Consolidated Financial Statements

BJC HealthCare
Years Ended December 31, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

BJC HealthCare

Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Contents

Ernst & Young LLP
The Plaza in Clayton
Suite 1300
190 Carondelet Plaza
St. Louis, MO 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
ey.com

Report of Independent Auditors

The Board of Directors
BJC HealthCare

We have audited the accompanying consolidated financial statements of BJC HealthCare, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, 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, 2013 and 2012, and the consolidated results of its operations, changes in net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 25, 2014

BJC HealthCare

Consolidated Balance Sheets
(Dollars in Millions)

	December 31	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 99.6**	$ 88.2
Accounts receivable:		
Patients (less allowances for uncollectible accounts – $67.2 in 2013 and $43.0 in 2012)	**549.8**	566.1
Other	**28.6**	28.6
Other current assets	**212.8**	144.7
Total current assets	**890.8**	827.6
Investments	**4,702.1**	3,935.6
Property and equipment, net	**2,030.6**	1,936.8
Other noncurrent assets	**172.2**	184.2
Total assets	**$ 7,795.7**	$ 6,884.2
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	**$ 15.6**	$ 15.9
Long-term debt subject to self-liquidity	**541.5**	206.2
Other current liabilities	**724.8**	574.1
Total current liabilities	**1,281.9**	796.2
Noncurrent liabilities:		
Long-term debt	**770.1**	771.1
Self-insurance liabilities	**150.5**	162.1
Pension/postretirement liabilities	**254.2**	549.3
Other noncurrent liabilities	**162.3**	258.5
Total noncurrent liabilities	**1,337.1**	1,741.0
Total liabilities	**2,619.0**	2,537.2
Net assets:		
Unrestricted	**4,745.8**	3,957.7
Temporarily restricted	**240.2**	215.4
Permanently restricted	**190.7**	173.9
Total net assets	**5,176.7**	4,347.0
Total liabilities and net assets	**$ 7,795.7**	$ 6,884.2

See accompanying notes.

BJC HealthCare

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Millions)

	Year Ended December 31	
	2013	**2012**
Unrestricted revenues:		
Patient service revenue (net of allowances and discounts)	**$ 3,897.9**	$ 3,798.9
Provision for bad debts	**(145.8)**	(89.8)
Net patient service revenue	**3,752.1**	3,709.1
Other operating revenue	**156.3**	140.3
Total unrestricted revenues	**3,908.4**	3,849.4
Expenses:		
Salaries and benefits	**1,849.2**	1,810.0
Supplies and other	**1,643.5**	1,605.9
Depreciation and amortization	**239.6**	239.8
Interest rate swap settlements, net	**16.8**	13.8
Interest	**13.3**	17.2
Total expenses	**3,762.4**	3,686.7
Operating income	**146.0**	162.7
Investment earnings	**287.2**	365.7
Unrealized gains (losses) on interest rate swap contracts, net	**73.9**	(3.0)
Other nonoperating expense, net	**(16.6)**	(163.3)
Excess of revenues over expenses	**490.5**	362.1
Unrestricted net assets:		
Excess of revenues over expenses	**490.5**	362.1
Pension and other postretirement liability adjustment	**295.2**	(76.7)
Net assets released for property acquisitions	**2.3**	0.1
Other	**0.1**	12.9
Increase in unrestricted net assets	**788.1**	298.4
Temporarily restricted net assets:		
Contributions, bequests, and grants	**18.4**	18.4
Investment earnings	**31.7**	37.9
Net assets released from restrictions	**(26.3)**	(26.0)
Other	**1.0**	(12.3)
Increase in temporarily restricted net assets	**24.8**	18.0
Permanently restricted net assets:		
Contributions and bequests	**12.8**	3.2
Investment earnings	**3.4**	1.5
Other	**0.6**	(4.8)
Increase (decrease) in permanently restricted net assets	**16.8**	(0.1)
Increase in net assets	**829.7**	316.3
Net assets at beginning of year	**4,347.0**	4,030.7
Net assets at end of year	**$ 5,176.7**	$ 4,347.0

See accompanying notes.

