Consolidated Financial Statements

BJC HealthCare
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

BJC HealthCare

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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.

Adoption of ASU No. 2014-09, "Revenue from Contracts with Customers"

As discussed in Note 1 to the consolidated financial statements, BJC changed its method for recognizing revenue as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers," effective January 1, 2018. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

March 8, 2019

BJC HealthCare

Consolidated Balance Sheets
(Dollars in Millions)

	December 31 2018	2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 52.8**	$ 58.8
Accounts receivable:		
Patients	**786.4**	721.0
Other	**88.2**	82.9
Other current assets	**228.3**	214.2
Total current assets	**1,155.7**	1,076.9
Investments	**5,573.3**	5,552.7
Property and equipment, net	**3,186.1**	3,130.2
Other noncurrent assets	**236.9**	261.5
Total assets	**$ 10,152.0**	$ 10,021.3
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	**$ 22.5**	$ 7.7
Long-term debt puttable within one year or subject to self-liquidity	**350.3**	429.1
Other current liabilities	**994.1**	907.1
Total current liabilities	**1,366.9**	1,343.9
Noncurrent liabilities:		
Long-term debt	**1,696.1**	1,640.7
Self-insurance liabilities	**161.4**	165.7
Pension/postretirement liabilities	**377.8**	553.6
Other noncurrent liabilities	**345.1**	381.1
Total noncurrent liabilities	**2,580.4**	2,741.1
Total liabilities	**3,947.3**	4,085.0
Net assets:		
Without donor restrictions	**5,683.7**	5,391.7
Noncontrolling interest in subsidiary	**–**	18.9
Total without donor restrictions	**5,683.7**	5,410.6
With donor restrictions	**521.0**	525.7
Total net assets	**6,204.7**	5,936.3
Total liabilities and net assets	**$ 10,152.0**	$ 10,021.3

See accompanying notes.

BJC HealthCare

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Millions)

	Year Ended December 31	
	2018	**2017**
Revenues without donor restrictions:		
Patient service revenue	**$ 5,094.3**	$ 4,799.2
Other operating revenue	**232.6**	193.9
Total revenues without donor restrictions	**5,326.9**	4,993.1
Expenses:		
Salaries and benefits	**2,529.5**	2,360.7
Supplies and other	**2,319.9**	2,119.6
Depreciation and amortization	**358.8**	320.0
Interest	**59.3**	38.5
Total expenses	**5,267.5**	4,838.8
Operating income	**59.4**	154.3
Investment earnings, net	**54.7**	471.6
Unrealized gains on interest rate swap contracts, net	**27.0**	11.6
Other nonoperating expense, net	**(35.2)**	(221.8)
Excess of revenues over expenses	**105.9**	415.7
Net loss attributable to noncontrolling interest	**–**	(15.6)
Excess of revenues over expenses attributable to BJC HealthCare	**$ 105.9**	$ 431.3

BJC HealthCare

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

(Dollars in Millions)

	December 31, 2018			December 31, 2017		
	Total	**Controlling**	**Noncontrolling**	**Total**	**Controlling**	**Noncontrolling**
Net assets without donor restrictions:						
Excess (deficit) of revenues over expenses	**$ 105.9**	**$ 105.9**	**$ –**	$ 415.7	$ 431.3	$ (15.6)
Pension and other postretirement liability adjustment	**165.3**	**165.3**	**–**	(184.3)	(184.3)	–
Value of noncontrolling interest in net assets of acquired entity	**–**	**18.9**	**(18.9)**	–	–	–
Net assets released for property acquisitions	**1.9**	**1.9**	**–**	2.1	2.1	–
Increase (decrease) in net assets without donor restrictions	**273.1**	**292.0**	**(18.9)**	233.5	249.1	(15.6)
Net assets with donor restrictions:						
Contributions, bequests, and grants	**37.5**	**37.5**	**–**	54.2	54.2	–
Investment (losses) earnings	**(4.9)**	**(4.9)**	**–**	44.4	44.4	–
Net assets released from restrictions	**(35.9)**	**(35.9)**	**–**	(30.0)	(30.0)	–
Other	**(1.4)**	**(1.4)**	**–**	6.3	6.3	–
(Decrease) increase in net assets with donor restrictions	**(4.7)**	**(4.7)**	**–**	74.9	74.9	–
Increase (decrease) in net assets	**268.4**	**287.3**	**(18.9)**	308.4	324.0	(15.6)
Net assets at beginning of year	**5,936.3**	**5,917.4**	**18.9**	5,627.9	5,593.4	34.5
Net assets at end of year	**$ 6,204.7**	**$ 6,204.7**	**$ –**	$ 5,936.3	$ 5,917.4	$ 18.9

See accompanying notes.

BJC HealthCare

Consolidated Statements of Cash Flows

(Dollars in Millions)

	Year Ended December 31 2018	2017
Operating activities		
Increase in net assets	**$ 268.4**	$ 308.4
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized (gains) on interest rate swaps	**(27.0)**	(11.6)
Restricted contributions	**(37.5)**	(54.2)
Depreciation and amortization	**358.8**	320.0
Pension and other postretirement liability adjustment	**(165.3)**	184.3
Loss on bond refinancing	**–**	6.8
Increase in patient accounts receivable	**(65.4)**	(2.0)
Increase in other current assets	**(19.4)**	(11.5)
Increase (decrease) in other current liabilities	**83.7**	(11.9)
Investments classified as trading, net	**68.5**	(150.1)
Decrease (increase) in other assets	**24.6**	(24.6)
(Decrease) in self-insurance liabilities	**(1.0)**	(1.8)
(Decrease) increase in other noncurrent liabilities	**(19.8)**	43.3
Net cash provided by operating activities	**468.6**	595.1
Investing activities		
Purchases of property and equipment, net	**(414.7)**	(519.8)
Sales and distributions of interests in alternative investments	**481.1**	762.5
Purchases of interests in alternative investments	**(570.2)**	(1,084.6)
Net cash used in investing activities	**(503.8)**	(841.9)
Financing activities		
Principal payments on debt	**(82.7)**	(503.7)
Proceeds from issuance of debt	**74.4**	597.2
Restricted contributions	**37.5**	54.2
Proceeds from line of credit	**23.3**	103.0
Payments on line of credit	**(23.3)**	–
Net cash provided by financing activities	**29.2**	250.7
Net (decrease) increase in cash and cash equivalents	**(6.0)**	3.9
Cash and cash equivalents, beginning of year	**58.8**	54.9
Cash and cash equivalents, end of year	**$ 52.8**	$ 58.8

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), Progress West Hospital (PWH), and Memorial Regional Health Services (MRHS) (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 or Illinois not-for-profit corporations as described in Section 501(c)(3) of the Code, and are recognized as exempt from federal income taxes pursuant to BJC's Group Ruling dated March 25, 2002.

