

QUARTERLY FINANCIAL STATEMENTS AND OPERATING DATA

Dated: June 30, 2009

Relating to:

2007 B	Cusip 414152RQ3
2007A-1	Cusip 414152SH2
2007A-2	Cusip 414152SJ8
2008A	Cusip 414152SA7
2008B	Cusip 414152SB5
2008C	Cusip 414152SC3
2008E	Cusip 414008AA0
2008D	Cusips 414008AC6
	414008AD4
	414008AE2
	414008AF9
	414008AG7
	414008AH5
	414008AJ1
	414008AK8
	414008AL6
	414008AM4
	414008AN2
	414008AP7

The attached financial statements and operating data for the fiscal year ended June 30, 2009, is provided solely to comply with the undersigned's contractual commitment (established by the Loan Agreements under which above-referenced Bonds are issued) to provide such data. This notice is not made by the undersigned in connection with a purchase or sale of Bonds and accordingly is not intended to contain all information material to a decision to purchase or sell Bonds.

The attached financial statements are prepared in accordance with generally accepted accounting principles, except for the omission of footnotes and adjustments customarily made at year-end during the audit process. They are preliminary, have not yet been audited, and therefore are subject to change. Readers are cautioned that adjustments to the attached statements could be required to reflect changes between temporarily restricted and unrestricted assets as required by Financial Accounting Statement No. 117 as well as possible adjustments to asset values that may result from previously reported breaches of covenants (other than payment obligations).

For further information, investors may contact Ms. Kimberly Cotner David, Chief Financial Officer for the undersigned, One Baylor Plaza, Houston, Texas 77030, tel. no. 713-798-1543, kcotner@bcm.edu.

BAYLOR COLLEGE OF MEDICINE

Baylor College of Medicine
Balance Sheets
Preliminary and Unaudited/Subject to Change
at June 30, 2009
With Comparative Totals at June 30, 2008

	(Unaudited) June 30, 2009	June 30, 2008	Variance Dollar Amount
Assets			
Cash & Short Term Investments	64,582,606	61,609,396	2,973,210
Cash Held by Bond Trustee	348,410,652	503,183,032	(154,772,380)
Bond Swap Collateral, net	0	0	0
Accounts Receivable, net	98,644,293	92,592,925	6,051,368
Insurance Receivable	0		
Patient Receivables, net	35,180,502	36,787,885	(1,607,383)
Contributions Receivable, net	164,666,651	166,525,361	(1,858,710)
Notes Receivable	18,592,821	18,707,722	(114,901)
Investments	749,258,135	1,132,798,057	(383,539,922)
Security lending collateral	2,952,428	32,962,223	(30,009,795)
Property and Equipment	769,916,543	641,135,290	128,781,253
Other Assets	27,756,189	32,400,447	(4,644,258)
Total Assets	<u>2,279,960,819</u>	<u>2,718,702,338</u>	<u>(438,741,518)</u>
Liabilities and Net Assets			
Accounts Payable and other liabilities	246,221,593	235,584,763	10,636,830
Line of Credit	25,000,000	50,000,000	(25,000,000)
Bond Swap Liability, net	14,099,230	36,893,015	(22,793,785)
Deferred Insurance Proceeds, Net	138,754	6,341,102	(6,202,348)
Unexpended current awards	73,465,824	66,932,982	6,532,842
Refundable government loan funds	6,763,122	6,811,683	(48,561)
Bonds Payable	897,430,985	852,181,731	45,249,254
Payable under security lending agreements	2,952,428	32,962,223	(30,009,795)
Total Liabilities	<u>1,266,071,936</u>	<u>1,287,707,498</u>	<u>(21,635,563)</u>
Net Assets			
Unrestricted	377,793,949	893,288,745	(515,494,796)
Temporarily Restricted	309,502,652	221,583,028	87,919,624
Permanently Restricted	326,592,281	316,123,066	10,469,215
Total Net Assets	<u>1,013,888,883</u>	<u>1,430,994,840</u>	<u>(417,105,957)</u>
Total Liabilities and Net Assets	<u>2,279,960,819</u>	<u>2,718,702,338</u>	<u>(438,741,518)</u>