BJC HealthCare

Consolidated Statements of Cash Flows

(Dollars in Millions)

	Year Ended December 31	
	2013	**2012**
Operating activities		
Increase in net assets	**$ 829.7**	$ 316.3
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in unrealized (gains) losses on interest rate swaps	**(73.9)**	3.0
Restricted contributions	**(31.2)**	(21.6)
Depreciation and amortization	**239.6**	239.8
Provision for bad debts	**145.8**	89.8
Pension and other postretirement liability adjustment	**(295.2)**	76.7
Increase in patient accounts receivable, net	**(129.5)**	(147.6)
Decrease in other current assets	**3.8**	47.7
Increase in other current liabilities	**76.5**	80.2
Investments classified as trading, net	**(309.2)**	(241.6)
Decrease (increase) in other assets	**12.1**	(12.7)
Decrease in self-insurance liabilities	**(9.5)**	(2.3)
(Decrease) increase in other noncurrent liabilities	**(22.2)**	82.1
Net cash provided by operating activities	**436.8**	509.8
Investing activities		
Purchases of property and equipment, net	**(333.4)**	(317.0)
Sales of interests in alternative investments	**143.3**	315.8
Purchases of interests in alternative investments	**(600.6)**	(443.4)
Net cash used in investing activities	**(790.7)**	(444.6)
Financing activities		
Payments of debt	**(236.9)**	(15.7)
Proceeds from issuance of debt	**571.0**	14.6
Restricted contributions	**31.2**	21.6
Net cash provided by financing activities	**365.3**	20.5
Net increase in cash and cash equivalents	**11.4**	85.7
Cash and cash equivalents, beginning of year	**88.2**	2.5
Cash and cash equivalents, end of year	**$ 99.6**	$ 88.2

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

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

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

CH Allied Services, Inc. (CHAS), an affiliate of Christian, leases and operates Boone Hospital Center (BHC) in Columbia, Missouri. The owner and lessor of BHC is the Board of Trustees of Boone County Hospital (BHC Lessor). The financial position and results of operations of BHC are included in BJC's consolidated financial statements. During 2012, CHAS and BHC Lessor amended the lease agreement (the Lease), extending its current term to December 31, 2020, with continuing five-year terms thereafter unless the Lease is terminated. Either party has the option to terminate the Lease during the current term or any successive five-year term by giving notice two years prior to the end of the then-current term. If the Lease is terminated, certain assets recorded in BJC's consolidated financial statements will revert to the BHC Lessor, and BJC will record a charge equal to the amount of BHC's unrestricted net assets due to a change in control over the assets. At December 31, 2013, unrestricted net assets of BHC included in the consolidated financial statements totaled $139.2.

Consolidation

All significant intercompany transactions and account balances have been eliminated in the consolidated financial statements.

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments and Investment Earnings

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

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

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

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

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

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

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

Securities Lending Program

BJC participates in securities-lending transactions with its investment custodian, whereby a portion of its securities are loaned to selected established brokerage firms in return for securities from the brokers as collateral for the securities loaned, usually on a short-term basis of up to 60 days. Collateral provided by the brokerage firms generally approximates 103% of the fair value of the securities on loan and is adjusted for daily market fluctuations. BJC earns a rebate on the loaned securities and has risk of loss on the collateral received.

The fair value of collateral held for loaned securities is reported as securities lending program investments. A corresponding obligation exists for repayment of such collateral upon settlement of the lending transaction and is included in other current liabilities in the consolidated balance sheets.

At December 31, 2013, the fair value of the securities on loan totaled $69.6, which is included in investments and accepted collateral for these securities on loan totaled $72.0, which is included in other current assets. BJC did not participate in any security lending programs at December 31, 2012.

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

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

Interest Rate Swaps

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

Inventory

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

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.

