services provided by physician employees of the College. Of these revenues received in the year ended June 30, 2017, approximately \$66.1 million were for physician services to primarily Medicare patients that are credited against payments owed by affiliated hospitals under affiliation agreements and the remaining approximately \$238.4 million did not reduce revenue from affiliated hospitals. Revenues derived from affiliated hospitals are revenues received as contractual payments by affiliated institutions for the provision of doctors and residents in those institutions, including the BSL Medical Center mission support payments. (See "PATIENT CARE—Affiliated Hospitals" herein.) Revenues derived from other sources include gifts, endowment and other income.

## Cash and Investments

The following table sets forth the cash, cash equivalents, and investments (including investments restricted for board-designated and donor-restricted endowments) of the College as of June 30, 2017, 2016, and 2015.

|   | June 30,              |                    |                    |
|---|-----------------------|--------------------|--------------------|
|   | 2017                  | 2016               | 2015               |
|   | <i>(in thousands)</i> |                    |                    |
| Cash and cash equivalents <sup>(1)</sup>                              | \$20,924              | \$51,296           | \$59,056           |
| Investments (at fair market value) <sup>(2)</sup>                     | 1,181,130             | 1,110,844          | 1,090,919          |
| Investments loaned under securities lending agreements <sup>(3)</sup> | 33,782                | -                  | 38,934             |
| Investments in Baylor St. Luke's, Baylor Genetics, and others         | 385,257               | 401,492            | 413,028            |
| <b>TOTAL</b>  | <b>\$1,621,093</b>    | <b>\$1,563,632</b> | <b>\$1,601,937</b> |

<sup>(1)</sup> Cash and cash equivalents are composed of assets that are or may be immediately converted to cash.

<sup>(2)</sup> Investments are composed of U.S. small, mid, and large capitalized stocks, international stocks, intermediate term fixed rate debt obligations, private equity, real estate, and other short term investments.

<sup>(3)</sup> Investments loaned under securities lending agreements are securities sent to broker-dealers and other entities for collateral that will be returned for the same securities in the future.

The decrease in cash and cash equivalents as of June 30, 2017 compared to June 30, 2016 is primarily the result of the timing of payroll and other normal operational activities. The increase in investments as of June 30, 2017



compared to June 30, 2016 was due primarily to the improved valuation of the equities, which comprise over 50% of the endowment portfolio.

The College's portfolio of investments is managed by professional portfolio managers under the guidance of the Investment Committee of the Board (the "*Investment Committee*"). The Investment Committee determines the asset allocation of the College's portfolio of investments based upon the current income needs of the College's various departments, overall domestic economic conditions, investment preferences, and risk tolerance. As of June 30, 2017, the College's endowment investment portfolio was allocated as described in the following table compared to the long-term asset allocation targets established by the Investment Committee. The investment policy of the College does not allow for investment in derivative securities.

| Asset Class                          | June 30, 2017 |         |
|--------------------------------------|---------------|---------|
|                                      | Target        | Current |
| US Equity                            | 29.0%         | 35.2%   |
| International Equity                 | 14.0%         | 13.7%   |
| Emerging Markets                     | 15.0%         | 10.5%   |
| Private Equity                       | 14.0%         | 14.3%   |
| Real Estate                          | 14.0%         | 13.5%   |
| Fixed Income; Cash & Cash Equivalent | 14.0%         | 12.8%   |

The College's investments as of June 30, 2017 include endowment and quasi-endowment assets that totaled \$1.2 billion. The endowment consists of hundreds of accounts with a variety of purposes. Donors have made endowed gifts funding general College expenses or specified purposes, such as scholarships, department chairs, research projects, or other designated programmatic support. Although distinct in purpose and restrictions, the money in all accounts are commingled in a single, large investment pool to facilitate efficient management of the assets. Also included in the pool are funds-treated-as-endowment. These funds are set aside by the College or individual departments for long-term investment intended for the benefit of both current and future generations of students, faculty, and patients. The following table sets forth the fair value of investments restricted for board-designated and donor-restricted endowments managed by the College (including investments loaned under securities lending agreements) as of June 30, 2017, 2016, and 2015. (See "FINANCIAL INFORMATION – Cash and Investments" herein.)

|                        | June 30,           |                    |                    |
|------------------------|--------------------|--------------------|--------------------|
|                        | 2017               | 2016               | 2015               |
|                        | (in thousands)     |                    |                    |
| Unrestricted           | \$495,503          | \$462,372          | \$477,781          |
| Temporarily Restricted | 282,541            | 232,233            | 263,148            |
| Permanently Restricted | 388,518            | 371,576            | 354,902            |
| <b>Total</b>           | <b>\$1,166,562</b> | <b>\$1,066,181</b> | <b>\$1,095,831</b> |

The College's endowment includes funds dedicated to support approximately 150 chairs and professorships, the earliest endowed in 1943.

