Consolidated Financial Statements

BJC HealthCare
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

BJC HealthCare

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Contents

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Report of Independent Auditors

The Board of Directors
BJC HealthCare

We have audited the accompanying consolidated financial statements of BJC HealthCare (BJC), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BJC HealthCare at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 28, 2017

BJC HealthCare

Consolidated Balance Sheets
(Dollars in Millions)

	December 31 2016	December 31 2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 54.9**	$ 75.3
Accounts receivable:		
Patients (less allowances for uncollectible accounts – $96.2 in 2016 and $87.0 in 2015)	**719.0**	607.4
Other	**55.9**	43.9
Other current assets	**229.6**	199.4
Total current assets	**1,059.4**	926.0
Investments	**5,080.5**	5,086.5
Property and equipment, net	**2,930.4**	2,225.8
Other noncurrent assets	**245.2**	233.7
Total assets	**$ 9,315.5**	$ 8,472.0
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	**$ 21.0**	$ 15.4
Long-term debt subject to self-liquidity	**431.2**	534.7
Other current liabilities	**921.7**	705.6
Total current liabilities	**1,373.9**	1,255.7
Noncurrent liabilities:		
Long-term debt	**1,368.8**	1,023.6
Self-insurance liabilities	**166.9**	150.5
Pension/postretirement liabilities	**467.9**	572.5
Other noncurrent liabilities	**310.1**	270.3
Total noncurrent liabilities	**2,313.7**	2,016.9
Total liabilities	**3,687.6**	3,272.6
Net assets:		
Unrestricted	**5,142.6**	4,762.5
Noncontrolling interest in subsidiary	**34.5**	–
Total unrestricted	**5,177.1**	4,762.5
Temporarily restricted	**251.0**	246.7
Permanently restricted	**199.8**	190.2
Total net assets	**5,627.9**	5,199.4
Total liabilities and net assets	**$ 9,315.5**	$ 8,472.0

See accompanying notes.

BJC HealthCare

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Millions)

	Year Ended December 31	
	2016	**2015**
Unrestricted revenues:		
Patient service revenue (net of allowances and discounts)	**$ 4,766.9**	$ 4,246.1
Provision for bad debts	**(181.0)**	(156.1)
Net patient service revenue	**4,585.9**	4,090.0
Other operating revenue	**177.4**	172.3
Total unrestricted revenues	**4,763.3**	4,262.3
Expenses:		
Salaries and benefits	**2,286.1**	1,989.1
Supplies and other	**2,011.6**	1,777.4
Depreciation and amortization	**281.6**	255.7
Interest	**42.2**	37.8
Total expenses	**4,621.5**	4,060.0
Operating income	**141.8**	202.3
Investment earnings (losses)	**214.6**	(3.7)
Unrealized gains (losses) on interest rate swap contracts, net	**11.1**	(4.8)
Inherent contribution of acquired entity	**73.8**	–
Other nonoperating expense, net	**(74.3)**	(100.2)
Excess of revenues over expenses	**367.0**	93.6
Net loss attributable to noncontrolling interest	**(20.1)**	–
Excess of revenues over expenses attributable to BJC HealthCare	**387.1**	93.6

BJC HealthCare

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollars in Millions)

	December 31, 2016			December 31, 2015		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Unrestricted net assets:						
Excess (deficit) of revenues over expenses	**$ 367.0**	**$ 387.1**	**$ (20.1)**	$ 93.6	$ 93.6	$ –
Pension and other postretirement liability adjustment	**(9.1)**	**(9.1)**	**–**	42.4	42.4	–
Initial value of noncontrolling interest in net assets of acquired entities	**54.6**	**–**	**54.6**	–	–	–
Net assets released for property acquisitions	**2.1**	**2.1**	**–**	3.9	3.9	–
Increase in unrestricted net assets	414.6	**380.1**	**34.5**	139.9	139.9	–
Temporarily restricted net assets:						
Contributions, bequests, and grants	**20.6**	**20.2**	**0.4**	28.2	28.2	–
Investment (losses) earnings	**16.5**	**16.5**	**–**	(3.7)	(3.7)	–
Net assets released from restrictions	**(34.1)**	**(34.1)**	**–**	(26.0)	(26.0)	–
Other	**1.3**	**1.3**	**–**	3.3	3.3	–
Increase in temporarily restricted net assets	**4.3**	**3.9**	**0.4**	1.8	1.8	–
Permanently restricted net assets:						
Contributions and bequests	**8.5**	**8.5**	**–**	1.1	1.1	–
Investment earnings	**0.1**	**0.1**	**–**	–	`–	–
Other	**1.0**	**1.0**	**–**	(3.9)	(3.9)	–
Increase (decrease) in permanently restricted net assets	**9.6**	**9.6**	**–**	(2.8)	(2.8)	–
Increase in net assets	**428.5**	**393.6**	**34.9**	138.9	138.9	–
Net assets at beginning of year	**5,199.4**	**5,199.4**	**–**	5,060.5	5,060.5	–
Net assets at end of year	**$ 5,627.9**	**$ 5,593.0**	**$ 34.9**	$ 5,199.4	$ 5,199.4	–

See accompanying notes.

BJC HealthCare

Consolidated Statements of Cash Flows

(Dollars in Millions)

	Year Ended December 31	
	2016	**2015**
Operating activities		
Increase in net assets	**$ 428.5**	$ 138.9
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gains) losses on interest rate swaps	**(11.1)**	4.8
Restricted contributions	**(29.1)**	(29.3)
Depreciation and amortization	**281.6**	255.7
Provision for bad debts	**181.0**	156.1
Pension and other postretirement liability adjustment	**9.1**	(42.4)
Fair value of net assets of acquired entities	**(128.7)**	–
Increase in patient accounts receivable, net	**(258.0)**	(193.0)
Increase in other current assets	**(28.5)**	(40.0)
Increase in other current liabilities	**153.7**	17.1
Investments classified as trading, net	**0.1**	(23.5)
Decrease (increase) in other assets	**1.4**	(15.9)
(Decrease) increase in self-insurance liabilities	**(17.1)**	5.0
(Decrease) increase in other noncurrent liabilities	**(110.8)**	11.2
Net cash provided by operating activities	**472.1**	244.7
Investing activities		
Purchases of property and equipment, net	**(759.6)**	(434.5)
Cash received from contribution of MRHS	**27.2**	–
Sales of interests in alternative investments	**840.9**	612.7
Purchases of interests in alternative investments	**(714.6)**	(495.2)
Net cash used in investing activities	**(606.1)**	(317.0)
Financing activities		
Payments of debt	**(116.9)**	(88.0)
Proceeds from issuance of debt	**201.4**	150.0
Restricted contributions	**29.1**	29.3
Proceeds from line of credit	**67.9**	–
Payments on line of credit	**(67.9)**	–
Net cash provided by financing activities	**113.6**	91.3
Net (decrease) increase in cash and cash equivalents	**(20.4)**	19.0
Cash and cash equivalents, beginning of year	**75.3**	56.3
Cash and cash equivalents, end of year	**$ 54.9**	$ 75.3

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

BJC HealthCare (BJC or the System) is a regional healthcare delivery system operating in Missouri and southern Illinois. BJC is the sole corporate member of Barnes-Jewish Hospital (Barnes-Jewish), Christian Health Services Development Corporation (Christian), Missouri Baptist Medical Center (MBMC), St. Louis Children's Hospital (Children's), and Progress West Hospital (PWH) (collectively, the Institutions).

BJC is a Missouri not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and has received an Internal Revenue Service (IRS) determination letter stating that it is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. The Institutions are also Missouri not-for-profit corporations as described in Section 501(c)(3) of the Code, and each has received IRS determination letters stating that they are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

CH Allied Services, Inc. (CHAS), an affiliate of Christian, leases and operates Boone Hospital Center (BHC) in Columbia, Missouri. The owner and lessor of BHC is the Board of Trustees of Boone County Hospital (BHC Lessor). The financial position and results of operations of BHC are included in BJC's consolidated financial statements. The lease agreement (the Lease) extends to December 31, 2020, with continuing five-year terms thereafter unless the Lease is terminated. Either party has the option to terminate the Lease during the current term or any successive five-year term by giving notice two years prior to the end of the then-current term. If the Lease is terminated, certain assets recorded in BJC's consolidated financial statements will revert to the BHC Lessor, and BJC will record a charge equal to the amount of BHC's unrestricted net assets due to a change in control over the assets. In 2016, the BHC Lessor issued a request for proposal to several organizations, including BJC, for operation of BHC subsequent to December 31, 2020. The BHC Lessor is in the process of evaluating these proposals. At December 31, 2016, unrestricted net assets of BHC included in the consolidated financial statements totaled $156.5.