Asset Impairment

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

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

Temporarily and Permanently Restricted Net Assets

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

Net Patient Service Revenue and Patient Accounts Receivable

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

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

(Dollars in Millions)

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

Contributions, Bequests, and Pledges

Unrestricted contributions and bequests are reported in other nonoperating expense, net when pledged. Restricted contributions and bequests are reported as additions to the appropriate restricted net asset balance. Restricted pledges are recorded at fair value in the year notification is received as an addition to the appropriate restricted net asset balance. Management believes these are Level 2 fair value measurements (as defined in Note 10) recorded on a nonrecurring basis. Pledges receivable totaling $28.0 and $24.4 are included in other current assets and other noncurrent assets at December 31, 2013 and 2012, respectively. These pledges are recorded at their net present value based on the expected timing of pledge fulfillment using an average credit adjusted discount rate of 3.1% in 2013 and 3.5% in 2012, which approximates fair value. Management believes total pledges will be received as follows:

	2013	2012
Within one year	**$ 7.4**	$ 3.4
One to five years	**6.1**	5.9
After five years	**26.9**	26.2
	40.4	35.5
Less present value factor	**(12.1)**	(10.7)
Less allowance for uncollectible pledges	**(0.3)**	(0.4)
	$ 28.0	$ 24.4

Performance Indicator

BJC's performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets other than contributions of long-lived assets, and pension and other postretirement liability adjustments.

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-owned affiliated Foundations (Foundations), including contribution and grant activity, are classified as nonoperating.

Reclassifications

Certain balances in the 2012 consolidated financial statements have been reclassified to conform to the current year presentation. The effect of such reclassifications did not change total net assets, unrestricted net assets, or excess of revenues over expenses.

Income Taxes

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

Functional Expenses

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

(Dollars in Millions)

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

Adoption of New Accounting Standards

In December 2011, the FASB issued accounting guidance, which was further clarified in January 2013, requiring additional information intended to help reconcile existing differences in balance sheet offsetting requirements under U.S. GAAP and International Financial Reporting Standards. While this standard leaves existing guidance surrounding the offsetting of financial assets and liabilities unchanged, it requires several additional disclosures, including gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to a master netting arrangement or a similar agreement. The guidance applies to BJC's derivatives, which include both interest rate swap contracts and derivative contracts associated with the Company's investment program which are held for risk management purposes. The guidance became effective for BJC on January 1, 2013. While the adoption of this guidance impacted BJC's disclosures, it did not affect the Company's results of operations, financial condition, or cash flows.

2. Net Patient Service Revenue and Uncompensated Care

BJC provides healthcare services through inpatient, outpatient, and ambulatory care facilities. Services provided to certain patients are covered by various governmental and third-party payment programs, including Medicare and Medicaid at contractual rates generally below BJC's established rates. Revenue from Medicare and Medicaid programs accounted for approximately 44% and 45% of BJC's patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2013 and 2012, respectively. The composition of patient service revenue (net of contractual allowances and discounts) by third-party payor is as follows:

	2013	2012
Medicare	**$ 1,171.0**	$ 1,186.4
Medicaid	**539.0**	528.8
Managed Care	**1,927.6**	1,804.0
Self-pay	**119.2**	127.9
Other	**141.1**	151.8
	$ 3,897.9	$ 3,798.9

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

BJC grants credit to patients and generally does not require collateral or other security in extending credit to patients. However, BJC routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, managed care payors, and commercial insurance policies). As of December 31, 2013 and 2012, 33% and 38%, respectively, of patient accounts receivable, net, were collectible from governmental payors. The remaining 67% and 62% of patient accounts receivable, net, in 2013 and 2012, respectively, were collectible primarily from managed care and commercial insurance payors.

As of December 31, 2013 and 2012, BJC expects to collect approximately 18% and 23% of all amounts due from self-pay patients (including patients without insurance and patients with deductibles and copayment balances due for which third-party coverage exists for part of the bill). In 2013, BJC's provision for bad debts increased $56.0 due to lower collection rates from self-pay patients and an increase in receivables due from self-pay patients. As a result, BJC increased its allowance for uncollectible accounts from $43.0 as of December 31, 2012, to $67.2 as of December 31, 2013.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make BJC subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs. The 2013 and 2012 net patient service revenue increased by $5.8 and $22.9, respectively, due to changes in estimated payment related to third-party payors and certain historical cost report periods. In addition, during 2012, BJC received $20.2, net of related expenses, which was recorded in 2012 excess of revenues over expenses due to a settlement with the Centers for Medicare & Medicaid Services (CMS) for past underpayments related to an error in Medicare's rural floor budget neutrality adjustment for fiscal years 2004 through 2011.