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## Contributions to the College

The following table sets forth the restricted and unrestricted contributions recorded by the College for the fiscal years ended June 30, 2017, 2016, and 2015.

|               | Fiscal Year Ended June 30, |                |          |
|---------------|----------------------------|----------------|----------|
|               | 2017                       | 2016           | 2015     |
|               |                            | (in thousands) |          |
| Contributions | \$ 71,205                  | \$55,293       | \$62,824 |

## Pre-Campaign Planning

Since completing its 10-year, billion-dollar campaign in June 2013, the College has taken steps to plan for the next campaign cycle, including working with national consultants to complete a post-campaign assessment-campaign cycle and a pre-campaign planning study. The College is currently implementing many of the consultants' recommendations, including resource expansion, increasing the donor base and engaging executive and volunteer leadership in new ways. The College exceeded its fundraising goal for fiscal year 2017 with \$45.7 million in gifts and commitments (some of which are revocable and not recognized as an asset under generally accepted accounting principles) on a \$45 million goal.

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## Summary Financial Information

The following tables set forth the College's consolidated balance sheets as of June 30, 2017, 2016, and 2015 and consolidated statements of activities for the three fiscal years ended June 30, 2017, 2016, and 2015.

| CONSOLIDATED BALANCE SHEETS                                  |                       |                    |                    |
|--|-----------------------|--------------------|--------------------|
| June 30,   |                       |                    |                    |
|  | 2017                  | 2016               | 2015               |
|  | <i>(in thousands)</i> |                    |                    |
| <b>Assets</b>  |                       |                    |                    |
| Cash and cash equivalents                                    | \$20,924              | \$51,296           | \$59,056           |
| Cash held by bond trustee                                    | 7,462                 | 9,129              | 16,552             |
| Accounts receivable, net                                     | 203,325               | 173,275            | 164,356            |
| Patient receivables, net                                     | 36,570                | 36,341             | 28,443             |
| Contributions receivable, net                                | 98,454                | 102,833            | 134,731            |
| Notes receivable   | 18,367                | 18,044             | 17,593             |
| Investments  | 1,180,130             | 1,110,844          | 1,090,919          |
| Investments in Baylor St Luke's, Baylor Genetics, and others | 385,257               | 401,492            | 413,028            |
| Investments loaned under security lending agreements         | 33,782                | -                  | 38,934             |
| Security lending collateral                                  | 34,499                | -                  | 40,313             |
| Property and equipment, net                                  | 406,835               | 421,467            | 440,317            |
| Other assets   | 14,794                | 13,804             | 11,247             |
| <b>Total Assets</b>  | <b>\$2,441,399</b>    | <b>\$2,338,525</b> | <b>\$2,455,489</b> |
| <b>Liabilities</b>   |                       |                    |                    |
| Accounts payable and other liabilities                       | \$165,185             | \$218,348          | \$188,495          |
| Short term line of credit                                    | 33,500                | -                  | -                  |
| Payable to Baylor St Luke's Medical Center                   | -                     | -                  | 4,900              |
| Interest rate swap liability, net                            | 35,480                | 37,962             | 31,111             |
| Self-insurance reserves                                      | 30,585                | 35,406             | 34,437             |
| Unexpended government and private grants                     | 141,130               | 135,668            | 110,107            |
| Bonds payable  | 616,642               | 621,974            | 622,418            |
| Payable under security lending agreements                    | 34,499                | -                  | 40,313             |
| <b>Total Liabilities</b>                                     | <b>1,057,021</b>      | <b>1,049,358</b>   | <b>1,031,781</b>   |
| <b>Net Assets</b>  |                       |                    |                    |
| Unrestricted   | 452,626               | 431,183            | 528,214            |
| Temporarily restricted                                       | 494,639               | 438,890            | 483,271            |
| Permanently restricted                                       | 437,113               | 419,094            | 412,223            |
| <b>Total Net Assets</b>                                      | <b>1,384,378</b>      | <b>1,289,167</b>   | <b>1,423,708</b>   |
| <b>Total Liabilities and Net Assets</b>                      | <b>\$2,441,399</b>    | <b>\$2,338,525</b> | <b>\$2,455,489</b> |