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. In December 2018, BJC gave notice of termination, effective December 31, 2020. Upon termination, 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 net assets without donor restrictions due to a change in control over the assets. At December 31, 2018, net assets without donor restrictions of BHC included in the consolidated financial statements totaled $129.2.

Beginning in 2008 through the end of the Lease, BHC is required to spend no less than 7% of BHC total revenues for capital expenditures for each successive three-year period (the Capital Expenditure Requirement). Per the Lease, capital expenditures will be counted in the year expended, except for capital expenditures for BJC system-wide capital initiatives, which are counted in and allocated to the Capital Expenditure Requirement when allocated to BHC. Net capital expenditures and BHC's allocation of BJC system wide capital initiatives totaled $12.1 and $14.8 for the years ended December 31, 2018 and 2017, respectively.

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

Upon the termination of the Lease, any shortfall of the required capital expenditures will be paid by BJC to the Trustees prior to the final cash split calculation. Both the Trustees and the Hospital have agreed to carry the respective shortfalls forward to the future year's capital expenditure requirement calculation without designating cash or excluding cash from the annual cash split computation. As of December 31, 2018 and 2017, the shortfall of required capital expenditures, totaled $44.0 and $34.5, respectively.

Effective January 1, 2016, BJC entered into a strategic affiliation agreement through MRHS. MRHS is the sole corporate member of certain affiliated not-for-profit corporations, including Protestant Memorial Medical Center Inc. (dba Memorial Hospital – Belleville), Metro-East Services, Inc. (dba Memorial Hospital – East), Memorial Foundation, Inc. (MFI), and various other affiliated entities. As part of the affiliation agreement, BJC committed $125.0 in funding through 2025 for strategic capital expenditures and physician recruitment. As of December 31, 2018, BJC has spent $45.9 against this commitment. In addition, BJC committed to fund routine capital needs equal to 5% of net revenue through 2022. Effective January 1, 2018, BJC became the sole corporate member of MRHS. At that time, the BJC board designated $100.0 to be used exclusively for the benefit of MRHS and promoting health in the southern Illinois community.

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.

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.

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

Investments and Investment Earnings

Investments include assets held under the Lease, self-insurance agreements, amounts contributed by donors with stipulated restrictions, and unrestricted investments, some of which are 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 net assets with donor restrictions are added to or deducted from the net assets with donor restrictions balance.

Within established investment policy guidelines, BJC may enter into various exchange-traded and over-the-counter derivative contracts, 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.

BJC invests in alternative investments (primarily hedge funds and private equity 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.

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

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. Collateral provided by the brokerage firms generally approximates 102% 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's defined benefit pension plan also participates in a securities lending arrangement as more fully described in Note 11.

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

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

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

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) Accounting Standards Codification (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. Impairment write-downs are recognized in operating income at the time the impairment is identified.

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those whose use by BJC has not been limited by donors and are available for general operating use at the discretion of the Board. This category includes both net assets designated by the Board for a specific purpose and Board-designated endowments. Board-designated endowments are net assets that are designated by the Board for a specific purpose and treated like an endowment (quasi-endowments). The Board may change this designation in accordance with BJC policies.

Net Assets With Donor Restrictions

Net assets with donor restrictions include 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. This category also includes net assets restricted by donors to be maintained in perpetuity; the income from these funds is used primarily for special programs, research and education, operations, and patient care or added back to the corpus in

(Dollars in Millions)

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

accordance with donor restrictions. This category also includes quasi-endowments where the donor has advised that the funds can be treated like an endowment but may also be utilized in accordance with the donor's purpose restriction. The Board may change this designation in accordance with donor restrictions and BJC policies.

Net assets without donor restrictions consisted of the following at December 31:

	2018	2017
Operating	**$ 4,841.8**	$ 4,630.0
Board designated:		
Quasi-endowment funds	**159.6**	165.6
Research and education	**3.2**	3.5
Patient care	**270.6**	274.4
Special programs	**17.1**	17.9
MRHS & health promotion	**100.0**	–
Community benefit & other	**291.4**	300.3
	$ 5,683.7	$ 5,391.7

Net assets with donor restrictions consisted of the following at December 31:

	2018	2017
Endowment funds	**$ 272.7**	$ 278.8
Quasi-endowment funds	**65.5**	66.3
Research and education	**59.5**	57.6
Pledges receivable	**46.4**	49.8
Patient care	**34.4**	29.7
Held by third party trustees	**27.9**	31.5
Special programs	**8.5**	6.2
Community benefit & other	**3.1**	3.6
Property and equipment	**3.0**	2.2
	$ 521.0	$ 525.7

(Dollars in Millions)

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

Patient Service Revenue and Patient Accounts Receivable

Patient service revenue and patient accounts receivable are reported at the amount that reflects the consideration to which BJC expects to be entitled in exchange for providing patient care.

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 net assets with donor restrictions. Restricted pledges are recorded at fair value in the year notification is received as an addition to net assets with donor restrictions. Management believes these are Level 2 fair value measurements (as defined in Note 10) recorded on a nonrecurring basis. Pledges receivable totaling $46.1 and $50.2 are included in other accounts receivable and other noncurrent assets at December 31, 2018 and 2017, 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 4.3% and 3.8% in 2018 and 2017, which approximates fair value at the date the pledge is received. Management believes total pledges will be received as follows:

	2018	2017
Within one year	**$ 9.7**	$ 9.9
One to five years	**24.9**	28.7
After five years	**23.9**	25.8
	58.5	64.4
Less present value factor	**(12.0)**	(13.7)
Less allowance for uncollectible pledges	**(0.4)**	(0.5)
	$ 46.1	$ 50.2

Performance Indicator

BJC's performance indicator is excess of revenues over expenses, which includes all changes in net assets without donor restrictions other than contributions of property, pension and other postretirement liability adjustments, and the impact 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.