Uncompensated Care

In support of its mission, BJC provides charity care to patients who lack financial resources and are deemed to be medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial

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

circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. Charity care also includes services for which the patient may not participate in the charity care process but are otherwise deemed to meet the System's charity care policy. Because BJC does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue. In addition, BJC provides services to other medically indigent patients under various state Medicaid programs, which pay providers amounts that are less than the costs incurred for the services provided to the recipients.

The estimated cost of charity care was $148.9 and $145.2 in 2013 and 2012, respectively. Costs are estimated using the ratio of BJC's costs to its charges and applying to gross charity charges. These ratios are then used to determine the cost of each account that qualifies for charity care.

3. Electronic Health Record Incentive Program

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. BJC accounts for meaningful use incentive payments under a gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. BJC recognized $27.2 and $12.1 of meaningful use revenue in 2013 and 2012, respectively. The revenue is recorded in other operating revenue in the consolidated statements of operations and changes in net assets. BJC's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, EHR incentive payments are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were initially calculated.

(Dollars in Millions)

4. Affiliation Agreement With Washington University

BJC had an affiliation agreement with Washington University (the University) that expired on December 31, 2013. In 2013 this agreement was extended through December 31, 2023. The agreement may be canceled upon one-year written notice by either party. Under the terms of the affiliation agreement, the University trains and supervises medical residents and manages certain clinical and research activities of BJC. The annual expense for these services provided by the University under the affiliation agreement is based on a fixed payment ($7.7 in 2013 and $7.6 in 2012) plus a payment based on the combined net operating income of Barnes-Jewish, Barnes-Jewish West County Hospital (one of Barnes-Jewish's wholly owned 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 $95.6 and $91.7 in 2013 and 2012, respectively. Payments to the University 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 $121.0 and $102.0 in 2013 and 2012, respectively.

In addition, BJC received $18.8 and $22.3 from the University in 2013 and 2012, respectively, for certain purchased services and leased facilities and equipment.

Through the Foundations, BJC provides support to the University through various grant processes. These expenses are included in other nonoperating expense, net and net assets released from restrictions and total $28.9 and $167.7 in 2013 and 2012, respectively. Grants payable are included in other current and other noncurrent liabilities totaling $160.6 and $148.9 at December 31, 2013 and 2012, respectively. Management believes total grants payable will be paid as follows:

	2013	**2012**
Within one year	**$ 109.8**	$ 59.5
One to five years	**50.8**	89.4
	$ 160.6	$ 148.9

(Dollars in Millions)

5. Investments

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

	2013	2012
Unrestricted investments	**$ 3,527.4**	$ 3,021.9
Held at foundations	**875.2**	778.8
Assets limited as to use:		
Under self-insurance arrangements	**75.8**	80.8
Under BHC lease agreement	**52.4**	48.6
Under indenture agreements	**185.7**	17.8
	4,716.5	3,947.9
Less amounts included in other current assets	**(14.4)**	(12.3)
	$ 4,702.1	$ 3,935.6

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

	2013	2012
Cash and temporary cash investments	**$ 228.4**	$ 229.5
Income securities:		
U.S. government and agency obligations	**515.2**	558.5
Corporate debt securities	**917.8**	1,002.1
Asset-backed and securitized bonds and notes	**467.6**	252.2
Other fixed-income funds	**8.5**	5.5
Equity securities	**1,202.4**	1,038.3
Alternative investments:		
Hedge funds	**904.7**	504.6
Private equity	**461.0**	301.3
Other	**6.5**	13.0
Accrued interest and dividends receivable	**11.8**	13.2
	4,723.9	3,918.2
Less amounts included in other current assets	**(14.4)**	(12.3)
	4,709.5	3,905.9
Amounts due to brokers	**(32.7)**	(28.8)
Amounts due from brokers	**25.3**	58.5
	$ 4,702.1	$ 3,935.6

5. Investments (continued)

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.

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 domestic small capitalization equity companies.

Alternative investments have similar risks as income and equity securities although there may be additional risks. These securities consist principally of non-controlling interests in limited liability partnerships (LLP) and limited liability corporations (LLC). Because these funds are invested through LLCs and LLPs, the underlying net asset value of the investments is based on valuations provided by the managers. Nearly all of the hedge fund manager valuations are independently priced or verified by third-party administrators. Private equity investments have restrictions on the timing of withdrawals, up to ten years from initial investment date, which may reduce liquidity. Certain hedge fund investments also have restrictions on the timing of withdrawals, up to three years from initial investment date, which may reduce liquidity. BJC has unfunded commitments of $373.9 to private equity funds as of December 31, 2013.