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# **CONSOLIDATED STATEMENTS OF ACTIVITIES**

|  | <b>Fiscal Year Ended June 30,</b> |                    |                    |
|--|-----------------------------------|--------------------|--------------------|
|  | <b>2017</b>                       | <b>2016</b>        | <b>2015</b>        |
| <b>Operating Revenues</b>  |                                   |                    |                    |
|  | <i>(in thousands)</i>             |                    |                    |
| Tuition and fees   | \$35,953                          | \$35,032           | \$35,170           |
| Less: Institutional scholarships   | (17,246)                          | (17,308)           | (16,772)           |
| Net tuition and fees   | 18,527                            | 17,724             | 18,448             |
| State appropriations   | 9,484                             | 27,430             | 3,392              |
| Government and private grants and contracts:                                 |                                   |                    |                    |
| Direct recoveries  | 379,435                           | 337,939            | 335,604            |
| Indirect recoveries  | 79,263                            | 72,808             | 67,479             |
| Medical services, net  | 292,004                           | 268,555            | 257,369            |
| Affiliated hospital contracts  | 843,765                           | 738,987            | 682,695            |
| Investment income distribution and other                                     | 54,206                            | 51,006             | 46,012             |
| Equity in earnings - Baylor St Luke's and others                             | (1,142)                           | 3,629              | 20,655             |
| Equipment acquired through grants and contracts                              | 9,344                             | 10,596             | 9,108              |
| Contributions  | 14,041                            | 26,834             | 30,596             |
| Net assets released from restrictions  | 36,640                            | 32,215             | 36,574             |
| Other sources  | 66,623                            | 80,181             | 61,956             |
| Total Operating Revenues   | 1,802,190                         | 1,687,904          | 1,569,888          |
| <b>Operating Expenses</b>  |                                   |                    |                    |
| Salaries, wages and benefits   | 1,364,197                         | 1,254,122          | 1,154,806          |
| Services, supplies and other   | 379,982                           | 365,977            | 335,961            |
| Depreciation   | 58,319                            | 58,570             | 59,839             |
| Interest   | 26,536                            | 30,648             | 31,754             |
| Total Operating Expenses   | 1,829,034                         | 1,709,317          | 1,582,360          |
| <b>Operating Expenses in Excess of Revenues</b>                              | (26,844)                          | (21,413)           | (12,472)           |
| <b>Non-Operating Activities</b>  |                                   |                    |                    |
| Contributions  | 2,219                             | 838                | 4,500              |
| Investment (loss) gain, net of distribution                                  | 26,036                            | (22,356)           | (2,900)            |
| (Loss) on interest rate swaps  | 24,223                            | (29,416)           | (2,792)            |
| Gains on formation of Baylor   |                                   |                    |                    |
| St. Luke's, Baylor Genetics and other  | -                                 | -                  | 197,613            |
| Net assets released from restrictions  | 2,631                             | (184)              | 6,361              |
| Loss on extinguishment of debt   | -                                 | (20,351)           | (1,063)            |
| Other non-operating activities   | (6,822)                           | (4,149)            | 490                |
| (Decrease) increase in Unrestricted Net Assets from Non-Operating Activities | 48,287                            | (75,618)           | 202,209            |
| <b>(Decrease) increase in Unrestricted Net Assets</b>                        | 21,443                            | (97,031)           | 189,737            |
| <b>Temporarily Restricted Net Assets</b>                                     |                                   |                    |                    |
| Contributions, net   | 38,907                            | 19,861             | 20,667             |
| Net assets released from restrictions  | (39,271)                          | (32,031)           | (45,935)           |
| Investment (loss) gain   | 56,113                            | (32,211)           | (7,878)            |
| (Decrease) increase in Temporarily Restricted Net Assets                     | 55,749                            | (44,381)           | (30,146)           |
| <b>Permanently Restricted Net Assets</b>                                     |                                   |                    |                    |
| Contributions  | 16,038                            | 7,760              | 7,061              |
| Investment (loss) gain   | 1,981                             | (889)              | (152)              |
| Increase in Permanently Restricted Net Assets                                | 18,019                            | 6,871              | 6,909              |
| <b>(Decrease) increase in Net Assets</b>                                     | 95,211                            | (134,541)          | 166,500            |
| <b>Net Assets, beginning of period</b>                                       | 1,289,167                         | 1,423,708          | 1,257,208          |
| <b>Net Assets, end of period</b>   | <u>\$1,384,378</u>                | <u>\$1,289,167</u> | <u>\$1,423,708</u> |