Consolidation

The accompanying consolidated financial statements include the accounts of BJC and its controlled subsidiary. All significant intercompany transactions and account balances have been eliminated in the consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original, short-term maturities of less than 90 days.

Investments and Investment Earnings

Investments include assets held by trustees under indenture, under the Lease, self-insurance agreements, foundation assets and unrestricted investments set aside by the Board of Directors (the Board) over which it retains control and may, at its discretion, subsequently use for other purposes. Investments in equity and debt securities are measured at fair value.

For purposes of recognizing investment earnings as a component of excess of revenues over expenses, all investments, except for alternative investments, are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the average cost method. Investment earnings related to temporarily and permanently restricted net assets are added to or deducted from the appropriate net asset balance based on donor intent.

Within established investment policy guidelines, BJC may enter into various exchange-traded and over-the-counter derivative contracts for economic hedging purposes, including futures, options, swaps, and forward contracts. BJC has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized in excess of revenues over expenses.

1. Organization and Summary of Significant Accounting Policies (continued)

BJC invests in alternative investments (primarily hedge funds, private equity investments and credit funds), generally through limited liability corporations (LLCs) and limited liability partnerships (LLPs), which are reported using the equity method of accounting based on information provided by the respective LLCs and LLPs.

The values provided by the respective organizations are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Management has utilized the best available information for reported values, which in some instances are valuations as of an interim date not more than 90 days before year-end. Generally, the net asset value of BJC's holdings reflects net contributions to the organization and an allocated share of realized and unrealized investment income and expenses. Returns from equity method investments, whether realized or unrealized, are included in investment earnings in excess of revenues over expenses.

Investment securities purchased and sold are reported based on trade date. Due to the difference between the trade date and the settlement date, BJC reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio and are presented on a net basis within investments in the consolidated balance sheets.

Securities Lending Program

BJC participates in securities-lending transactions with its investment custodian whereby a portion of its securities are loaned to selected, established brokerage firms in return for securities from the brokers as collateral for the securities loaned, usually on a short-term basis of up to 60 days. Collateral provided by the brokerage firms generally approximates 103% of the fair value of the securities on loan and is adjusted for daily market fluctuations. BJC earns a rebate on the loaned securities. Neither BJC nor its investment custodian has the ability to pledge or sell securities received as collateral unless a borrower defaults.

BJC also participates in a securities lending arrangement in the investment portfolio of its sponsored defined benefit pension plan as more fully described in Note 11.

1. Organization and Summary of Significant Accounting Policies (continued)

Interest Rate Swaps

BJC uses interest rate swap contracts in managing its capital structure. BJC recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. BJC does not account for any of its interest rate swap contracts as hedges, and accordingly, realized and unrealized gains and losses are reflected in excess of revenues over expenses in the accompanying consolidated statements of operations and changes in net assets. BJC also does not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for cash collateral posted.

Inventory

Inventories, which consist principally of medical supplies and pharmaceuticals, are stated at lower of cost or market. Cost is generally determined using average cost.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. BJC follows the American Hospital Association guidelines for assigning useful lives to property and equipment purchased. BJC capitalizes certain internally developed software costs in accordance with Financial Accounting Standards Board (FASB) ASC 350-44, *Internal-Use Software*. Interest cost incurred in connection with borrowings to finance major construction and facility expansion is capitalized during the construction period and subsequently amortized over the lives of the related assets.

BJC evaluates long-lived assets used in operations for impairment as events and changes in circumstances indicate that the carrying amount of such assets might not be recoverable. Assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of the cash flows of other groups of assets, which generally is at the hospital level.

Asset Impairment

BJC considers whether indicators of impairment are present and performs the necessary test to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified.

1. Organization and Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by BJC has been limited by donors for a specific time period or purpose, primarily for research and education, special programs, patient care, operations, and property and equipment. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity; the income from these funds is used primarily for special programs, operations, research and education, and patient care or added back to the corpus in accordance with donor restrictions.

Net Patient Service Revenue and Patient Accounts Receivable

Patient service revenue is reported net of contractual allowances and discounts at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments due to audits, reviews, investigations, and significant regulatory actions. Net patient service revenue is reported net of provision for bad debts. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

The provision for bad debts is based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in healthcare coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon its review of accounts receivable payor composition and aging, taking into consideration recent write-off experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to the provision for bad debts and to establish an appropriate allowance for uncollectible accounts receivable. For third-party payors, the provision is determined by analyzing contractually due amounts from payors who are known to be having financial difficulties. For self-pay patients, the provision is based on an analysis of past experience related to patients unwilling to pay standard rates charged. The difference between the standard rate charged (less the negotiated discounted rate) and the amount actually collected after reasonable collection efforts have been exhausted are charged off against the allowances for uncollectible accounts. BJC follows established guidelines for placing certain past-due patient balances with external collection agencies.

(Dollars in Millions)

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions, Bequests, and Pledges

Unrestricted contributions and bequests are reported in other nonoperating expense, net when pledged. Restricted contributions and bequests are reported as additions to the appropriate restricted net asset balance. Restricted pledges are recorded at fair value in the year notification is received as an addition to the appropriate restricted net asset balance. Management believes these are Level 2 fair value measurements (as defined in Note 10) recorded on a nonrecurring basis. Pledges receivable totaling $28.2 and $26.0 are included in other current assets and other noncurrent assets at December 31, 2016 and 2015, respectively. These pledges are recorded at their net present value based on the expected timing of pledge fulfillment using an average credit adjusted discount rate of 3.8% in 2016 and 3.7% in 2015, which approximates fair value at the date the pledge is received. Management believes total pledges will be received as follows:

	2016	2015
Within one year	**$ 6.3**	$ 5.7
One to five years	**8.5**	5.5
After five years	**24.7**	25.6
	39.5	36.8
Less present value factor	**(11.1)**	(10.6)
Less allowance for uncollectible pledges	**(0.2)**	(0.2)
	$ 28.2	$ 26.0

Performance Indicator

BJC's performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets other than contributions of property, pension and other postretirement liability adjustments, and the impacts of noncontrolling interest in a subsidiary.

1. Organization and Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Income

BJC's primary mission is to meet the healthcare needs in its service areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, physician services, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to BJC's primary mission are considered to be nonoperating. All unrestricted activities of BJC's wholly-controlled affiliated Foundations (the Foundations), including contribution and grant activity, are recorded in other nonoperating expense, net.

Income Taxes

The authoritative guidance in ASC 740, *Income Taxes*, creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. BJC has not recognized a liability for uncertain tax positions.

Functional Expenses

BJC's accounting policies conform to U.S. GAAP applicable to healthcare organizations. Substantially all expenses are related to providing healthcare services to the community.

New Accounting Standards Not Yet Adopted

In May 2014, the FASB and International Accounting Standards Board (IASB) issued *Revenue from Contracts with Customers*, which replaces all U.S. GAAP revenue requirements. BJC is currently evaluating the effects of the standard on its financial statements. The standard is effective for BJC beginning January 1, 2018, and interim periods within that year.

1. Organization and Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require lessees to put most leases on their balance sheets but recognize related expenses in their statements of operations and changes in net assets in a manner similar to existing accounting standards. This guidance also eliminates the current real estate specific provisions for all entities. The new standard is effective for BJC as of January 1, 2019. BJC is currently evaluating the effects of this standard on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU will change certain financial statement requirements for not-for-profit (NFP) entities in an effort to make the information more meaningful and make reporting less complex. NFP entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, meaning they will present two classes of net assets instead of three. The guidance also changes how NFP entities report certain expenses and provide information about their available resources and liquidity. In addition, NFP entities will be required to present expenses by their natural and functional classification and present investment returns net of external and direct investment expenses. The standard is effective for BJC in the year ended December 31, 2018. BJC is currently evaluating the effect of the standard on its financial statements.