Baylor College of Medicine
Statement of Activities
Preliminary and Unaudited/Subject to Change
June 30, 2009

	(Unaudited and Subject to Change)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
State appropriation and Net Tuition	\$ 50,164,865			\$ 50,164,865
Government and private grants and contracts				
Direct recoveries	308,806,789			308,806,789
Facilities and administrative recoveries	65,043,112			65,043,112
Affiliated hospital contracts	306,495,931			306,495,931
Medical services	247,878,037			247,878,037
Other academic activities	43,480,646			43,480,646
Investment income	58,429,981	113,961	0	58,543,942
Contributions	28,523,789	24,091,564	0	52,615,353
Equipment acquired through grants and contracts	8,568,163	863,595		9,431,758
Temp Restricted Releases	37,358,176	(37,358,176)		0
Total revenues	1,154,749,489	(12,289,056)	0	1,142,460,433
Education	117,901,107			117,901,107
Research	352,743,747			352,743,747
Medical services	242,009,309			242,009,309
Affiliated hospital clinical services	301,333,252			301,333,252
Institutional support and Operations of Plant	129,006,475			129,006,475
Depreciation	65,805,909			65,805,909
Interest	18,675,102			18,675,102
Total expenses	1,227,474,901	0	0	1,227,474,901
	(72,725,413)	(12,289,056)	0	(85,014,469)
Contributions non equipment capital	2,926,744	5,229,921	16,005,834	24,162,499
Net realized gains(losses) on investment, net of distribution	0	0	0	0
Interest income	0	0	0	0
Change in net unrealized gains(losses) on investment	0	0	0	0
Investment (loss) income, net of distribution	(171,254,486)	(120,763,372)	(5,536,619)	(297,554,477)
Change in net unrealized gains(losses) on swap	(52,877,521)	0	0	(52,877,521)
Non equip assets acquired by grants and contracts	(191,762)	0	0	(191,762)
Loss on disposal & write-down of property and equipment	(1,989,169)	0	0	(1,989,169)
Storm Litigation & application costs	0	0	0	0
Gain on Storm Insurance Proceeds	(416,746)	0	0	(416,746)
Net assets released from restrictions, transfers and other	1,562,105	(1,562,105)	0	0
Cummulative net effect of FASB 117 implementation	(217,304,235)	217,304,235	0	0
Retirement of bond original issue cost	(3,579,052)	0	0	(3,579,052)
Discontinued Operations	354,740	0	0	354,740
Change in net assets from non-operating activities	\$ (442,769,383)	\$ 100,208,680	\$ 10,469,215	\$ (332,091,488)
Total increase(decrease) in Net Assets	(515,494,795)	87,919,624	10,469,215	(417,105,956)
Net Assets - June 30, 2008	893,288,745	221,583,028	316,123,066	1,430,994,840
Net Assets - June 30, 2009	\$ 377,793,950	\$ 309,502,652	\$ 326,592,281	\$ 1,013,888,884