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## Management's Discussion and Analysis

***Fiscal year ended June 30, 2017 compared to fiscal year ended June 30, 2016.*** In the fiscal year ended June 30, 2017, net assets increased by 7.4% primarily due to realized and unrealized gains of \$96 million on endowment investments and the \$24.2 million gain on the mark-to-market of interest rate swaps more than offsetting a modest increase in operating loss. Much of the unrealized gains from endowment investments arose mainly from an increase in the valuation of the equities, which comprised over 50% of the endowment portfolio. Higher interest rates caused an increase in the value of the interest rate swaps which do not receive hedge accounting treatment.

Total operating revenues for the College increased by 6.8% in fiscal year ended June 30, 2017 compared to the prior fiscal year. Growth in affiliated hospital revenues was the primary driver of the increase, continuing a trend spanning the last few years. Direct and indirect recoveries, due to increased activities in grants and contracts, also increased in the fiscal year ended June 30, 2017 compared to the same period a year ago.

Total operating expenses increased 7.0% in the fiscal year ended June 30, 2017, compared to the fiscal year ended June 30, 2016. Additions in personnel costs required to support the continuing growth in affiliated hospital activities was the main driver in the increased total operating expenses.

Operating revenues in deficit of expenses increased 25% in the fiscal year ended June 30, 2017 as compared to the prior fiscal year due to larger than anticipated losses from Baylor St. Luke's and to continued investment in clinical and research activities as contemplated in the College's strategic plan.

***Fiscal year ended June 30, 2016 compared to fiscal year ended June 30, 2015.*** In the fiscal year ended June 30, 2016, net assets decreased by 9.5% primarily due to realized and unrealized losses of \$39 million on endowment investments, the \$29.4 million loss on the mark-to-market of interest rate swaps, a \$20.4 million loss recognition on the defeasance of the Series 2008D bonds and the operating loss. Much of the unrealized losses from endowment investments arose mainly from reduction in the valuation of the equities, which comprised over 50% of the endowment portfolio. Lower interest rates including the impact of the Brexit event at fiscal year-end caused a decline in the value of the interest rate swaps which do not receive hedge accounting treatment.