New Accounting Standards Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets. The ASU will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for BJC beginning January 1, 2019 and will be applied using a modified retrospective approach. The primary effect of the ASU will be to record right-of-use assets and obligations for current operating leases which is estimated to increase assets and liabilities between $175 and $200 on the consolidated balance sheets. The transition adjustment is not estimated to have a material impact on the consolidated statement of operations.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to

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

determine whether a contribution is conditional. This ASU is effective January 1, 2019 and will be applied on a modified prospective basis. The adoption of this ASU did not have a significant effect on BJC's consolidated financial statements.

New Accounting Standards Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 converged and replaced existing revenue recognition guidance, including industry specific guidance, and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires an entity to disclose sufficient information to enable the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On January 1, 2018, this ASU was adopted by BJC on a full retrospective basis. The most significant change was related to the determination of bad debt expense. Under the previous standards, BJC's estimate for amounts not expected to be collected was based upon historical experience and presented as bad debt expense. Under the new standards, BJC's estimate for amounts not expected to be collected based on historical experience is a reduction to the transaction price. However, subsequent changes in the estimate of collectability due to a change in the financial status of a payor, for example due to bankruptcy, will be recognized as bad debt expense as a component of total expenses. The prior period consolidated financial statements presented were adjusted to reflect these changes. The adoption of the ASU resulted in no material impact to operating income or the excess of revenues over expenses on BJC's consolidated 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 is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of this ASU include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The ASU also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. On January 1, 2018, this standard was adopted

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

by BJC on a retrospective basis. The prior period consolidated financial statements presented were adjusted to reflect these changes. The adoption of the ASU resulted in no material impact to BJC's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost.* This ASU changes how employers that sponsor defined benefit pension plans present the cost of the benefits in the consolidated statements of operations and changes in net assets. The service cost component of net periodic benefit cost related to defined benefit pension plans will be reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service cost and outside of operating income. Only the service cost component of net periodic benefit cost will be eligible for capitalization in assets. BJC early adopted this ASU as of January 1, 2018 using a prospective approach. The adoption of the ASU resulted in no material impact to BJC's consolidated financial statements.

Reclassifications

Certain balances in the 2017 consolidated balance sheet, consolidated statement of operations and changes in net assets, and footnote disclosures have been reclassified to conform to current year presentation. The effect of such reclassifications did not change total net assets, net assets without donor restrictions, operating income, or excess of revenues over expenses.

2. Patient Service Revenue, Other Operating Revenue and Uncompensated Care

BJC provides healthcare services in healthcare facilities, which include inpatient, outpatient and ambulatory care facilities, physician practices and other sites. BJC recognizes patient service revenue at the amount that reflects the consideration to which BJC expects to be paid for providing patient care. Patient service revenue is recognized as performance obligations based on the nature of the services provided by BJC are satisfied. Performance obligations satisfied over time relate to patients in BJC hospitals receiving inpatient acute care services from admission to the point when services are no longer required, which is generally at the time of discharge. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided and BJC

2. Patient Service Revenue, Other Operating Revenue and Uncompensated Care (continued)

does not believe it is required to provide additional goods or services. Management believes this method provides a fair depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

BJC has elected to apply the optional exemption provided in FASB (ASC) 606-10-50-14(a) because substantially all of its performance obligations relate to contracts with a duration of less than one year. Therefore, BJC is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

BJC uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analysis, BJC believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

BJC determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. BJC determines the transaction price associated with services provided to patients who have third-party payor coverage with Medicare, Medicaid, managed care programs, and other third-party payors based on reimbursement terms per contractual agreements, discount policies and historical experience. Payment arrangements with those payors include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, per diem rates, and value based payments. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Patient service revenue increased by $23.6 and $1.8 in 2018 and 2017, respectively, as a result of changes in estimates due to settlements of prior fiscal years' cost reports, Medicaid settlements, and the disposition of other payor audits and settlements. Operating income increased by $15.9 and $1.6 in 2018 and 2017, respectively, as a result of these changes in

(Dollars in Millions)

2. Patient Service Revenue, Other Operating Revenue and Uncompensated Care (continued)

estimates. Future changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on BJC. There were no other significant changes to the judgements used to determine the transaction price in prior periods.

In support of its mission, BJC provides care to uninsured and underinsured patients. BJC provides charity care to patients who lack financial resources and are deemed to be medically indigent. Under its Financial Assistance Policy (FAP), BJC provides medically necessary care to patients in the community with inadequate financial resources at discounts of up to 100% of charges using a sliding scale that is based on patient household income as a percentage (up to 300%) of the federal poverty level guidelines. The FAP also contains a catastrophic financial assistance provision that limits a patient's total financial responsibility to BJC. Since BJC does not pursue collection of these amounts, the discounted amounts are not reported as patient service revenue. BJC uses presumptive eligibility screening procedures for free care and recognizes patient service revenue on services provided to self-pay patients at the discounted rate at the time services are rendered. The estimated cost of charity care was $178.0 and $164.9 in 2018 and 2017, respectively. Costs are estimated using the ratio of BJC's costs to its charges and applying it to gross charity charges.

In rare instances, BJC receives payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities at December 31, 2018 were not significant.

Management has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payors and line of business that renders services to patients. The composition of patient service revenue by payor was as follows:

	2018	**2017**
Medicare	**$ 1,717.7**	$ 1,597.1
Medicaid	**723.8**	699.8
Managed Care	**2,485.2**	2,331.1
Other	**151.3**	155.7
Self-pay	**16.3**	15.5
	$ 5,094.3	$ 4,799.2

(Dollars in Millions)

2. Patient Service Revenue, Other Operating Revenue and Uncompensated Care (continued)

The composition of the patient service revenue by service line was as follows:

	2018	2017
HealthCare Facilities	**$ 4,740.7**	$ 4,479.5
Physician practices	**184.4**	166.8
Other and eliminations	**169.2**	152.9
	$ 5,094.3	$ 4,799.2

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, 2018 and 2017, 34% and 35% of patient accounts receivable were collectible from government payors. The remaining 66% and 65% of patient accounts receivable in 2018 and 2017, respectively, were collectible from managed care payors, commercial insurance payors, and uninsured and underinsured patients.