Baylor College of Medicine

Statement of Activities

as of June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities				
Revenues				
State appropriation and Net Tuition	51,388,111			51,388,111
Government and private grants and contracts				
Direct recoveries	294,204,448			294,204,448
Facilities and administrative recoveries	62,681,750			62,681,750
Affiliated hospital contracts	197,500,435			197,500,435
Medical services	296,748,864			296,748,864
Other academic activities	48,296,914			48,296,914
Investment income	58,839,626	107,754	0	58,947,380
Contributions	19,520,726	16,803,798	0	36,324,524
Equipment acquired through grants and contracts	7,552,949	345,471		7,898,420
Temp Restricted Releases	35,578,742	(35,578,742)		0
Total revenues	1,072,312,565	(18,321,720)	0	1,053,990,845
Expenses				
Education	121,127,852			121,127,852
Research	351,191,484			351,191,484
Medical services	299,660,518			299,660,518
Affiliated hospital clinical services	193,864,842			193,864,842
Institutional support and Operations of Plant	105,272,352			105,272,352
Depreciation	59,119,228			59,119,228
Interest	9,957,707			9,957,707
Total expenses	1,140,193,982	0	0	1,140,193,982
Revenues Over / (Under) Expenses	(67,881,417)	(18,321,720)	0	(86,203,137)
Non-operating Activities				
Contributions non equipment capital	2,618,963	32,270,641	11,612,700	46,502,304
Net realized gains(losses) on investment, net of distribution	41,906,361	85,978	4,889,364	46,881,703
Interest income	423,043	0	3,364	426,407
Change in net unrealized gains(losses) on investment	(204,899,299)	(775,840)	(2,290,336)	(207,965,475)
Non equip assets acquired by grants and contracts	511,759	0	0	511,759
Loss on disposal & write-down of property and equipment	(5,628,064)	0	0	(5,628,064)
Storm Litigation & application costs	(259,727)	0	0	(259,727)
Net assets released from restrictions, transfers and other	2,577,002	(2,577,002)	0	0
Retirement of bond original issue cost	(5,312,286)	0	0	(5,312,286)
Change in net assets from non-operating activities	(168,062,249)	29,003,777	14,215,093	(124,843,379)
Total increase(decrease) in Net Assets	(235,943,665)	10,682,057	14,215,093	(211,046,516)
Net Assets - June 30, 2007	1,129,232,411	210,900,971	301,907,974	1,642,041,356
Net Assets - June 30, 2008	893,288,745	221,583,028	316,123,066	1,430,994,840

Baylor College of Medicine
Statement of Cash Flows
Preliminary and Unaudited/Subject to Change
as of June 30, 2009

	(Unaudited) June 30, 2009	June 30, 2008
Cash Flow from Operating Activities		
Change in net assets	(417,106)	(211,047)
Adjustments to reconcile increase/(decrease) in net assets to net cash provided by/(used in) operating activities		
Depreciation	65,806	59,119
Loss on disposal & write down of P&E	1,989	5,628
Non-cash contributions of property	(7,514)	(7,719)
Investment income reinvested	(5,469)	(7,535)
Change in net unrealized (gains)/losses on investments	247,374	164,375
Change in net unrealized (gains)/losses on swap	52,878	43,591
Change in patient receivables	1,607	(1,562)
Change in contributions receivable	1,859	(9,576)
Change in accounts receivable	(6,051)	(21,473)
Contributions restricted for long-term investment	(16,006)	(11,613)
Net realized (gains)/losses on sale of investments	10,627	(74,723)
(Increase)/Decrease in other assets	4,644	(7,822)
Increase/(Decrease) in accounts payable & other liabilities	7,893	71,862
Net cash provided by (used in) operating activities	(57,470)	(8,494)
Cash Flow from Investing Activities		
Change in investments (net) (1)	125,539	62,899
Purchases of property and equipment	(189,062)	(171,930)
Investment income reinvested	5,469	7,535
Disbursement & repayment of loans (net)	115	(1,466)
Net Cash provided by (used in) investing activities	(57,939)	(102,962)
Cash Flow from Financing Activities		
Change in line of credit payable	(25,000)	50,000
(Increase)/Decrease in bond swap collateral	(75,671)	
Repayments of bonds payable	(243,150)	(2,975)
Proceeds from retirement of 2005 B Bonds held by college	36,425	
Proceeds from issuance of 2008D bonds	255,000	
2007 A/B bond issuance proceeds		600,000
2008 A/B/C bond issuance proceeds		157,730
2007 A bond refunding		(155,000)
Purchase 2005 B bonds		(36,425)
Contributions restricted for long-term investment	16,006	11,613
Net Cash provided by (used in) financing activities	(36,390)	624,943
Net Change in cash and cash equivalents	(151,799)	513,487
Cash & short-term investments - June 30, 2007		51,306
Cash & short-term investments - June 30, 2008	564,792	
Cash & short-term investments(2) - as of June 30, 2009/ as of June 30, 2008	\$ 412,993	564,792