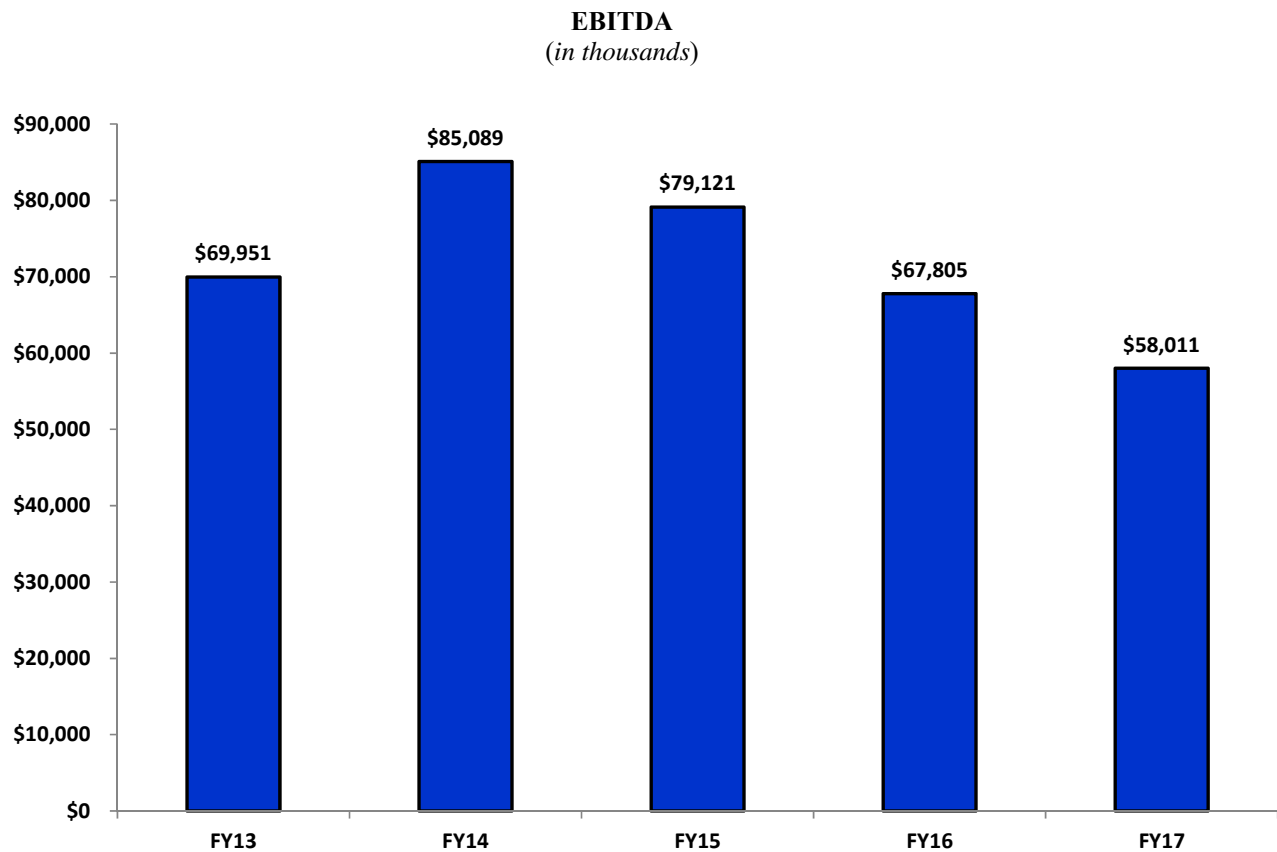
Total operating revenues for the College increased by 7.5% in the fiscal year ended June 30, 2016 compared to the prior fiscal year. Growth in affiliated hospital revenues was the primary driver of the increase, continuing a trend spanning the last few years. Direct and indirect recoveries, due to increased activities in grants and contracts, also increased in the fiscal year ended June 30, 2016 compared to the same period a year ago.

Total operating expenses increased 8.0% in the fiscal year ended June 30, 2016, compared to the fiscal year ended June 30, 2015. Additions in personnel costs required to support the continuing growth in affiliated hospital activities was the main driver in the increased total operating expenses.

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### Earnings before Interest, Taxes, Depreciation and Amortization

The College has had a downward trend in earnings before interest, taxes, depreciation, and amortization (“*EBITDA*”), a measure not recognized by generally accepted accounting principles, over most of the five fiscal years ended June 30, 2017. The decline in EBITDA in the most recent years is attributable to an increase in the College’s operating deficit as a result of increased investment in private clinical activities. The clinical growth is intended to provide a foundation for future positive margins, although positive margins are subject to risks and cannot be assured. The change in EBITDA from fiscal year 2013 through fiscal year 2017 is shown in the graph below:



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## Short and Long-Term Debt

A summary of the College's bonds, note payable and revolving line of credit as of June 30, 2017, is as follows:

|                         | <u>Principal</u>            | <u>Interest Rates</u>     | <u>Maturity</u>          |
|-------------------------|-----------------------------|---------------------------|--------------------------|
| <b>Long-term debt:</b>  |                             |                           |                          |
| <b>(Fixed Rate)</b>     |                             |                           |                          |
| Series 2012A            | \$193,780,000               | 3% to 5%                  | 2016-2046                |
| Series 2016             | 142,660,000                 | 3% to 5%                  | 2018-2032                |
| College Bonds           | 109,121,000                 | 3% to 5%                  | 2038-2046                |
| <b>(Variable Rate)</b>  |                             |                           |                          |
| Series 2015             | 75,000,000                  | Index rate <sup>(1)</sup> | 2038-2045 <sup>(2)</sup> |
| Bank Loan               | 75,000,000                  | Index rate <sup>(1)</sup> | 2038-2045 <sup>(3)</sup> |
| <b>Subtotal:</b>        | <u>\$595,561,000</u>        |                           |                          |
| <b>Short-term debt:</b> |                             |                           |                          |
| Line of credit          | 33,500,000                  | VR                        | June 30, 2018            |
| <b>Total:</b>           | <u><u>\$629,061,000</u></u> |                           |                          |

(1) See "Interest Rate Swaps – Swap Transactions" herein.