As of December 31, 2018 and 2017, BJC expects to collect approximately 21% and 23% respectively, of all amounts due from uninsured and underinsured patients (including patients with deductibles and copayment balances due for which third party coverage exists for part of the bill).

Other operating revenue is recognized at an amount that reflects the consideration BJC expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors and others. Primary categories of other revenue include retail pharmacy revenue, tuition for the Goldfarb School of Nursing, grant revenue, cafeteria revenue, parking revenue, corporate billing for administrative services, and other miscellaneous activities.

3. Affiliation Agreement with Washington University

BJC has an affiliation agreement with Washington University (the University) that expires on December 31, 2027, 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 ($8.1 in

(Dollars in Millions)

3. Affiliation Agreement with Washington University (continued)

2018 and $7.9 in 2017) plus a payment (Affiliation Agreement Variable 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 in the consolidated statements of operations and changes in net assets for these services under the affiliation agreement totaled $116.0 and $115.4 in 2018 and 2017, respectively. Payments to the University under the affiliation agreement are made on a semiannual basis.

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 $215.7 and $183.2 in 2018 and 2017, respectively.

In addition, BJC received $50.5 and $31.0 from the University in 2018 and 2017, respectively, for certain purchased services and leased facilities and equipment. These amounts are included in other operating revenue in the consolidated statements of operations and changes in net assets.

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 $37.2 and $47.5 in 2018 and 2017, respectively. Grants payable are included in other current and other noncurrent liabilities totaling $184.4 and $211.8 at December 31, 2018 and 2017, respectively. Management believes total grants payable will be paid as follows:

	2018	2017
Within one year	**$ 153.2**	$ 164.0
One to five years	**28.4**	41.0
After five years	**2.8**	6.8
	$ 184.4	$ 211.8

During 2017, BJC and the University amended the affiliation agreement whereby the University agreed to a ceiling on the Affiliation Agreement Variable Payment for the years 2018 to 2027 in exchange for an unconditional commitment of $200.0 to support precision medicine and faculty recruitment, payable in equal annual installments from 2018 to 2027. In 2017, the present value of this commitment was $176.0 and was included in other nonoperating expense, net in the

(Dollars in Millions)

3. Affiliation Agreement with Washington University (continued)

consolidated statements of operations and changes in net assets. The outstanding commitment as of December 31, 2018 and 2017 is recognized in the consolidated balance sheets in other current liabilities and other noncurrent liabilities of $20.0 and $20.0, respectively and $138.0 and $156.0, respectively.

As of December 31, 2018, BJC has unrecorded, conditional commitments to the University to fund two medical research and education initiatives in amounts up to $143.8, to be paid over the next ten years, if certain criteria are met.

4. Financial Assets and Liquidity Resources

As of December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital expenditures not financed with debt, were as follows:

	2018
Financial assets:	
Cash and cash equivalents	$ 52.8
Accounts receivable	874.6
Other current assets	143.3
Investments	5,601.5
Total financial assets	6,672.2
Less:	
Board designated investments	(601.9)
Investments with donor restrictions	(439.4)
Funds held for others	(58.8)
Assets limited as to use	(127.8)
Pledges receivable with restrictions	(8.6)
Investments with liquidity more than one year	(1,562.7)
Total financial assets available within one year	3,873.0
Liquidity resources:	
Unused line of credit	297.0
Total financial assets and liquidity resources available within one year	$ 4,170.0

(Dollars in Millions)

4. Financial Assets and Liquidity Resources (continued)

As part of BJC's investment policy, BJC holds highly liquid investments to enhance its ability to satisfy liquidity. To manage liquidity, BJC maintains a general operating line of credit that may be drawn upon as needed to manage cash flows. In addition, BJC maintains a hybrid dedicated bank line of credit to support general operating requirements and tenders associated with variable rate demand bonds. BJC has $103.0 outstanding under the lines of credit at December 31, 2018 and 2017, respectively.

The availability of certain amounts within the board designated investments may change in accordance with Board policies at any time.

5. Investments

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

	2018	2017
Unrestricted investments	**$ 4,098.5**	$ 4,181.0
Securities on loan	**36.2**	104.4
Held at Foundations	**1,339.0**	1,158.7
Assets limited as to use:		
Under self-insurance trusts	**36.5**	47.2
Under the Lease	**53.1**	53.1
Under captive insurance agreement	**38.2**	33.2
	5,601.5	5,577.6
Less current portion of self-insurance trusts	**(28.2)**	(24.9)
	$ 5,573.3	$ 5,552.7

(Dollars in Millions)

5. Investments (continued)

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

	2018	2017
Cash and short-term investments	**$ 203.4**	$ 156.0
Income securities:		
U.S. government and agency obligations	**428.3**	491.5
Corporate debt securities	**963.4**	1,017.4
Asset-backed and securitized bonds and notes	**463.9**	343.0
Equity securities	**37.5**	71.6
Alternative investments:		
Hedge funds	**769.4**	654.5
Private equity and credit funds	**1,826.8**	1,700.1
Other investments:		
Fixed income – commingled funds	**241.0**	235.0
Equity – commingled funds	**609.7**	835.4
Common/collective trusts	**45.6**	50.2
Other	**17.3**	19.3
Accrued interest and dividends receivable	**13.5**	13.1
	5,619.8	5,587.1
Less current portion of self-insurance trusts	**(28.2)**	(24.9)
	5,591.6	5,562.2
Amounts due to brokers	**(36.1)**	(43.0)
Amounts due from brokers	**17.8**	33.5
	$ 5,573.3	$ 5,552.7

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 investments consist principally of noncontrolling interests in LLPs and LLCs. 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 1 year from December 31, 2018, 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 15 years from initial investment date, which may reduce liquidity. BJC has unfunded commitments of $874.4 to private equity and credit funds as of December 31, 2018. 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 distributions from existing investments.

BJC may hold swaps, currency forwards, and fixed income futures derivatives as part of its investment strategy. 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. Pursuant to the collateral posting requirements under the contracts at December 31, 2018, BJC posted $19.2 and at December 31, 2017 counterparties posted $0.7.