BJC engages in downside risk mitigation strategies that cover equity, interest rates, foreign exchange, and bond credit spreads. This economic hedging is based on investment portfolio exposure to long only equities, foreign exchange, and fixed income. No leverage is utilized for this hedging activity. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties, as well as collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. These contracts contain collateral provisions applicable to both parties that mitigate credit risk above a specified mark-to-market posting threshold that is based on a fixed dollar amount. Pursuant to the collateral posting requirements under the contracts at December 31, 2013, BJC posted $1.4. No collateral was posted at December 31, 2012. At December 31, 2013 and 2012, the notional value of income and equity derivatives were approximately $490.6 and $364.0, respectively. The fair value of income and

(Dollars in Millions)

5. Investments (continued)

equity derivatives in an asset position was $4.8 and $7.7 at December 31, 2013 and 2012, respectively, while the fair value of derivatives in a liability position was $2.6 at December 31, 2013. BJC recognized a loss of $41.6 and $7.3 in 2013 and 2012, respectively, which are recorded in investment earnings within the consolidated statements of operations and changes in net assets. These derivatives are included in investments in the consolidated balance sheets at December 31, 2013 and 2012.

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

	2013	**2012**
Interest and dividends	**$ 87.3**	$ 84.0
Net realized gains	**185.1**	195.2
Net unrealized gains	**49.9**	125.9
Total investment earnings	**$ 322.3**	$ 405.1
Included in investment earnings	**$ 287.2**	$ 365.7
Included in temporarily and permanently restricted net assets	**35.1**	39.4
Total investment earnings	**$ 322.3**	$ 405.1

6. Property and Equipment

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

	2013	**2012**
Land and land improvements	**$ 157.3**	$ 130.1
Building and improvements	**1,805.9**	1,651.7
Equipment	**2,892.0**	2,672.4
	4,855.2	4,454.2
Less accumulated depreciation	**(2,992.9)**	(2,743.7)
	1,862.3	1,710.5
Construction-in-progress	**168.3**	226.3
	$ 2,030.6	$ 1,936.8

(Dollars in Millions)

6. Property and Equipment (continued)

At December 31, 2013, BJC had outstanding construction contracts totaling $115.2 for various building construction and renovations. The estimated remaining cost to complete these contracts totals $12.2 as of December 31, 2013. Net interest capitalized in 2013 and 2012 totaled $2.2 and $3.8, respectively.

7. Other Current Assets and Liabilities

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

	2013	2012
Inventory	**$ 76.7**	$ 87.4
Due from third-party payors	**19.7**	13.0
Prepaid expenses	**29.7**	31.8
Current portion of self-insurance trust	**14.4**	12.3
Receivable under securities lending program	**72.0**	–
Other	**0.3**	0.2
	$ 212.8	$ 144.7

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

	2013	2012
Accounts payable	**$ 95.7**	$ 85.5
Accrued payroll and related liabilities	**237.4**	233.7
Accrued expenses and other	**92.9**	97.4
Due to Washington University	**212.4**	145.2
Payable under securities lending program	**72.0**	–
Self-insurance liabilities	**14.4**	12.3
	$ 724.8	$ 574.1

(Dollars in Millions)