(2) Subject to mandatory tender, repurchase and remarketing in June 2020.

(3) Subject to mandatory tender, repurchase and remarketing in June 2022, unless waived by the bank lender.

The Bank Loan is payable under an agreement between the College and Barclays Bank PLC. The agreement includes two financial covenants which differ from those contained in the College's Master Trust Indenture ("MTI"). The Bank Loan covenant includes (a) an agreement to maintain at least 90 days of unrestricted cash on hand, versus 75 days under the MTI, tested semiannually, and (b) an agreement to maintain the annual debt service coverage ratio required by the MTI, tested annually, unless any obligation secured by the MTI is rated BBB+ or lower or unrated by Standard & Poor's, which could result in an event of default if breached for two consecutive quarters.. If the College fails to comply with any financial covenant or defaults under certain other agreements, or is the subject of certain non-appealable judgments, or if the College's long-term indebtedness is rated below Baa1 or BBB+ by Moody's, Standard and Poor's or Fitch, among other conditions, the Bank may declare the Bank Loan to be immediately due and payable.

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## Liquidity

The table below provides data related to the College's available liquid assets and investments as of June 30, 2017, 2016, and 2015.

|  | June 30,           |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | 2017               | 2016               | 2015               |
|  | (\$ in thousands)  |                    |                    |
| Total cash, cash equivalents and investments (restricted and unrestricted) | \$1,235,836        | \$1,162,140        | \$1,188,909        |
| Less permanently endowed   | 388,475            | 371,534            | 354,902            |
| Less beneficial interest in Foundation investments                         | 44,411             | 39,177             | 39,835             |
| Less assets held in trust  | 7,130              | 6,828              | 7,744              |
| Total available cash and investments                                       | \$795,820          | \$744,601          | \$786,428          |
| Short-term debt  | 33,500             | -                  | -                  |
| Unrestricted available funds   | <u>\$762,320</u>   | <u>\$744,601</u>   | <u>\$786,428</u>   |
| Total operating expenses   | \$1,829,034        | \$1,709,317        | \$1,582,360        |
| Less: depreciation and amortization  | 58,319             | 58,570             | 59,839             |
| Less/(add): amortization of debt discount/(premium)                        | (3,070)            | (457)              | (257)              |
| Less: property retirement, depletion and impairment                        | 400                | 1,027              | - 1,559            |
| Less: provision for bad debt   | 12,549             | 12,801             | 10,143             |
| Adjusted total operating expenses  | <u>\$1,760,836</u> | <u>\$1,637,376</u> | <u>\$1,511,076</u> |
| Average daily operating expense <sup>(1)</sup>                             | <u>\$4,824</u>     | <u>\$4,474</u>     | <u>\$4,140</u>     |
| Days cash on hand <sup>(2)</sup>   | <u>158</u>         | <u>166</u>         | <u>190</u>         |

<sup>(1)</sup> Average daily operating expense is calculated as (i) adjusted total operating expenses for the 12 months then ended divided by (ii) the number of days in such period.

<sup>(2)</sup> Days cash on hand is calculated as unrestricted available funds divided by the average daily operating expense for the relevant period.

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## Debt Service Coverage

The following table sets forth the extent by which the College's income available for debt service for the fiscal years ended June 30, 2017, 2016, and 2015 would cover the College's pro forma maximum annual debt service requirements on its long-term indebtedness outstanding as of June 30, 2017.

|  | Fiscal Year Ended June 30, |                   |             |
|--|----------------------------|-------------------|-------------|
|  | 2017                       | 2016              | 2015        |
|  |                            | (\$ in thousands) |             |
| Operating revenues in deficit of expenses <sup>(1)</sup>                 | \$ (26,844)                | \$ (21,413)       | \$ (12,472) |
| Net gains (losses) on disposals and write-down of property and equipment | 160                        | (145)             | (1,555)     |
| Interest expense   | 26,536                     | 30,648            | 31,754      |
| Property retirements   | 400                        | 1,027             | 1,559       |
| Depreciation and amortization  | 58,319                     | 58,570            | 59,839      |
| Income available for debt service  | \$ 58,571                  | \$ 68,687         | \$ 79,125   |
| Maximum annual debt service <sup>(2)</sup>                               | \$ 37,732                  | \$ 37,732         | \$ 37,732   |
| Historical coverage of current maximum annual debt service               | 1.55                       | 1.82              | 2.10        |

<sup>(1)</sup> Excludes gain (loss) on investments.