(Dollars in Millions)

5. Investments (continued)

At December 31, 2018 and 2017, the notional value of derivatives was approximately $691.2 and $410.7, respectively. The fair value of derivatives in an asset position, included in investments in the consolidated balance sheets, was $0.6 and $1.9 at December 31, 2018 and 2017, respectively, while the fair value of derivatives in a liability position, included in other noncurrent liabilities in the consolidated balance sheets, was $19.8 and $0.9 at December 31, 2018 and 2017, respectively. BJC recognized a loss of $26.1 and a gain of $35.1 in 2018 and 2017, respectively, which are recorded in investment earnings within the consolidated statements of operations and changes in net assets.

At December 31, 2018 and 2017, investments include the fair value of securities on loan of $36.2 and $104.4, respectively. Posted collateral for these securities on loan at December 31, 2018 and 2017 totaled $37.0 and $107.0, respectively and is included in investments in the consolidated balance sheets.

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

	2018	**2017**
Interest and dividends	**$ 162.6**	$ 127.1
Net realized gains	**79.1**	323.2
Net unrealized (losses) gains	**(191.9)**	65.7
Total investment earnings, net	**$ 49.8**	$ 516.0
Included in investment earnings	**$ 54.7**	$ 471.6
Included in net assets with donor restrictions	**(4.9)**	44.4
Total investment earnings, net	**$ 49.8**	$ 516.0

Total investment earnings, net includes internal and external investment management fees.

(Dollars in Millions)

6. Property and Equipment

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

	2018	2017
Land and land improvements	**$ 212.0**	$ 204.1
Building and improvements	**2,879.2**	2,184.1
Equipment	**3,439.3**	3,663.2
	6,530.5	6,051.4
Less accumulated depreciation	**(3,801.8)**	(3,786.8)
	2,728.7	2,264.6
Construction-in-progress	**457.4**	865.6
	$ 3,186.1	$ 3,130.2

At December 31, 2018, BJC had outstanding commitments of $254.5 related to all property activities, including construction, architecture, information systems, and engineering services. Net interest capitalized in 2018 and 2017 totaled $3.0 and $19.0, respectively.

During 2017, BJC evaluated the carrying value of the long-lived assets at one of its hospitals which had experienced on-going operating losses as a result of reductions in Medicare and Medicaid reimbursement and increases in uninsured and underinsured patients. Based on this evaluation, BJC determined that the full carrying value of the hospital's long-lived assets was no longer recoverable and recorded an impairment charge of $11.3, included in depreciation and amortization expense, to reduce the property and equipment to estimated fair value. Although operating losses have continued, at December 31, 2018, the carrying value of assets estimated fair value and no impairment charge was recorded. Fair value was based on a market approach, comparing the asset group to similar assets that have been sold or offered for sale, adjusted for differences, such as historical financial condition and performance, expected economic benefits, and physical characteristics, all of which constitute unobservable Level 3 inputs. Management believes the assumptions used are consistent with those a market participant would use.

(Dollars in Millions)

7. Other Current Assets and Liabilities

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

	2018	2017
Inventory	**$ 109.8**	$ 103.8
Due from third-party payors	**33.5**	35.9
Prepaid expenses	**56.8**	49.6
Current portion of self-insurance trust	**28.2**	24.9
	$ 228.3	$ 214.2

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

	2018	2017
Accounts payable	**$ 119.6**	$ 124.8
Accrued payroll and related liabilities	**240.1**	249.9
Accrued expenses and other	**155.7**	139.8
Due to third-party payors	**36.5**	33.2
Due to Washington University	**349.0**	334.5
Contingent liabilities (see Note 15)	**65.0**	–
Current portion of self-insurance liabilities	**28.2**	24.9
	$ 994.1	$ 907.1

(Dollars in Millions)

8. Long-term Debt

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

	2018	2017
Series 2011A-B, 2012E, 2013B, 2016A-B, 2017A-I, variable rate term bonds, privately placed, interest (rates from 2.05% to 2.71% at December 31, 2018) set at prevailing market rates, due through 2058	**$ 980.0**	$ 1,055.0
Series 2008A-E variable rate demand bonds subject to self-liquidity, interest (rates from 1.66% to 1.75% at December 31, 2018) set at prevailing rates, due through 2038	**354.1**	357.8
Series 2013A, Series 2013C, Series 2014, Series 2015A, and Series 2017D fixed rate debt, interest rates from 3.23% to 5.00%, due through 2058	**610.2**	540.1
Line of credit	**103.0**	103.0
Other	**14.6**	14.6
	2,061.9	2,070.5
Add unamortized debt issuance costs and debt premiums, net	**7.0**	7.0
Less current maturities of long-term debt	**(22.5)**	(7.7)
Less long-term debt puttable within one year or subject to self-liquidity	**(350.3)**	(429.1)
	$ 1,696.1	$ 1,640.7

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.

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 $2,047.3 and $2,055.9 at December 31, 2018 and 2017, 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, 2018.

At December 31, 2018 and 2017, BJC had $354.1 and $357.8, 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.

As part of BJC's strategic affiliation with MRHS, BJC provided a guaranty of the payment obligations relating to the outstanding Series 2013 Memorial Group, Inc. bonds. As part of this guaranty, the bonds assumed the covenants and conditions of the BJC Master Indenture. In June 2017, $198.0 of tax-exempt Series 2017A-C variable rate refunding bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds were used to fully defease and redeem the Series 2013 Memorial Group, Inc. bonds outstanding. BJC recorded a loss on refinancing of $6.2 in 2017 related to this transaction, which is included in supplies and other in the consolidated statements of operations and changes in net assets. The Series 2017A-C bonds mature in 2054.

In December 2017, $400.0 of tax-exempt Series 2017D-I 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 were used to reimburse BJC for the payment of certain capital expenditures. The Series 2017D-I bonds mature in 2058. In 2017, the System incurred $0.8 in costs related to new issuances, which will be amortized over the life of the bonds.

(Dollars in Millions)

8. Long-term Debt (continued)

In December 2017, BJC retired the Series 2005B and 2012A-D bonds outstanding. BJC recorded a loss on retirement of $0.6 in 2017 related to this transaction, which is included in supplies and other in the consolidated statements of operations and changes in net assets. The amount of Series 2005B and 2012A-D bonds outstanding at the time of retirement was $270.4.