New Accounting Standards Adopted

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40)*, that requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern. BJC adopted the guidance as of December 31, 2016, with no material impact to the financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. This ASU provides guidance on how to account for fees paid in cloud computing arrangements. Cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. The ASU provides guidance about whether a cloud computing arrangement includes a software license or not. If a cloud computing arrangement includes a software license, then the software license element of the

1. Organization and Summary of Significant Accounting Policies (continued)

arrangement is accounted for consistent with other software licenses. If a cloud computing arrangement does not include a software license, the arrangement is accounted for as a service contract. BJC adopted the guidance as of December 31, 2016, with no material impact to the financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).* The provisions of this ASU affect fair value measurement disclosures only. Investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient provisions of ASC 820*, Fair Value Measurement,* are no longer required to be included within the fair value hierarchy leveling tables. BJC early adopted this guidance as of December 31, 2015. It had no material impact on the consolidated financial statements.

Reclassifications

Certain balances in the 2015 consolidated balance sheet and footnote disclosures have been reclassified to conform to current year presentation. The effect of such reclassifications did not change total net assets, unrestricted net assets, operating income, or excess of revenues over expense.

2. Acquisitions

BJC accounts for business combinations in accordance with Accounting Standards Codification Topic (ASC) 958-805, *Not-for-Profit Entities: Business Combinations*, under which the purchase price of an acquired business is allocated to its identifiable assets and liabilities based on estimated fair values. The excess of the consideration paid over the amount allocated to the assets and liabilities, if any, is recorded to goodwill. For acquisitions in which no consideration is paid, the fair value of the net assets acquired, net of non-controlling interests, is recorded as an inherent contribution in nonoperating income. BJC typically engages third party valuation specialists to assist in the fair value determination of certain assets and liabilities. The preliminary purchase price allocation is adjusted, as necessary, typically up to one year after the acquisition closing date as additional information is obtained regarding the valuations of assets acquired and liabilities assumed.

2. Acquisitions (continued)

Affiliation Agreement with Memorial Group, Inc.

Effective January 1, 2016, BJC finalized an affiliation agreement with Memorial Group, Inc. (MGI) of Belleville, IL. Under the Agreement, both BJC and MGI became members of Memorial Regional Health Services (MRHS), a newly formed Illinois not-for-profit corporation. As of January 1, 2016, MRHS replaced MGI as the sole member of MGI's affiliated not-for-profit corporations, including Protestant Memorial Medical Center, Inc., Metro-East Services, Inc., Memorial Foundation, Inc., and various other affiliated entities. The purpose of this affiliation is to provide BJC and its affiliates with greater presence in the St Louis metro area Illinois market, and promote better care and access to patients in that market. Additionally, the affiliation will provide MGI with access to both capital and BJC's specialty medical services.

Although BJC and MGI each hold 50% of the membership interests, pursuant to the terms of the affiliation agreement, BJC effectively controls MRHS and consolidated the net assets, operations and cash flows of MRHS effective January 1, 2016. No cash or other consideration was transferred, with the exception of BJC's guarantee of MRHS's outstanding conduit borrowings. After five years and upon achievement of certain conditions as outlined in the Agreement, BJC may unilaterally exercise its rights to obtain sole corporate membership of MRHS. BJC committed to certain capital funding to MRHS for equipment and construction, as well as expansion and improvement to its facilities over a specified period.

For accounting purposes, this transaction is considered an acquisition and a contribution was recognized equal to the net assets acquired, net of MGI's non-controlling interest in net assets. No goodwill was recorded as a result of this transaction.

(Dollars in Millions)

2. Acquisitions (continued)

The acquisition-date fair value of identifiable assets and liabilities of MRHS at January 1, 2016, consisted of the following:

Fair value of identifiable net assets:		
Cash and cash equivalents	$	27.2
Accounts receivable		40.5
Other current assets		8.0
Investments		132.4
Property and equipment		226.7
Other noncurrent assets		3.7
Current liabilities		(51.3)
Long-term debt		(211.0)
Other long-term liabilities		(47.8)
Non-controlling interest in unrestricted net assets		(54.6)
Fair value of unrestricted net assets – controlling basis	$	73.8

The valuation of property and equipment, other current and long-term assets, and current and long-term liabilities has been completed in 2016. The fair value of working capital balances is generally equal to carrying value because of their short term nature. The fair value of property and equipment, long-term debt, and noncontrolling interest were determined by an independent third party valuation utilizing income-based, market-based, and cost-based valuation methods, which are generally Level 3 fair value measurements. The fair value of the long-term liabilities is primarily determined by an independent actuary and represents Level 3 fair value measurements.

(Dollars in Millions)

2. Acquisitions (continued)

Following are the operating results and changes in net assets attributable to MRHS since the date of acquisition included in the accompanying consolidated statement of operations and changes in net assets for the year ended December 31, 2016, excluding the contribution income recognized upon acquisition:

Total operating revenue	$	312.8
Operating loss		(48.1)
Deficit of revenue over expenses attributable to controlling interest		(20.1)
Deficit of revenue over expenses attributable to noncontrolling interest		(20.1)
Change in unrestricted net assets – controlling interest		(20.1)
Change in unrestricted net assets – noncontrolling interest		(20.1)
Change in temporarily restricted net assets		0.9

Operating expenses for the year end December 31, 2016, include costs related to the integration of MRHS into BJC, transition costs of benefit plans, information technology, and other operating programs, as well as costs of valuation and integrated consulting.

Following is the unaudited proforma operating results of BJC as if the MRHS affiliation had occurred January 1, 2015:

	Year Ended December 31	
	2016	**2015**
Total operating revenue	**$ 4,763.3**	$ 4,567.4
Operating income	**141.8**	192.2
Excess of revenues over expenses attributable to controlling interest	**313.2**	90.4
Excess of revenues over expenses attributable to noncontrolling interest	**(20.1)**	(3.2)
Change in unrestricted net assets – controlling interest	**306.3**	136.6
Change in unrestricted net assets – noncontrolling interest	**(20.1)**	(3.2)
Change in temporarily restricted net assets	**4.3**	–

2. Acquisitions (continued)

The proforma information provided should not be construed to be indicative of BJC's results of operations had the acquisition occurred on January 1, 2015, nor is it necessarily indicative of future operating results.

Mineral Area Regional Medical Center

In May 2015, BJC acquired the operations and net assets of Mineral Area Regional Medical Center (MARMC) for approximately $28.5 in cash. The transaction was accounted for as an acquisition in accordance with Accounting Standards Codification (ASC) Topic 958-805, *Business Combinations – Not-for-Profit Entities*. Based on a valuation of the business, the purchase price was allocated to working capital ($2.9), property, plant and equipment ($14.1), and goodwill ($11.5). This represents a Level 3 fair value measurement. The excess of the purchase price over fair value of net assets acquired was recorded as goodwill. The goodwill can be attributed to benefits that BJC expects to realize from operating efficiencies and increased revenues. The operations and cash flows of MARMC are included in the consolidated financial statements from the date of acquisition. Effective January 19, 2016, BJC closed the MARMC facility and transferred operations to a nearby BJC facility. BJC is in the process of disposing of the MARMC facilities.

(Dollars in Millions)

3. Net Patient Service Revenue and Uncompensated Care

BJC provides healthcare services through inpatient, outpatient, and ambulatory care facilities. Services provided to certain patients are covered by various governmental and third-party payment programs, including Medicare and Medicaid, at contractual rates generally below BJC's established rates. Revenue from Medicare and Medicaid programs accounted for approximately 44% and 43% of BJC's patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2016 and 2015, respectively. The composition of patient service revenue (net of contractual allowances and discounts) by third-party payor is as follows:

	2016	2015
Medicare	**$ 1,474.8**	$ 1,258.7
Medicaid	**612.0**	569.8
Managed Care	**2,350.1**	2,095.8
Self-pay	**136.9**	170.2
Other	**193.1**	151.6
	$ 4,766.9	$ 4,246.1

BJC grants credit to patients and generally does not require collateral or other security in extending credit to patients. However, BJC routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, managed care payors, and commercial insurance policies). As of December 31, 2016 and 2015, 34% and 32%, respectively, of patient accounts receivable, net, were collectible from governmental payors. The remaining 66% and 68% of patient accounts receivable, net, in 2016 and 2015, respectively, were collectible primarily from managed care and commercial insurance payors.