<sup>(2)</sup> Assumes that (i) the College's variable rate Series 2015 note will bear interest until its June 2020 mandatory purchase date at 70% of the average one-month LIBOR for a recent period plus the currently applicable spread, (ii) the College's variable rate Bank Loan will bear interest until its June 2022 expiration date at such percentage of such average LIBOR plus the currently applicable spread, (iii) such note and loan will be successfully remarketed, refinanced, or extended on their respective initial and successive mandatory purchase and expiration dates on terms and at rates currently estimated to be available, and (iv) one-month LIBOR (used to calculate the floating rate receipts by the College under its interest rate swap transactions) will be equal to such average LIBOR. The actual rate of interest on all variable rate obligations and interest rate swap transactions will vary from these assumptions, and the variance could be substantial.

## Capital Plans

The College has identified a need for additional research space and is evaluating the possible construction of a 450,000 GSF building for translational research at or near the BCM Medical Center. The College is currently exploring options for locating such a building on the McNair Campus or as part of a proposed multi-institution translational research campus on adjacent Texas Medical Center property. Such a building is estimated to cost approximately \$225 million to \$300 million. The College does not expect to construct such a building unless it has secured pledges of contributions to cover a substantial portion of the capital expense, although it could issue long-term indebtedness or incur a capital lease on a parity with its promissory note pledged to secure payment of its payment obligations with respect to outstanding bonds (upon satisfying conditions to the incurrence of such debt established under the Master Trust Indenture) for the balance of the capital cost or pending collection of the pledges.

The College has committed to make certain capital contributions to and, beginning January 1, 2019, could be subject to capital calls from Baylor St. Luke's. See "CORPORATE GROUP AND JOINT VENTURES—CHI St. Luke's Baylor College of Medicine Medical Center—Membership Rights and Obligations" herein. The College has no commitment to contribute capital to Baylor Genetics. The College currently has no other capital call commitments.

In addition to routine renovations, refurbishments, and capital equipment purchases, the College expects to incur approximately \$26 million in capital expenditures to finish out the remaining two floors of its condominium interest in BCM Medical Center. The timing of this work is expected to depend upon the timing and extent of transfers of services from the BSL Medical Center and termination of the College's existing lease of space for operations of Baylor Clinic. The College plans to fund these expenditures primarily through cash generated from operations.

## Interest Rate Swaps

**General.** The College follows a board-approved policy for its use of interest rate swaps, caps, options, basis swaps, rate locks, total return swaps, and other similar financial derivative products. The policy authorizes such

derivative products to be used only with board authority and only to achieve a specific objective consistent with the College's overall debt and investment management policy, and not for speculation. Under the policy, the College's total variable rate exposure, net of derivatives transactions that have the economic effect of reducing (or increasing) variable rate exposure, may not exceed an amount to be determined by the Board from time to time. The policy requires that the College enter into derivatives transactions only with counterparties that are rated in the "A-" category or above by Standard & Poor's Rating Services or equivalent thereof or counterparties that provide collateral or additional guarantees. In addition, the policy provides that the College is to include terms in derivatives transactions to mitigate and offset its exposure to counterparty risk, including ratings-based termination events.

***Interest Rate Swap Transactions.*** Under a swap transaction with Barclays Bank PLC, the College is obligated to make payments at a fixed rate of 4.412% per annum, and Barclays Bank PLC is obligated to make reciprocal floating rate payments at a rate equal to 70% of a taxable short-term interest rate index – the U.S. Dollar one-month LIBOR rate – in each case through 2047 on an amortizing notional amount of \$102.0 million as of June 30, 2017. Under a swap transaction with Bank of America, N.A., the College is obligated to make payments to Bank of America, N.A. at a fixed rate of 4.443% per annum, and Bank of America, N.A. is obligated to make reciprocal floating rate payments at a rate equal to 70% of the U.S. Dollar one-month LIBOR rate, in each case through 2047 on an amortizing notional amount of \$43.2 million as of June 30, 2017.