In May 2018, BJC converted Series 2017D bonds from variable rate term bonds, puttable starting in 2018, to fixed rate bonds with no put option. The System incurred $0.6 in costs related to the conversion, which will be amortized over the life of the bonds.

At December 31, 2018, 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 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. BJC has $103.0 outstanding under the lines of credit at December 31, 2018 and 2017.

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

	Scheduled
Year ending December 31:	
2019	$ 22.5
2020	8.1
2021	8.3
2022	16.7
2023	17.2

The amount of interest paid, net of interest capitalized, totaled $47.6 and $30.8 in 2018 and 2017, respectively.

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 London InterBank Offered Rate (LIBOR), 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, 2018 and 2017, BJC posted \$5.8 and \$31.8, respectively, as collateral, which is reported as other noncurrent assets in the consolidated balance sheets. BJC does not anticipate nonperformance by its counterparties.

During June 2017, BJC entered into a fixed payer interest swap contract with JP Morgan Chase Bank, N.A. with a notional amount of \$198.0, which will mature in 2047.

At December 31, 2018 and 2017, the notional amount of BJC's outstanding interest rate swap contracts is \$961.0 and \$976.4, respectively.

(Dollars in Millions)

9. Interest Rate Swaps (continued)

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	2018	2017
Interest rate swap contracts	Other noncurrent liabilities	**$ (68.0)**	$ (88.7)
Interest rate swap contracts	Other noncurrent assets	**8.9**	2.6

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 Gain (Loss) on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues Over Expenses 2018	2017
Interest rate swap contracts	Unrealized gain on interest rate swap contracts	**$ 27.0**	$ 11.6
Interest rate swap contracts	Interest	**(8.8)**	(9.2)

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. *ASC 820, Fair Value Measurements and Disclosures*, 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 derivative 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)

Financial assets and liabilities measured at fair value on a recurring basis were determined using the following inputs at December 31, 2018:

		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	**$ 203.4**	**$ 203.4**	**$ –**	**$ –**
Income securities:				
U.S. government and agency obligations	**428.3**	–	**428.3**	–
Corporate debt securities	**963.4**	–	**963.4**	–
Asset-backed and securitized bonds and notes	**463.9**	–	**328.1**	**135.8**
Equity securities	**37.5**	**37.5**	–	–
Other	**17.3**	–	**17.3**	–
Subtotal	**2,113.8**	**240.9**	**1,737.1**	**135.8**
Assets not at fair value:				
Hedge funds	**769.4**			
Private equity and credit funds	**1,826.8**			
Assets (fair value determined using NAV practical expedient):				
Fixed income – commingled funds	**241.0**			
Equity – commingled funds	**609.7**			
Common/collective trusts	**45.6**			
Accrued interest and dividends receivable	**13.5**			
Total investments	**$ 5,619.8**			
Derivatives	**$ 8.9**	–	**8.9**	**–**
Deferred compensation agreements	**45.3**	**45.3**	**–**	**–**
Total financial assets	**$ 5,674.0**	**$ 286.2**	**$ 1,746.0**	**$ 135.8**
Liabilities				
Derivatives	**$ 19.8**	**$ –**	**$ 19.8**	**$ –**
Interest rate swap contracts	**68.0**	–	**68.0**	–
Total financial liabilities	**$ 87.8**	**$ –**	**$ 87.8**	**$ –**

(Dollars in Millions)

10. Fair Value Measurements (continued)

Financial assets and liabilities measured at fair value on a recurring basis were determined using the following inputs at December 31, 2017:

		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	$ 156.0	$ 156.0	$ –	$ –
Income securities:				
U.S. government and agency obligations	491.5	–	491.5	–
Corporate debt securities	1,017.4	–	1,017.4	–
Asset-backed and securitized bonds and notes	343.0	–	273.6	69.4
Equity securities	71.6	71.6	–	–
Other	19.3	0.2	19.1	–
Subtotal	2,098.8	227.8	1,801.6	69.4
Assets not at fair value:				
Hedge funds	654.5			
Private equity and credit funds	1,700.1			
Assets (fair value determined using NAV practical expedient):				
Fixed income – commingled funds	235.0			
Equity – commingled funds	835.4			
Common/collective trusts	50.2			
Accrued interest and dividends receivable	13.1			
Total investments	$ 5,587.1			
Derivatives	$ 2.6	–	2.6	–
Deferred compensation agreements	46.4	46.4	–	–
Total financial assets	$ 5,636.1	$ 274.2	$ 1,804.2	$ 69.4
Liabilities				
Derivatives	$ 0.9	$ –	$ 0.9	$ –
Interest rate swap contracts	88.7	–	88.7	–
Total financial liabilities	$ 89.6	$ –	$ 89.6	$ –

(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, 2017	$ 124.2
Purchases	51.1
Settlements	(102.8)
Investment earnings	6.6
Transfers in and/or out of Level 3	(9.7)
Fair value at December 31, 2017	69.4
Purchases	**134.0**
Settlements	**(78.4)**
Investment earnings	**1.4**
Transfers in and/or out of Level 3	**9.4**
Fair value at December 31, 2018	**$ 135.8**

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 currency forwards and swaps, 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 fixed income futures 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, 2018.

Level 3 assets of $135.8 and $69.4 as of December 31, 2018 and 2017, respectively, 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 $9.4 of securitized notes and bonds from Level 2 to Level 3 in 2018 as fewer observable market inputs were obtained. BJC transferred $9.7 of securitized notes and bonds from Level 3 to Level 2 in 2017 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 2018 or 2017.

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. Management believes these are Level 2 fair value measurements recorded on a nonrecurring basis.

(Dollars in Millions)

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 $33.1 and $26.2 to this plan during 2018 and 2017, respectively, which is included in salaries and benefits in the consolidated statements of operations and changes in net assets.

BJC sponsors a defined-benefit pension plan (the Plan) covering a majority of 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 Plan. In 2018 and 2017, BJC had no minimum required pension contributions.