As of December 31, 2016 and 2015, BJC expects to collect approximately 14% and 19%, respectively, of all amounts due from self-pay patients (including patients without insurance and patients with deductibles and copayment balances due for which third-party coverage exists for part of the bill). In 2016, BJC's provision for bad debts increased $24.9 mainly due to an increase in the uninsured and underinsured population and to the acquisition of MRHS in 2016. BJC's allowance for uncollectible accounts increased from $87.0 as of December 31, 2015 to $96.2 as of December 31, 2016, primarily due to the acquisition of MRHS in 2016.

3. Net Patient Service Revenue and Uncompensated Care (continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make BJC subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs. The 2016 and 2015 net patient service revenue increased by $5.6 and $14.2, respectively, due to changes in estimated payment related to third-party payors and certain historical cost report periods, excluding the Recovery Audit program. Operating income for 2016 and 2015 increased by $5.0 and $8.6, respectively, as a result of these changes in estimated payment.

Under Section 302 of the Tax Relief and Health Care Act of 2006, Congress required the Secretary of the Department of Health and Human Services to institute a permanent and national Recovery Audit program to recoup overpayments associated with services for which payment is made under part A or B of title XVIII of the Social Security Act. Under the Recovery Audit program, BJC, like other healthcare providers, experiences withholding of payments from the Medicare program for a variety of circumstances that result in uncertainty in the estimated realization of both current receivables and previously collected amounts. Accordingly, BJC estimates the impact, on a net basis, of amounts that may be withheld or recouped under the Recovery Audit program and amounts previously withheld or recouped inappropriately that are due to BJC. The 2016 and 2015 net patient service revenue increased by $6.3 and $7.8, respectively, due to changes in estimated recoveries under the Recovery Audit program. Operating income for 2016 and 2015 increased by $3.9 and $5.7, respectively, due to changes in estimated recoveries under the Recovery Audit program. In 2016, CMS made available to hospitals an administrative settlement process in which hospitals willing to withdraw their pending eligible appeals could receive timely partial payment (at 66% of the net allowable amount) for certain claims denied based on patient status with a date of service prior to October 1, 2013. The settlement is intended to alleviate the administrative burden for all parties involved. BJC elected to accept this settlement and is following the administrative process established by CMS. BJC recorded a receivable of $22.2 as the estimated settlement, which is expected to be received in 2017.

3. Net Patient Service Revenue and Uncompensated Care (continued)

Uncompensated Care

In support of its mission, BJC provides charity care to patients who lack financial resources and are deemed to be medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. Charity care also includes services for which the patient may not participate in the charity care process, but are otherwise deemed to meet the System's financial assistance policy. Because BJC does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue. In addition, BJC provides services to other medically indigent patients under various state Medicaid programs, which pay providers amounts that are less than the costs incurred for the services provided to the recipients.

The estimated cost of charity care was $130.6 and $133.4 in 2016 and 2015, respectively. Costs are estimated using the ratio of BJC's costs to its charges and applying to gross charity charges. These ratios are then used to determine the cost of each account that qualifies for charity care.

4. Affiliation Agreement with Washington University

BJC has an affiliation agreement with Washington University (the University) that expires on December 31, 2023, but which may be canceled upon one-year written notice by either party. Under the terms of the affiliation agreement, the University trains and supervises medical residents and manages certain clinical and research activities of BJC. The annual expense for these services provided by the University under the affiliation agreement is based on a fixed payment ($7.8 in 2016 and 2015) plus a payment based on the combined net operating income of Barnes-Jewish, Barnes-Jewish West County Hospital (one of Barnes-Jewish's wholly-controlled affiliates), and Children's. Amounts expensed as supplies and other and other nonoperating expense, net in the consolidated statements of operations and changes in net assets for these services under the affiliation agreement totaled $109.5 and $105.2 in 2016 and 2015, respectively. Payments to the University under the affiliation agreement are made on a semiannual basis.

(Dollars in Millions)

4. Affiliation Agreement with Washington University (continued)

In addition to the affiliation agreement, BJC has supplemental agreements with the University whereby BJC pays the University for certain purchased services and leased facilities and equipment. These supplemental agreements have varying terms with fixed and variable payment arrangements. Amounts expensed as supplies and other for these services totaled $163.9 and $151.4 in 2016 and 2015, respectively.

In addition, BJC received $21.5 and $17.3 from the University in 2016 and 2015, respectively, for certain purchased services and leased facilities and equipment.

Through the Foundations, BJC provides support to the University through various grants. These expenses are included in other nonoperating expense, net and net assets released from restrictions and total $84.1 and $88.2 in 2016 and 2015, respectively. Grants payable are included in other current and other noncurrent liabilities totaling $234.4 and $189.3 at December 31, 2016 and 2015, respectively. Management believes total grants payable will be paid as follows:

	2016	**2015**
Within one year	**$ 154.3**	$ 102.8
One to five years	**70.2**	81.8
After five years	**9.9**	4.7
	$ 234.4	$ 189.3

As of December 31, 2016, BJC has unrecorded, conditional commitments to the University to fund two medical research and education initiatives in amounts up to $160.0, to be paid over the next eight to 10 years, if certain criteria are met.

(Dollars in Millions)

5. Investments

The following is a summary of investments included in the consolidated balance sheets:

	2016	2015
Unrestricted investments	**$ 3,833.7**	$ 3,839.7
Securities on loan	**62.1**	91.3
Held at Foundations	**1,047.5**	936.5
Assets limited as to use:		
Under self-insurance arrangements	**60.5**	68.7
Under the Lease	**52.5**	58.4
Under indenture agreements	**15.5**	106.5
Under captive insurance agreement	**26.2**	–
	5,098.0	5,101.1
Less amounts included in other current assets	**(17.5)**	(14.6)
	$ 5,080.5	$ 5,086.5

(Dollars in Millions)

5. Investments (continued)

The following is a summary of the composition of investments as of December 31:

	2016	2015
Cash and short-term investments	**$ 46.2**	$ 41.7
Income securities:		
U.S. government and agency obligations	**614.7**	546.4
Corporate debt securities	**994.1**	843.3
Asset-backed and securitized bonds and notes	**465.3**	406.8
Equity securities	**419.4**	520.8
Alternative investments:		
Hedge funds	**609.0**	899.2
Private equity and credit funds	**1,242.2**	970.7
Other investments:		
Fixed income – commingled funds	**176.6**	176.2
Equity – commingled funds	**468.0**	532.7
Common/collective trusts	**90.4**	96.8
Other	**6.5**	3.3
Accrued interest and dividends receivable	**12.2**	13.8
	5,144.6	5,051.7
Less amounts included in other current assets	**(17.5)**	(14.6)
	5,127.1	5,037.1
Amounts due to brokers	**(68.9)**	(29.2)
Amounts due from brokers	**22.3**	78.6
	$ 5,080.5	$ 5,086.5

BJC's investments are exposed to various kinds and levels of risk. Income securities expose BJC to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed-income securities with fixed interest rates is affected. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

5. Investments (continued)

Equity securities expose BJC to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both domestic and international. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international and small domestic capitalization equity companies.

Alternative investments have similar risks as income and equity securities although there may be additional risks. These securities consist principally of non-controlling interests in limited liability partnerships (LLP) and limited liability corporations (LLC). Because these funds are invested through LLCs and LLPs, the underlying net asset value of the investments is based on valuations provided by the managers. Nearly all of the hedge fund manager valuations are independently priced or verified by third-party administrators. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to two years from December 31, 2016, which may reduce liquidity. Private equity and credit investments have contractual commitments to provide capital contributions during the investment period, up to seven years from initial investment date, and restrictions on the timing of withdrawals, up to 11 years from initial investment date, which may reduce liquidity. BJC has unfunded commitments of $1,148.7 to private equity and credit funds as of December 31, 2016. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments.