(1) Represents fiscal year change in balance sheet investments adjusted for net realized gains/losses in operating activities and net unrealized gains/losses on investments in nonoperating activities

(2) Includes "Cash held by Bond Trustee" on Balance Sheet

Baylor College of Medicine
for the Trailing Twelve Months through June 30, 2009

	Moody's Median	FYE Covenants	June 2008	July 2008	Aug 2008	Sept 2008	Oct 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	March 2009	April 2009	May 2009	June 2009
Days Cash on Hand ⁽¹⁾	157	180	244	232	233	203	159	146	115	105	93	106	108	120	92
Operating Margin (%) ⁽²⁾	2.1		(6.9)	(6.8)	(4.1)	(6.9)	(6.2)	(6.0)	(5.8)	(6.1)	(5.9)	(5.8)	(6.0)	(5.6)	(6.3)
Operating Cash Flow Margin (%) ⁽³⁾	9.0		(0.4)	(0.4)	2.6	(0.2)	0.2	1.1	1.3	1.0	1.4	1.5	1.3	1.6	1.0
Debt-to-Capitalization (%) ⁽⁴⁾	38.6	65	50.2	50.9	52.7	57.4	61.0	67.6	69.0	69.0	72.0	72.0	70.0	67.0	71.0
Cash-to-Debt (%) ⁽⁵⁾	111	65	91	88	84	69	57	55	45	42	38	40	43	46	37
Days Receivable ⁽⁶⁾	49.1		51	52	50	53	53	51	55	52	53	52	49	50	48
Debt Service Coverage Ratio ⁽⁷⁾	3.9	1.2	2.3	0.9	1.0	0.3	(0.1)	0.0	0.1	(0.3)	(0.4)	(0.6)	(0.7)	(0.6)	(0.8)
Financial Strength Index ⁽⁸⁾	0 - 3		1.6	1.3	2.0	0.5	(0.4)	(0.5)	(1.3)	(1.6)	(1.8)	(1.5)	(1.5)	(1.1)	(1.9)

(1) ((Cash & Short-Term Investments + Investments - True Endowment & Perm Restricted Assets - Private Equity - Other Investments) - (Line of Drawn Credit Revolver - Amount Due on Calendar Year 2009) / (Total Expenses/366 days)

(2) Total Surplus (Deficit) / Total Revenues

(3) (Total Surplus (Deficit) + Interest + Depreciation) / Total Revenues

(4) (Bonds Payable + Line of Drawn Credit Revolver + Swap Not Collateralized) / (Total Debt + Unrestricted Net Assets)

(5) (Cash & Short-Term Investments + Investments - True Endowment & Perm Restricted Assets - Private Equity - Other Investments) / Long-Term Debt

(6) (Total Accounts & Patient Receivables + Notes Receivables) / (Total Revenues / 365)

(7) (Unrestricted Operating Revenues over/(under) expenses + realized gains(losses) - contributions non-equipment capital - non-equipment assets acquired through grants and contracts - loss on disposal and write downs of property and equipment, net + depreciation + interest) / (Pro-Rated Maximum Annual Debt Service Requirements on Long-Term Debt for period)

(8) ((Operating Margin - 4)/4) + ((Days Cash on Hand - 50)/50) - ((Debt-to-Capitalization - 50)/50) - ((Accumulated Depreciation Expense % - 50)/50)

The June 30, 2009 covenant ratios are adjusted for FAS117. They are considered preliminary and subject to change.