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

	2018	2017
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 2,899.9**	$ 2,410.1
Service cost	**118.0**	104.6
Interest cost	**102.8**	97.0
Actuarial (gain) loss	**(267.1)**	354.2
Benefits paid	**(74.5)**	(66.0)
Projected benefit obligation at end of year	**2,779.1**	2,899.9
Change in plan assets		
Fair value of plan assets at beginning of year	**2,349.9**	1,946.4
Actual earnings on plan assets	**2.3**	280.1
Employer contributions	**126.8**	189.4
Benefits paid	**(74.5)**	(66.0)
Fair value of plan assets at end of year	**2,404.5**	2,349.9
Unfunded status	**$ (374.6)**	$ (550.0)
Accumulated benefit obligation at end of year	**$ 2,491.7**	$ 2,560.2
Unfunded status (based on accumulated benefit obligation)	**$ (87.2)**	$ (210.3)

(Dollars in Millions)

11. Postretirement Benefits (continued)

The unfunded status is included in pension/postretirement liabilities in the consolidated balance sheets. BJC has other postretirement plans with unfunded benefit obligations of $3.2 and $3.6 at December 31, 2018 and 2017, respectively.

Included in net assets without donor restrictions at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	2018	2017
Unrecognized actuarial losses	**$ 898.3**	$ 873.9
Unrecognized prior service cost	**0.1**	0.1
	$ 898.4	$ 874.0

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions for the year ended December 31 are as follows:

	2018	2017
Unrecognized actuarial loss (gain)	**$ (105.7)**	$ 218.4
Amortization of actuarial losses	**(59.2)**	(34.6)
Amortization of prior service cost	**–**	(0.1)
	$ (164.9)	$ 183.7

The pension and other postretirement liability adjustment of $165.3 for the year ended December 31, 2018, in the consolidated statements of operations and changes in net assets includes $0.4 related to the other postretirement plans.

The prior service cost and actuarial loss included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending December 31, 2019, total $0 and $34.3, respectively. The impact of the change in discount rate on the projected benefit obligation of the Plan was a decrease of approximately $270.1 at December 31, 2018.

(Dollars in Millions)

11. Postretirement Benefits (continued)

No plan assets are expected to be returned to BJC during the year ending December 31, 2018.

	2018	2017
Weighted-average assumptions used to determine benefit obligations for the year ended December 31		
Discount rate	**4.47%**	3.87%
Rate of increase in compensation levels	**3.37**	3.41
Weighted-average assumptions used to determine expense for the year ended December 31		
Discount rate for benefit obligations	**3.87%**	4.57%
Rate of compensation increases	**3.41**	3.38
Expected long-term rate of return	**7.00**	7.00
Mortality Projection Scale	**MSS-2018**	MSS-2017

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.

	2018	2017
Components of net periodic benefit cost:		
Service cost	**$ 118.0**	$ 104.6
Interest cost	**102.8**	97.0
Expected earnings on plan assets	**(163.6)**	(144.3)
Amortization of prior service cost	–	0.1
Recognized net actuarial loss	**59.2**	34.6
Net periodic benefit cost	**$ 116.4**	$ 92.0

The plan's assets are invested in a portfolio designed to 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. The Plan may hold swaps, currency forwards, and fixed

(Dollars in Millions)

11. Postretirement Benefits (continued)

income futures derivatives as part of its investment strategy. Derivatives may be used to gain market exposure in an efficient and timely manner. Plan assets may also be loaned to established brokerage firms in return for securities collateral. At December 31, 2018 and 2017, plan assets on loan included in the fair value of plan assets totaled $7.3 and $5.6, respectively. Posted collateral for these securities on loan at December 31, 2018 and 2017 totaled $7.4 and $5.7, respectively.

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

	2018		2017	
Asset Category	**Target Asset Allocation**	**Actual Asset Allocation**	**Target Asset Allocation**	**Actual Asset Allocation**
Cash	–%	**0.5%**	–%	1.4%
Growth	31.0	**35.1**	42.0	40.4
Income	29.0	**22.4**	28.0	24.8
Illiquid	40.0	**42.0**	30.0	33.4
Total	100.0%	**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 and credit funds.

(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2018:

		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	**$ 116.3**	**$ 116.3**	$ –	$ –
Income securities:				
U.S. government and agency obligations	**17.8**	**–**	**17.8**	–
Corporate debt securities	**233.8**	**–**	**233.8**	–
Asset-backed and securitized bonds and notes	**136.0**	**–**	**64.5**	**71.5**
			–	**–**
Equity securities	**33.5**	**33.5**	**–**	–
Other	**4.3**	**–**	**4.3**	–
Subtotal		**149.8**	**320.4**	**71.5**
Assets (fair value determined using NAV practical expedient):				
Hedge funds	**427.9**			
Private equity and credit funds	**1,092.8**			
Fixed income – commingled funds	**41.6**			
Equity – commingled funds	**166.9**			
Common/collective trusts	**131.7**			
Accrued interest and dividends receivable	**3.6**			
Amounts due (to) from brokers, net	**11.1**			
	$ 2,417.3			
Liabilities				
Derivatives in a liability position	**$ 12.8**	–	**12.8**	–
Fair value of Plan assets	**$ 2,404.5**	**$ 149.8**	**$ 307.6**	**$ 71.5**

(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2017:

		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	$ 76.2	$ 76.2	$ –	$ –
Income securities:				
U.S. government and agency obligations	131.6	–	131.6	–
Corporate debt securities	254.2	–	254.2	–
Asset-backed and securitized bonds and notes	148.8	–	84.0	64.8
Equity securities	41.3	41.3	–	–
Other	3.9	–	3.9	–
Subtotal		117.5	473.7	64.8
Assets (fair value determined using NAV practical expedient):				
Hedge funds	322.8			
Private equity and credit funds	880.9			
Fixed income – commingled funds	40.2			
Equity – commingled funds	420.8			
Common/collective trusts	38.1			
Accrued interest and dividends receivable	3.4			
Amounts due (to) from brokers, net	(12.0)			
	$ 2,350.2			
Liabilities				
Derivatives in a liability position	$ 0.3	–	0.3	–
Fair value of Plan assets	$ 2,349.9	$ 117.5	$ 473.4	$ 64.8

(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, 2017	$ 43.9
Purchases, sales and settlements, net	16.2
Actual earnings on plan assets	4.0
Transfers in and/or out of Level 3	0.7
Fair value at December 31, 2017	64.8
Purchases, sales and settlements, net	**8.8**
Actual earnings on plan assets	**(0.5)**
Transfers in and/or out of Level 3	**(1.6)**
Fair value at December 31, 2018	**$ 71.5**