BJC holds options, swaps, currency forwards, and fixed income futures derivatives as part of its investment strategy. This economic hedging is based on investment portfolio exposure to long-only equities, foreign exchange, and fixed income. No leverage is utilized for this hedging activity. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties, as well as collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

These contracts contain collateral provisions applicable to both parties that mitigate credit risk above a specified mark-to-market posting threshold that is based on a fixed dollar amount. Pursuant to the collateral posting requirements under the contracts at December 31, 2016 and 2015, counterparties posted $2.1 and BJC posted $1.2, respectively.

(Dollars in Millions)

5. Investments (continued)

At December 31, 2016 and 2015, the notional value of derivatives was approximately $413.0 and $521.9, respectively. The fair value of derivatives in an asset position, included in investments in the consolidated balance sheet, was $2.6 and $3.3 at December 31, 2016 and 2015, respectively, while the fair value of derivatives in a liability position, included in other noncurrent liabilities in the consolidated balance sheet, was $1.2 and $2.4 at December 31, 2016 and 2015, respectively. BJC recognized a gain of $21.2 and a loss of $19.6 in 2016 and 2015, respectively, which are recorded in investment earnings within the consolidated statements of operations and changes in net assets.

At December 31, 2016 and 2015, investments include the fair value of securities on loan of $62.1 and $91.3, respectively. Posted collateral for these securities on loan at December 31, 2016 and 2015 totaled $63.5 and $93.3, respectively.

Investment earnings for the years ended December 31 is summarized as follows:

	2016	2015
Interest and dividends	**$ 87.6**	$ 91.7
Net realized gains (losses)	**(4.8)**	126.8
Net unrealized gains (losses)	**148.3**	(225.9)
Total investment earnings	**$ 231.1**	$ (7.4)
Included in investment earnings	**$ 214.6**	$ (3.7)
Included in temporarily and permanently restricted net assets	**16.5**	(3.7)
Total investment earnings	**$ 231.1**	$ (7.4)

(Dollars in Millions)

6. Property and Equipment

A summary of property and equipment, net, as of December 31 is as follows:

	2016	2015
Land and land improvements	**$ 205.9**	$ 166.8
Building and improvements	**2,095.7**	1,952.0
Equipment	**3,434.6**	3,152.1
	5,736.2	5,270.9
Less accumulated depreciation	**(3,617.3)**	(3,490.7)
	2,118.9	1,780.2
Construction-in-progress	**811.5**	445.6
	$ 2,930.4	$ 2,225.8

At December 31, 2016, BJC had outstanding contracts totaling $1,198.9 for all construction-related activities, including architecture and engineering services. The estimated remaining cost to complete these contracts totals $241.2 as of December 31, 2016. Net interest capitalized in 2016 and 2015 totaled $15.0 and $5.6, respectively.

7. Other Current Assets and Liabilities

Other current assets consist of the following as of December 31:

	2016	2015
Inventory	**$ 100.9**	$ 94.6
Due from third-party payors	**68.7**	49.5
Prepaid expenses	**42.5**	40.7
Current portion of self-insurance trust	**17.5**	14.6
	$ 229.6	$ 199.4

(Dollars in Millions)

7. Other Current Assets and Liabilities (continued)

Other current liabilities consist of the following as of December 31:

	2016	2015
Accounts payable	**$ 126.5**	$ 108.0
Accrued payroll and related liabilities	**246.3**	210.0
Accrued expenses and other	**190.5**	124.5
Due to third-party payors	**33.4**	14.4
Due to Washington University	**299.5**	234.1
Self-insurance liabilities	**25.5**	14.6
	$ 921.7	$ 705.6

(Dollars in Millions)

8. Long-term Debt

Long-term debt consists of the following at December 31:

	2016	2015
Series 2011A-B, 2012A-E, 2013B, and 2016A-B, variable rate term bonds, privately placed, puttable starting in 2023 at which time bonds can be remarketed or redeemed, interest (rates from 0.92% to 1.42% at December 31, 2016) set at prevailing market rates, due through 2051	**$ 666.0**	$ 571.0
Series 2005B and Series 2008A-E variable rate demand bonds subject to self-liquidity, interest (rates from 0.68% to 0.71% at December 31, 2016) set at prevailing rates, due through 2038	**434.7**	438.1
Series 2013C variable rate demand bonds subject to self-liquidity and a put provision that provides for a seven-month notice and remarketing period, interest (0.21% at December 31, 2015) set at prevailing market rates, due through 2050	–	100.0
Series 2013 Memorial Group, Inc. fixed rate debt, interest rates from 5.25% to 7.63%, due through 2048	**161.6**	–
Series 2005A, Series 2013A, Series 2013C, Series 2014, and Series 2015A fixed rate debt, interest rates from 3.23% to 5.00%, due through 2045	**544.1**	450.0
Other	**14.6**	14.6
	1,821.0	1,573.7
Less current maturities of long-term debt	**(21.0)**	(15.4)
Less long-term debt subject to self-liquidity arrangements	**(431.2)**	(534.7)
	$ 1,368.8	$ 1,023.6

BJC maintains an Obligated Group structure under its Master Indenture agreement (the Master Indenture), dated as of April 4, 2006. The Obligated Group members are jointly and severally liable for all notes issued under the Master Indenture and represent those organizations that own or operate the principal healthcare facilities of BJC, excluding MRHS.

8. Long-term Debt (continued)

The Master Indenture permits BJC to issue Master Notes thereunder to evidence or secure additional indebtedness on behalf of the Obligated Group. The Obligated Group members are responsible for making all payments required with respect to obligations under the Master Indenture. The aggregate par amount of obligations outstanding under the Master Indenture (other than obligations that have been legally defeased and that are not considered to be outstanding) totaled $1,806.4 and $1,559.1 at December 31, 2016 and 2015, respectively. The Master Indenture imposes various covenants and conditions on BJC, including covenants related to debt service coverage, additional indebtedness, permitted liens, and the use and maintenance of facilities. Management believes BJC is in compliance with these covenants and conditions as of December 31, 2016.

At December 31, 2016 and 2015, BJC had $434.7 and $538.1, respectively, of variable rate demand bonds that are supported by self-liquidity. The variable rate demand bonds, while subject to long-term amortization periods, may be tendered to BJC at the option of bondholders subject to certain notice period requirements. If the variable rate demand bonds subject to self-liquidity are not remarketed upon the exercise of put options, management would utilize internal or external sources to provide the necessary liquidity. Such bonds, less current maturities, are included as long-term debt subject to self-liquidity in current liabilities in the consolidated balance sheets.

In May 2015, $150.0 of tax-exempt Series 2015A fixed rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. These bonds mature in 2045.

In May 2015, BJC exercised its right to call $84.5 of tax-exempt Series 2005A bonds for early redemption. A gain of $0.8 million was realized on the extinguishment of debt.

As part of BJC's strategic affiliation with MGI, BJC has provided a guaranty of the payment obligations relating to the outstanding Series 2013 Memorial Group, Inc. bonds. As part of this guaranty, the bonds assume the covenants and conditions of the BJC Master Indenture. At December 31, 2016, the Series 2013 Memorial Group, Inc. bonds had $161.6 outstanding. These bonds mature in 2048.

(Dollars in Millions)

8. Long-term Debt (continued)

In September 2016, $75.0 of tax-exempt Series 2016A variable rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. In December 2016, $32.0 of tax-exempt Series 2016B variable rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. The Series 2016A and Series 2016B bonds mature in 2051. In 2016, the System incurred $0.2 in costs related to new issuances, which will be amortized over the life of the bonds.

In June 2016, BJC converted Series 2013C bonds from windows mode to long-term fixed rate mode, thereby reducing the amount of variable rate demand bonds subject to self-liquidity. The System incurred $0.5 in costs related to the conversion, which will be amortized over the life of the bonds.

At December 31, 2016, BJC has a general operating line of credit of $300.0. This facility has a five-year term expiring August 2020. In addition, BJC has a $100.0 hybrid dedicated bank line of credit also expiring in August 2020. The hybrid facility has the dual function of supporting general operating requirements and tenders associated with the variable rate demand bonds. No amounts are outstanding under the lines of credit at December 31, 2016 or 2015.