The swap transactions may be terminated prior to the maturity of the hedged bonds under certain circumstances. If a swap transaction is terminated, the College may owe a termination payment to the swap counterparty or the swap counterparty may owe a termination payment to the College, depending on market conditions. Such a termination payment would be based upon the market value of the applicable swap transaction on the date of termination and could be substantial. In addition, each party is obligated to post cash or securities with the other party equal to all or a portion of its settlement obligation from time to time, depending on its credit rating at the time. While it remains rated "A" by Standard and Poor's, the College must post collateral equal to the excess of each counterparty's exposure over \$20 million. Collateral posting requirements would be higher at lower rating levels. As of June 30, 2017 and 2016, when the College was rated "A", and June 30, 2015, when the College was rated "A-" and the threshold under its agreement with Barclays Bank PLC required an additional \$5 million to be posted, the College posted \$28.5 million, \$50.2 million, and \$27.7 million, respectively, in cash collateral in accordance with its swap agreements.

The College's payment obligations under each swap transaction are evidenced by a promissory note issued by the College to the swap counterparty. These notes are secured under the Master Trust Indenture on parity with other Notes outstanding under the Master Trust Indenture from time to time, including the promissory notes pledged to secure payment of the College's payment obligations with respect to outstanding bonds.

## **LITIGATION AND INSURANCE**

The College may be exposed to vicarious liability for claims based on medical malpractice alleged to be committed by a faculty member providing patient services among other sources of liability. The College is a defendant in various lawsuits and has identified certain events that can be expected to result in claims for damages. Based upon the claims history of the College, actuarial computations, the current status of pending claims, and other information known to College management, College management is of the opinion that no medical malpractice or other claim of which the College is now aware, whether or not filed as of the date hereof, will have a material adverse effect on the financial condition or operations of the College. College management anticipates that its self-insurance fund and commercial insurance coverage can reasonably be expected to pay for any insured liability of the College, although no assurance can be made that this will be the case.

The College maintains commercial excess coverage with a \$50 million policy for medical malpractice claims. The excess insurance coverage applies, above the College's \$15 million per claim, \$25 million aggregate self-insured retention, to a limit of \$65 million per occurrence and \$75 million annual aggregate. The College's self-insured retention is funded based upon actuarial reports that determine the amount expected to be needed for payment of medical malpractice losses, related legal expenses, and the cost of administering the fund. The assets of the fund, as well as the actuarially determined liabilities, are reported in the combined balance sheets as of June 30, 2017, 2016, and 2015. Income from the fund assets, professional liability losses, and administrative costs are reported in the consolidated statements of activities for the fiscal years ended June 30, 2017, 2016, and 2015.

The College maintains coverage with respect to general liability and other insurance that is similar to other medical schools.

### **FINANCIAL STATEMENTS**

The consolidated financial statements of the College and its affiliates as of June 30, 2017, 2016, and 2015 and for the fiscal years then ended have been audited by Ernst & Young LLP, independent auditors, and provided separately to the Municipal Securities Rulemaking Board. They may be viewed at [www.emma.msrb.org](http://www.emma.msrb.org).

### **EMPLOYEES**

As of June 30, 2017 the College had approximately 7,813 full-time faculty and staff, 1,923 part-time employees and 1,563 residents and clinical fellows. The College provides a competitive compensation and benefits program that includes a 401(a) savings plan, 403(b) savings plan, 457 plan, group life, medical, disability, and dental insurance plans as well as paid vacation, holidays, and sick leave programs.

The College currently has no labor unions or collective bargaining agreements. There have been no stoppages of work due to strikes or labor problems. Medical resident pay has been kept equitable with other medical schools. Employee problem resolution is provided by the College's Department of Human Resources through workplace mediation, an open-door policy with management, a formal grievance procedure, an Office of the Ombudsman, and a Professionalism Office. College management considers its relationship with College employees to be excellent.

### **RETIREMENT PLANS**

Substantially all faculty and staff participate in the College's defined contribution retirement plan, under which contributions are made by the College based on a formula using the employee's base annual salary. The College previously sponsored a life insurance plan, which now benefits only employees who retired in or before 2009 with at least 10 years of service. The College's residual obligations under this discontinued plan are measured at year end and funded by the College on a pay-as-you-go basis. The College's obligation with respect to the discontinued plan is fully funded. The College does not offer a defined benefit plan, other pension plan, or post-employment benefits.

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