8. Long-term Debt

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

	2013	2012
Series 2011A-B variable rate term bonds, privately placed, puttable starting in 2021 at which time bonds can be remarketed or redeemed, interest (0.86% at December 31, 2013) set at prevailing market rates, due through 2046	**$ 200.0**	$ 200.0
Series 2012A-E and Series 2013B variable rate term bonds, privately placed, puttable starting in 2023 at which time bonds can be remarketed or redeemed, interest (0.76% to 0.86% at December 31, 2013) set at prevailing market rates, due through 2048	**371.0**	–
Series 2005B and Series 2008A-E variable rate demand bonds subject to self-liquidity, interest (0.03 % to 0.04 % at December 31, 2013) set at prevailing rates, due through 2050	**442.0**	206.2
Series 2013C variable rate demand bonds subject to self-liquidity and a put provision that provides for a seven-month notice and remarketing period, interest (0.13% at December 31, 2013) set at prevailing market rates, due through 2050	**100.0**	–
Series 2005B and Series 2008A-B variable rate demand bonds, subject to a seven-day put provision, due through 2043	**–**	235.8
Series 1993A, Series 2003, Series 2005A and Series 2013A fixed rate debt, interest rates from 3.23% to 5.25%, due through 2042	**199.6**	336.5
Other	**14.6**	14.7
	1,327.2	993.2
Less current maturities of long-term debt	**(15.6)**	(15.9)
Less long-term debt subject to self-liquidity arrangements	**(541.5)**	(206.2)
	$ 770.1	$ 771.1

8. Long-term Debt (continued)

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.

The Master Indenture permits BJC to issue Master Notes thereunder to evidence or secure additional indebtedness on behalf of the Obligated Group. The Obligated Group members are responsible for making all payments required with respect to obligations under the Master Indenture. The aggregate par amount of obligations outstanding under the Master Indenture (other than obligations that have been legally defeased and that are not considered to be outstanding) totaled $1,312.6 and $978.5 at December 31, 2013 and 2012, 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, 2013.

At December 31, 2012, BJC's bonds were backed by either a standby bond purchase agreement or by BJC self-liquidity. In the event of a failed remarketing period lasting one year, those bonds backed by a standby bond purchase agreement would convert to a term loan and the first installment on the term loan would generally be payable one year and one day after the failed remarketing. In May 2013, BJC converted $235.8 of its Series 2005B and Series 2008A and 2008B variable rate demand bonds from a daily mode to a weekly mode. The stand-by bond purchase agreement was terminated in 2013 and the bonds are now supported by self-liquidity. At December 31, 2013, BJC has $542.0 of variable rate demand bonds that are supported by self-liquidity.

The variable rate demand bonds, while subject to long-term amortization periods, may be tendered to BJC at the option of bondholders subject to certain notice period requirements. If the variable rate demand bonds subject to self-liquidity are not remarketed upon the exercise of put options, management would utilize internal or external sources to provide the necessary liquidity. Such bonds are included as long-term debt subject to self-liquidity in current liabilities in the consolidated balance sheets.

8. Long-term Debt (continued)

In October 2012, on behalf of BJC, tax-exempt Series 2012A-E variable rate term bonds were issued by the Health and Educational Facilities Authority of the State of Missouri. These bonds gave BJC the right to draw $271.0 until May 15, 2013. In May 2013, the right was exercised associated with the private placement bonds and the full $271.0 was drawn to reimburse BJC for the payment of certain capital expenditures and to re-finance the Series 2003 fixed rate bonds. The Series 2012A-D bonds mature in 2042 while the Series 2012E bonds mature in 2033. As a result of the re-financing, BJC recognized a gain on bond refinancing of $1.1, which is included in supplies and other on the consolidated statements of operations and changes in net assets.

In September 2013, $100.0 of tax-exempt Series 2013A fixed rate bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds were used to reimburse BJC for the payment of certain capital expenditures. This private placement matures in 2042.

In October 2013, $100.0 of tax-exempt Series 2013B variable rate term bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. The proceeds of these bonds will be used to reimburse BJC for the payment of certain capital expenditures. This private placement matures in 2048.

In October 2013, $100.0 of tax-exempt Series 2013C variable rate demand bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of BJC. These bonds are backed by self-liquidity and the proceeds will be used to reimburse BJC for the payment of certain capital expenditures. These bonds mature in 2050.

In 2013, the System incurred $1.3 in costs related to new issuances, which will be amortized over the life of the bonds.

In 2012, BJC entered into a 30-year loan agreement for $14.6 with a direct lender through the U.S. Department of the Treasury Community Development Financial Institutions (CDFI) Fund New Markets Tax Credit (NMTC) program for reimbursement of certain capital expenditures. The loan has a bi-lateral put/call option that becomes effective in year eight of the loan agreement. Using the loan proceeds, BJC concurrently loaned $10.3 to a newly created not-for-profit Special Purpose Entity (SPE). Amounts receivable from the SPE and payable by BJC are included in other noncurrent assets and long-term debt, respectively.