Scheduled principal payments on long-term debt, including obligations subject to short-term remarketing as due according to their long-term amortization schedule are as follows:

	Scheduled
Year ending December 31:	
2017	$ 21.0
2018	19.3
2019	16.6
2020	15.4
2021	15.9

The amount of interest paid, net of interest capitalized, totaled $28.2 and $17.9 in 2016 and 2015, respectively.

(Dollars in Millions)

9. Interest Rate Swaps

BJC uses interest rate swap contracts to manage interest rate risk associated with its variable rate debt obligations. BJC is a party to multiple interest rate swap contracts that effectively convert various variable rate bonds to fixed rates. Interest rate swap contracts between BJC and third parties (counterparties) provide for the periodic exchange of payments between the parties based on changes in a defined index, typically 68% of the one-month or three-month LIBOR rate, and a fixed rate. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties and, in certain cases, collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings.

Certain interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk above a specified mark-to-market posting threshold that is based on either a fixed dollar amount or on each counterparty's credit rating.

Pursuant to the collateral posting requirements under the swap contracts, at December 31, 2016 and 2015, BJC posted $35.4 and $41.2, respectively, as collateral, which is reported as other noncurrent assets in the consolidated balance sheets. BJC does not anticipate nonperformance by its counterparties.

At December 31, 2016 and 2015, the notional amount of BJC's outstanding interest rate swap contracts is $795.6 and $812.7, respectively.

The fair value of BJC's outstanding interest rate swaps at December 31 is as follows:

Derivatives Not Designated as Hedging Instruments	**Balance Sheet Location**	**2016**	**2015**
Interest rate swap contracts	Other noncurrent liabilities	**$ (97.7)**	$ (108.8)

9. Interest Rate Swaps (continued)

The effects of BJC's interest rate swaps in the consolidated statements of operations and changes in net assets for the years ended December 31 are as follows:

Derivatives Not Designated as Hedging Instruments	**Location of (Loss) Gain on Derivatives Recognized in Excess of Revenues Over Expenses**	**Amount of (Loss) Gain on Derivatives Recognized in Excess of Revenues Over Expenses 2016**	**2015**
Interest rate swap contracts	Unrealized gain (loss) on interest rate swap contracts	**$ 11.1**	$ (4.8)
Interest rate swap contracts	Interest	**(13.1)**	(17.9)

10. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

10. Fair Value Measurements (continued)

Certain of BJC's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments, such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts and derivatives.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, BJC generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

(Dollars in Millions)

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2016:

		Fair Value Measurements Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments:				
Cash and short-term investments	$ 46.2	$ 46.2	$ –	$ –
Income securities:				
U.S. government and agency obligations	614.7	–	614.7	–
Corporate debt securities	994.1	–	994.1	–
Asset-backed and securitized bonds and notes	465.3	–	341.1	124.2
Equity securities	419.4	419.4	–	–
Other	6.5	–	6.5	–
Subtotal		465.6	1,956.4	124.2
Assets not at fair value:				
Hedge funds	609.0			
Private equity and credit funds	1,242.2			
Assets (fair value determined using NAV practical expedient):				
Fixed income – commingled funds	176.6			
Equity – commingled funds	468.0			
Common/collective trusts	90.4			
Accrued interest and dividends receivable	12.2			
Total investments	$ 5,144.6			
Deferred compensation agreements	$ 39.8	$ 39.8	$ –	$ –
Liabilities				
Derivatives in a liability position	$ 1.2	$ –	$ 1.2	$ –
Liability under interest rate swap contracts	97.7	–	97.7	–
	$ 98.9	$ –	$ 98.9	$ –

(Dollars in Millions)

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2015:

		Fair Value Measurements Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Investments:				
Cash and short-term investments	$ 41.7	$ 41.7	$ –	$ –
Income securities:				
U.S. government and agency obligations	546.4	–	546.4	–
Corporate debt securities	843.3	–	843.3	–
Asset-backed and securitized bonds and notes	406.8	–	394.0	12.8
Equity securities	520.8	520.8	–	–
Other	3.3	–	3.3	–
Subtotal		$ 562.5	$ 1,787.0	$ 12.8
Assets not at fair value:				
Hedge funds	899.2			
Private equity and credit funds	970.7			
Assets (fair value determined using NAV practical expedient):				
Fixed income – commingled funds	176.2			
Equity – commingled funds	532.7			
Common/collective trusts	96.8			
Accrued interest and dividends receivable	13.8			
Total investments	$ 5,051.7			
Deferred compensation agreements	$ 29.6	$ 29.6	$ –	$ –
Liabilities				
Derivatives in a liability position	$ 2.4	$ –	$ 2.4	$ –
Liability under interest rate swap contracts	108.8	–	108.8	–
	$ 111.2	$ –	$ 111.2	$ –

(Dollars in Millions)

10. Fair Value Measurements (continued)

The following table is a roll forward of assets classified in Level 3 of the valuation hierarchy defined above:

	Asset-Backed and Securitized Bonds and Notes
Fair value at January 1, 2015	$ 10.0
Purchases	16.1
Settlements	(8.2)
Investment earnings	–
Transfers in and/or out of Level 3	(5.1)
Fair value at December 31, 2015	12.8
Purchases	**113.8**
Settlements	**(15.7)**
Investment earnings	**1.0**
Transfers in and/or out of Level 3	**12.3**
Fair value at December 31, 2016	**$ 124.2**

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities (primarily income securities) were determined through evaluated bid prices based on recent trading activity, and other relevant information, including market interest rate curves and referenced credit spreads, or estimated prepayment rates provided by third-party pricing services where quoted market values are not available. Any securities with fewer than two received broker quotes are categorized as Level 3 assets. With regards to the equity options, currency forwards, and fixed income futures derivatives, which are included in other Level 2 securities, observable market data is used to build an implied volatility figure which is input into a Black-Scholes model to determine fair value. The fair values for interest rate swap contracts were derived through observable market data obtained from a pricing vendor.

10. Fair Value Measurements (continued)

The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the LIBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The BJC credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains (losses) in the near term subsequent to December 31, 2016.

Level 3 assets of $124.2 include certain asset-backed and securitized notes and bonds. These underlying securities trade less frequently than other fixed income instruments, which generate potential liquidity risk. In the event pricing cannot be obtained through quoted prices in active markets, these securities are priced using an option-adjusted discounted cash flow model.

BJC transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. BJC transferred $12.3 of securitized notes and bonds from Level 2 to Level 3 in 2016 as fewer observable market inputs were obtained. BJC transferred $5.1 of securitized notes and bonds from Level 3 to Level 2 in 2015 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC recognizes transfers as of the end of the reporting period. There were no transfers between Level 1 and Level 2 in 2016 or 2015.

The carrying value of cash and cash equivalents, accounts receivable, and other current assets and liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The value of pledges receivable is estimated by management to approximate fair value as of the date the pledge is received. The fair value of BJC's fixed rate bonds is based on quoted market prices for the same or similar issues and approximates $764.0 and $473.8 as of December 31, 2016 and 2015, respectively, and represents a Level 2 measurement. The fair value of BJC's variable rate bonds approximates the carrying amount of $1,100.7 and $1,109.1 as of December 31, 2016 and 2015, respectively, and excludes the impact of third-party credit enhancements.

11. Postretirement Benefits

BJC sponsors the BJC Defined Contribution Plan, a 401(k) defined contribution plan that covers substantially all employees, excluding MRHS. Employer contributions to this plan are based on a percentage of participating employees' contributions to a related 403(b) plan. BJC contributed \$24.0 and \$20.5 to this plan during 2016 and 2015, respectively, which is included in salaries and benefits in the consolidated statements of operations and changes in net assets. MRHS sponsors a defined contribution money-purchase plan and contributed \$3.1 to this plan during 2016.

BJC sponsors a defined-benefit pension plan (the Plan) covering substantially all full-time employees who have met certain age requirements and have completed one year of service. Benefits are based on years of service and employee earnings. BJC's minimum funding policy is to contribute annually amounts actuarially determined to fund the benefits of the plans. In 2016 and 2015, BJC had no minimum required pension contributions. During 2016, BJC offered a one-time lump sum buyout of future benefit payments to terminated vested plan participants under age 65. As a result of this offer, \$110.3 was paid to approximately 2,800 participants in December 2016.