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 $1.6 of securitized notes and bonds from Level 3 to Level 2 in 2018 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC transferred $0.7 of securitized notes and bonds from Level 2 to Level 3 in 2017, as fewer observable market inputs were obtained. 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 15 years from initial investment date, which may reduce liquidity. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to one year from December 31, 2018, which may reduce liquidity. These investments represent the Plan's ownership interest in the 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, 2018, the Plan has unfunded commitments of $673.0 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 2019	$	73.5
Expected benefit payments:		
2019		88.6
2020		97.7
2021		108.0
2022		117.3
2023		126.9
2024–2028		771.7

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 November 15, 2017, MRHS was added to the BJC umbrella insurance policies with a retroactive date of August 1, 2010. At December 31, 2018 and 2017, BJC recorded a liability for the self-insurance program of $174.1 and $178.1, respectively, included in other current liabilities and self-insurance liabilities in the consolidated balance sheets. In addition, at December 31, 2018 and 2017, BJC recorded insurance receivables of $8.6 and $8.7, respectively, included in other noncurrent assets in the consolidated balance sheets.

(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 4.00% in 2018 and 3.00% in 2017. The reserve includes provisions for asserted and unasserted claims and incidents that have occurred but have not been reported. BJC has revocable self-insurance trusts totaling $36.5 and $47.2 as of December 31, 2018 and 2017, respectively, which are used for the payment of professional and general liability claim settlements and expenses. During 2018 and 2017, $32.7 and $37.0, respectively, of professional and general liability expenses were included in supplies and other in the consolidated statements of operations and changes in net assets.

13. Operating Leases

BJC leases certain real estate and equipment under operating leases, which may include renewal options and escalation clauses. Future minimum lease payments for all noncancelable operating leases that have initial or remaining terms of one year or more are as follows:

Year ending December 31:	
2019	$ 31.4
2020	36.1
2021	25.1
2022	19.1
2023	15.3
Thereafter	146.4
	$ 273.4

Lease expense under operating leases for the years ended December 31, 2018 and 2017, totaled $89.1 and $83.2, respectively.

(Dollars in Millions)

14. Functional Classification of Expenses

BJC provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within its geographic areas supported by its facilities. Administrative services include administration, finance and accounting, information technology, public relations, human resources, legal and other functions. Expenses are allocated to healthcare services and administrative services based on the functional department for which they are incurred. Departmental expenses may include various allocations of costs based on direct assignment, expenses or other methods.

Expenses by functional classification for the year ended December 31, 2018 consist of the following:

	2018		
	Healthcare Services	**Administrative Services**	**Total**
Salaries and benefits	**$ 2,335.7**	**$ 193.8**	**$ 2,529.5**
Supplies and other	**2,145.1**	**174.8**	**2,319.9**
Depreciation and amortization	**232.4**	**126.4**	**358.8**
Interest	**59.2**	**0.1**	**59.3**
Total	**$ 4,772.4**	**$ 495.1**	**$ 5,267.5**

Expenses by functional classification for the year ended December 31, 2017 consist of the following:

	2017		
	Healthcare Services	**Administrative Services**	**Total**
Salaries and benefits	$ 2,173.7	$ 187.0	$ 2,360.7
Supplies and other	1,977.2	142.4	2,119.6
Depreciation and amortization	148.1	171.9	320.0
Interest	38.4	0.1	38.5
Total	$ 4,337.4	$ 501.4	$ 4,838.8

15. Contingencies

The U.S. Department of Justice and other federal agencies continue to commit 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. After consultation with legal counsel, management believes that 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. On February 5, 2018, the class was certified to include all current and former non-exempt (hourly) employees at BJC's Missouri entities from October 21, 2008 through June 9, 2015. In 2018, BJC determined that a contingent liability could be reasonably estimated and recorded $65.0, which is included in supplies and other in the consolidated statements of operations and changes in net assets.

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.

16. Endowments (continued)

As a result of this interpretation, the Foundations classify as net assets with donor restrictions (a time restriction in perpetuity): (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 endowment fund that is not classified as net assets with donor restrictions (a time restriction in perpetuity) is classified as net assets with donor restrictions (a purpose restriction) and are appropriated for expenditure by the Foundations in a manner consistent with the standards prescribed by the Missouri Statute.

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 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

(Dollars in Millions)

16. Endowments (continued)

At December 31, 2018, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	**$ –**	**$ 272.7**	**$ 272.7**
Board-designated endowment funds	**159.5**	**–**	**159.5**
Total funds	**$ 159.5**	**$ 272.7**	**$ 432.2**

At December 31, 2017, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ –	$ 278.8	$ 278.8
Board-designated endowment funds	165.6	–	165.6
Total funds	$ 165.6	$ 278.8	$ 444.4

(Dollars in Millions)

16. Endowments (continued)

For the years ended December 31, 2018 and 2017, the changes in the endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	$ 150.0	$ 251.2	$ 401.2
Investment return:			
Investment income	2.6	3.5	6.1
Net appreciation	17.5	27.4	44.9
Total investment return	20.1	30.9	51.0
Contributions	–	6.1	6.1
Appropriations, net of recoveries	(6.1)	(9.6)	(15.7)
Other changes	1.6	0.2	1.8
Endowment net assets, December 31, 2017	165.6	278.8	444.4
Investment return:			
Investment income	**3.3**	**4.8**	**8.1**
Net depreciation	**(5.5)**	**(9.1)**	**(14.6)**
Total investment return	**(2.2)**	**(4.3)**	**(6.5)**
Contributions	**–**	**7.8**	**7.8**
Appropriations, net of recoveries	**(7.4)**	**(10.6)**	**(18.0)**
Other changes	**3.5**	**1.0**	**4.5**
Endowment net assets, December 31, 2018	**$ 159.5**	**$ 272.7**	**$ 432.2**

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 their endowment funds, over time, to

16. Endowments (continued)

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 2% to 5% of the 36-month rolling average market value or three-year 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. The Foundation for Barnes-Jewish Hospital provides additional annual support for endowment administration of up to 1%. All other Foundations pay for endowment administration using non-endowment earnings and unrestricted donations.

17. Subsequent Events

BJC evaluated events and transactions occurring subsequent to December 31, 2018 through March 8, 2019, 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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