(Dollars in Millions)

11. Postretirement Benefits (continued)

The following table sets forth the funded status of the Plan and accrued pension cost as of December 31 as actuarially determined:

	2016	2015
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 2,358.7**	$ 2,353.4
Service cost	**99.0**	109.6
Interest cost	**98.5**	102.5
Actuarial loss (gain)	**21.6**	(154.1)
Benefits paid	**(167.7)**	(52.7)
Projected benefit obligation at end of year	**2,410.1**	2,358.7
Change in plan assets		
Fair value of plan assets at beginning of year	**1,790.4**	1,742.8
Actual earnings (loss) on plan assets	**125.1**	(25.0)
Employer contributions	**198.6**	125.3
Benefits paid	**(167.7)**	(52.7)
Fair value of plan assets at end of year	**1,946.4**	1,790.4
Unfunded status	**$ (463.7)**	$ (568.3)
Accumulated benefit obligation at end of year	**$ 2,159.7**	$ 2,091.3
Unfunded status (based on accumulated benefit obligation)	**$ (213.3)**	$ (300.9)

The unfunded status is included in pension/postretirement liabilities in the consolidated balance sheets. BJC has other postretirement plans with unfunded benefit obligations of $4.2 and $4.2 at December 31, 2016 and 2015, respectively.

(Dollars in Millions)

11. Postretirement Benefits (continued)

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	2016	2015
Unrecognized actuarial losses	**$ 690.1**	$ 680.9
Unrecognized prior service cost	**0.2**	0.3
	$ 690.3	$ 681.2

Changes in plan assets and benefit obligations recognized in unrestricted net assets for the year ended December 31 are as follows:

	2016	2015
Unrecognized actuarial losses	**$ 40.8**	$ 8.5
Amortization of actuarial losses	**(31.6)**	(50.8)
Amortization of prior service cost	**(0.1)**	–
	$ 9.1	$ (42.3)

The pension and other postretirement liability adjustment of $9.1 for the year ended December 31, 2016, on the consolidated statements of operations and changes in net assets includes ($0.1) related to the other postretirement plans.

The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2017, total $0.1 and $31.6, respectively. The impact of the change in discount rate on the projected benefit obligation of the Plan was an increase of approximately $78.4 at December 31, 2016.

(Dollars in Millions)

11. Postretirement Benefits (continued)

No plan assets are expected to be returned to BJC during the year ending December 31, 2017.

	2016	2015
Weighted-average assumptions used to determine benefit obligations for the year ended December 31		
Discount rate	**4.57%**	4.78%
Rate of increase in compensation levels	**3.38**	3.50
Weighted-average assumptions used to determine expense for the year ended December 31		
Discount rate for benefit obligations	**4.78%**	4.40%
Discount rate for interest cost	**4.25**	4.40
Discount rate for service cost	**4.92**	4.40
Discount rate for interest on service cost	**4.70**	4.40
Rate of compensation increases	**3.50**	3.50
Expected long-term rate of return	**7.50**	7.75

As of December 31, 2015, BJC refined how it estimates the interest and service cost components of net periodic benefit costs to a spot discount rate approach for its defined benefit pension plan. Historically, BJC estimated the service and interest cost components using a single weighted-average discount rate derived from a yield curve used to measure the benefit obligation at the beginning of the period. Under the spot discount rate approach, service and interest cost is estimated by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. BJC made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. This change did not impact the projected benefit obligation or the net periodic benefit costs as of and for the year ended December 31, 2015. BJC accounted for this change as a change in accounting estimate and, accordingly, accounted for it prospectively starting with the year ended December 31, 2016. This change reduced the net periodic benefit costs for the year ended December 31, 2016 by approximately $15.2.

(Dollars in Millions)

11. Postretirement Benefits (continued)

BJC determines the long-term rate of return for plan assets in consultation with its external investment advisor. BJC reviews historical market performance by investment asset class along with current economic outlooks for asset class performance in order to estimate its long-term rate of return assumption. Peer data and historical returns are reviewed to check for reasonableness of BJC's long-term rate of return assumption.

	2016	2015
Components of net periodic benefit cost:		
Service cost	**$ 99.0**	$ 109.6
Interest cost	**98.5**	102.5
Expected earnings on plan assets	**(144.3)**	(137.7)
Amortization of prior service cost	**0.1**	–
Recognized net actuarial loss	**31.6**	50.8
Net periodic benefit cost	**$ 84.9**	$ 125.2

BJC's goal is to maintain parity between the duration of assets and liabilities to meet the anticipated growth of plan liabilities. The plan's assets are invested in a portfolio designed to preserve principal and obtain competitive investment earnings and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating funds to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Plan assets may also be loaned to established brokerage firms in return for securities collateral. At December 31, 2016 and 2015, plan assets on loan included in the fair value of plan assets totaled \$14.0 and \$8.8, respectively. Posted collateral for these securities on loan at December 31, 2016 and 2015 totaled \$14.4 and \$9.2, respectively.

(Dollars in Millions)

11. Postretirement Benefits (continued)

BJC's defined benefit pension plan asset allocation by asset category is as follows:

Asset Category	Target Asset Allocation	Plan Assets at December 31 2016	2015
Cash	–%	**0.2%**	0.2%
Growth	50.0	**39.1**	49.6
Income	25.0	**29.5**	23.5
Illiquid	25.0	**31.2**	26.7
Total	100.0%	**100.0%**	100.0%

The growth asset category consists of public equities and hedge funds. The income category includes fixed income funds and securities. Lastly, the illiquid asset category includes limited partnership investments in private equity funds, private credit funds and illiquid real asset funds.

(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2016:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and short-term investments	$ 37.8	$ 37.8	$ –	$ –
Income securities:				
U.S. government and agency obligations	78.2	–	78.2	–
Corporate debt securities	312.1	–	312.1	–
Asset-backed and securitized bonds and notes	173.9	–	130.0	43.9
Equity securities	274.4	274.4	–	–
Other	1.9	–	1.9	–
Subtotal		$ 312.2	$ 522.2	$ 43.9
Assets (fair value determined using NAV practical expedient):				
Hedge funds	194.5			
Private equity and credit funds	631.5			
Equity – commingled funds	223.2			
Common/collective trusts	24.4			
Accrued interest and dividends receivable	4.4			
Amounts due (to) from brokers, net	(9.6)			
	$ 1,946.7			
Liabilities				
Derivatives in a liability position	$ 0.3	$ –	$ 0.3	$ –
Fair value of Plan Assets	$ 1,946.4	$ 312.2	$ 521.9	$ 43.9

(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2015:

		Fair Value Measurements Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash and short-term investments	$ 38.6	$ 38.6	$ –	$ –
Income securities:				
U.S. government and agency obligations	47.1	–	47.1	–
Corporate debt securities	321.8	–	321.8	–
Asset-backed and securitized bonds and notes	71.3	–	71.3	–
Equity securities	319.1	319.1	–	–
Subtotal		$ 357.7	$ 440.2	$ –
Assets (fair value determined using NAV practical expedient):				
Hedge funds	260.2			
Private equity and credit funds	467.9			
Equity – commingled funds	252.1			
Common/collective trusts	11.4			
Accrued interest and dividends receivable	4.5			
Amounts due (to) from brokers, net	(2.3)			
	$ 1,791.7			
Liabilities				
Derivatives in a liability position	$ 1.3	$ –	$ 1.3	$ –
Fair value of Plan Assets	$ 1,790.4	$ 357.7	$ 438.9	$ –

(Dollars in Millions)

11. Postretirement Benefits (continued)

The following table is a roll forward of the pension plan assets classified in Level 3 of the valuation hierarchy defined above:

	Asset-Backed and Securitized Bonds and Notes
Fair value at January 1 , 2015	$ 9.9
Purchases, sales and settlements, net	(6.7)
Actual earnings on plan assets	0.1
Transfers in and/or out of Level 3	(3.3)
Fair value at December 31, 2015	–
Purchases, sales and settlements, net	**38.9**
Actual earnings on plan assets	**1.1**
Transfers in and/or out of Level 3	**3.9**
Fair value at December 31, 2016	**$ 43.9**

Fair value methodologies for Level 1 and Level 2 assets are consistent with the inputs described in Note 10. BJC transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable. BJC transferred $3.9 of securitized notes and bonds from Level 2 to Level 3 in 2016 as fewer observable market inputs were obtained. BJC transferred $3.3 of securitized notes and bonds from Level 3 to Level 2 and 2015 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC recognizes transfers as of the end of the reporting period.

Private equity and credit investments have contractual commitments to provide capital contributions during the investment period, up to seven years from initial investment date, and restrictions on the timing of withdrawals, up to 11 years from initial investment date, which may reduce liquidity. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to two years from December 31, 2016, which may reduce liquidity. These investments represent the Plan's ownership interest in the net asset value (NAV) of the respective partnership.

(Dollars in Millions)

11. Postretirement Benefits (continued)

Management opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plan's interest in hedge funds, private equity and credit funds and commingled funds. Valuations provided by the respective fund's management consider variables, such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. At December 31, 2016, the Plan has unfunded commitments of $688.4 to private equity and credit funds. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments from the Plan's assets.

A summary of expected cash flows for contributions and amounts to be paid to the Plan's participants and beneficiaries is as follows:

Expected employer contribution in 2017	$	67.3
Expected benefit payments:		
2017		70.6
2018		78.4
2019		86.9
2020		95.5
2021		104.4
2022–2026		658.7

12. Professional and General Liability Insurance

BJC self-insures for professional and general liability claims to the extent of certain self-insured limits. Substantially all BJC services are covered under the BJC self-insurance program. Effective November 15, 2006, self-insured retentions were between $3.0 (for all hospitals except Barnes-Jewish, St. Louis Children's, and MRHS) and $8.0 (for Barnes-Jewish and Children's) per occurrence with no aggregate. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of self-insured limits. Effective August 1, 2010, MRHS purchased various insurance policies to provide $15.0 excess coverage above its $5.0 self-insured limits.

(Dollars in Millions)

12. Professional and General Liability Insurance (continued)

The estimated cost of claims is actuarially determined based upon past experience, and is discounted using a discount rate of 2.75% in 2016 and 3.25% in 2015. The reserve includes provisions for asserted and unasserted claims and incidents that have occurred but have not been reported. BJC has a revocable self-insurance trusts totaling $60.5 and $68.7 as of December 31, 2016 and 2015, respectively, which is used for the payment of professional and general liability claim settlements and expenses. During 2016 and 2015, $34.9 and $30.0, respectively, of professional and general liability expenses were included in supplies and other in the consolidated statements of operations and changes in net assets. In addition, at December 31, 2016 and 2015, BJC recorded net insurance receivables of $10.2 and $11.3, respectively, included in other noncurrent assets in the consolidated balance sheets.

13. Operating Leases

Lease expense for the years ended December 31, 2016 and 2015, totaled $72.6 and $70.0, respectively.

Future minimum lease payments under noncancelable operating leases with terms of one year or more are as follows:

Year ending December 31:	
2017	**$ 59.0**
2018	**55.6**
2019	**52.6**
2020	**27.6**
2021	**16.9**
Thereafter	**162.8**
	$ 374.5

(Dollars in Millions)

14. Contingencies

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. BJC is not exempt from these regulatory efforts and has received correspondence from federal agencies with regard to such initiatives. In consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on BJC's consolidated financial position or consolidated results of operations. BJC has an established formal corporate compliance function designed to monitor compliance with applicable laws and regulations.

BJC is involved as both plaintiff and defendant in litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without a material adverse effect on BJC's consolidated financial position, operating results or cash flows.

In October 2013, a petition was filed against BJC in the Circuit Court of the City of St. Louis, Missouri, alleging violations of wage and hour laws, breach of contract and unjust enrichment claims. The suit seeks to certify a class of former and current non-exempt (hourly) employees. The parties have exchanged written discovery. At this time, there have been no rulings and no class has been certified. Management believes it has substantial defenses and intends to contest the allegations of the Petition, but at this stage cannot predict the potential outcome of the case.

15. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Healthcare services:		
Research and education	**$ 105.0**	$ 102.4
Special programs	**86.2**	83.5
Patient care	**31.8**	33.2
Operations	**25.2**	24.7
Property and equipment	**2.8**	2.9
	$ 251.0	$ 246.7

(Dollars in Millions)

15. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets at December 31 are summarized below, the income from which is expendable to support the following:

	2016	2015
Healthcare services:		
Special programs	**$ 86.1**	$ 78.4
Operations	**43.9**	43.7
Research and education	**45.2**	44.5
Patient care	**24.6**	23.6
	$ 199.8	$ 190.2

16. Endowments

The Foundations' endowments consist of funds established for a variety of purposes. The Foundations' endowments include both donor-restricted endowment funds and funds designated by the Foundations' Boards of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions in accordance with U.S. GAAP.

The Foundations have interpreted Missouri's enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (the Missouri Statute) as requiring the preservation of the fair value of the original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundations classify as permanently restricted net assets: (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment and (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the permanent endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundations in a manner consistent with the standards prescribed by the Missouri Statute.

(Dollars in Millions)

16. Endowments (continued)

In accordance with the Missouri Statute, when investing, reinvesting, purchasing, acquiring, exchanging, selling, managing property, appropriating appreciation, developing and applying investment and spending policies and accumulating income, the Board of Directors of each affiliated foundation shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the institution receiving the benefit of the institutional endowment fund.

In exercising such judgment, the Foundations' Boards of Directors shall consider the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

At December 31, 2016, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 101.8	$ 149.4	$ 251.2
Board-designated endowment funds	150.0	–	–	150.0
Total funds	$ 150.0	$ 101.8	$ 149.4	$ 401.2

(Dollars in Millions)

16. Endowments (continued)

At December 31, 2015, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 102.0	$ 145.1	$ 247.1
Board-designated endowment funds	130.5	–	–	130.5
Total funds	$ 130.5	$ 102.0	$ 145.1	$ 377.6

For the years ended December 31, 2016 and 2015, the changes in the endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	$ 132.9	$ 110.7	$ 144.4	$ 388.0
Investment return:	–	–	–	–
Investment income	1.5	2.3	–	3.8
Net appreciation	(2.9)	(4.8)	–	(7.7)
Total investment return	(1.4)	(2.5)	–	(3.9)
Contributions	–	–	0.8	0.8
Appropriations, net of recoveries	(4.6)	(6.2)	–	(10.8)
Other changes	3.6	–	(0.1)	3.5
Endowment net assets, December 31, 2015	130.5	102.0	145.1	377.6
Investment return:				
Investment income	**1.7**	**2.3**	**–**	**4.0**
Net appreciation	**5.8**	**8.7**	**0.1**	**14.6**
Total investment return	**7.5**	**11.0**	**0.1**	**18.6**
Contributions	–	–	**4.2**	**4.2**
Appropriations, net of recoveries	**(4.5)**	**(11.2)**	–	**(15.7)**
Other changes	**16.5**	–	**–**	**16.5**
Endowment net assets, December 31, 2016	**$ 150.0**	**$ 101.8**	**$ 149.4**	**$ 401.2**

16. Endowments (continued)

Return Objectives and Risk Parameters

The Foundations have adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Foundations' Boards of Directors, the endowment net assets are invested in a manner that is intended to produce results that exceed the price and yield results of their relevant benchmarks while assuming a reasonable level of investment risk. The Foundations expect its endowment funds, over time, to generate a total annualized rate of return, net of fees, 5% greater than the rate of inflation, as measured by the Consumer Price Index (CPI), over a rolling five-year period. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy their long-term rate-of-return objectives, the Foundations rely on a total return strategy in which investment earnings are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends, net of fees).

Spending Policy

The Foundations have adopted a policy in which earnings are allocated annually for spending ranging from 4% to 5% of the 36-month rolling average market value of the endowment fund investment pool.

In establishing this policy, the Foundations consider the long-term expected return on the endowment whereby the current policy allows the endowment assets to grow at an average of CPI annually and to provide additional annual support for endowment administration of up to 1%.

17. Subsequent Events

BJC evaluated events and transactions occurring subsequent to December 31, 2016 through February 28, 2017, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements.

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