(Dollars in Millions)

8. Long-term Debt (continued)

At December 31, 2013, BJC has a general operating line of credit of $300.0. This facility has a five-year term. In addition, BJC initiated a $100.0 hybrid dedicated bank line of credit in May 2013. This facility has a three-year term and has the dual function of supporting general operating requirements and tenders associated with the variable rate demand bonds. No amounts are outstanding under the lines of credit at December 31, 2013 or 2012.

Scheduled principal payments on long-term debt, including obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of December 31, 2013, are as follows:

	Scheduled
Year ending December 31:	
2014	$ 15.6
2015	15.8
2016	16.5
2017	21.5
2018	22.5

The amount of interest paid, net of interest capitalized, totaled $13.4 and $17.3 in 2013 and 2012, respectively.

9. Derivative Instruments

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 LIBOR rate, and a fixed rate. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties (including BJC) will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for BJC's counterparties and, in certain cases, collateral posting requirements. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. Certain interest rate

(Dollars in Millions)

9. Derivative Instruments (continued)

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, 2013 and 2012, BJC posted $7.1 and $40.3, respectively, as collateral, which is reported as other noncurrent assets in the consolidated balance sheets. BJC does not anticipate nonperformance by its counterparties.

At December 31, 2013 and 2012, the notional amount of BJC's outstanding interest rate swap contracts is $689.6.

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

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	2013	2012
Interest rate swap contracts	Other noncurrent liabilities	**$ (50.1)**	$ (107.9)
Interest rate swap contracts	Other noncurrent assets	**16.3**	–

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

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues Over Expenses	
		2013	2012
Interest rate swap contracts	Unrealized gain (loss) on interest rate swap contracts	**$ 73.9**	$ (3.0)
Interest rate swap contracts	Interest rate swap settlements, net	**(16.8)**	(13.8)

10. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures Topic of the FASB ASC establish 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).

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

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

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

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

(Dollars in Millions)

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2013:

		Fair Value Measurements at Using		
	Fair Market Value	**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	$ 228.4	$ 228.4	$ –	$ –
Income securities:				
U.S. government and agency obligations	515.2	–	515.2	–
Corporate debt securities	917.8	–	917.8	–
Asset-backed and securitized bonds and notes	467.6	–	204.3	263.3
Other fixed-income funds	8.5	–	8.5	–
Equity securities	1,202.4	686.7	515.7	–
Other	6.5	–	6.5	–
Total investments	3,346.4	915.1	2,168.0	263.3
Collateral received under securities lending program	72.0	–	72.0	–
Asset under interest rate swap contracts	16.3	–	16.3	–
Deferred compensation agreements	25.4	25.4	–	–
	$ 3,460.1	$ 940.5	$ 2,256.3	$ 263.3
Liabilities				
Liability under interest rate swap contracts	$ (50.1)	$ –	$ (50.1)	$ –

(Dollars in Millions)

10. Fair Value Measurements (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2012:

		Fair Value Measurements at Using		
	Fair Market Value	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	$ 229.5	$ 229.5	$ –	$ –
Income securities				
U.S. government and agency obligations	558.5	–	558.5	–
Corporate debt securities	1,002.1	–	1,002.1	–
Asset-backed and securitized bonds and notes	252.2	–	43.4	208.8
Other fixed-income funds	5.5	–	5.5	–
Equity securities	1,038.3	653.2	385.1	–
Other	13.0	–	13.0	–
Total investments	3,099.1	882.7	2,007.6	208.8
Deferred compensation agreements	22.3	22.3	–	–
	$ 3,121.4	$ 905.0	$ 2,007.6	$ 208.8
Liabilities				
Liability under interest rate swap contracts	$ (107.9)	$ –	$ (107.9)	$ –

The tables above exclude hedge funds, private equity and income and accrued interest, dividend receivable, and other, totaling $1,377.5 and $819.1 at December 31, 2013 and 2012, respectively, which are included in investments on the consolidated balance sheets but are not measured at fair value.

(Dollars in Millions)

10. Fair Value Measurements (continued)

The following table is a rollforward of assets classified in Level 3 of the valuation hierarchy defined above.

	Asset-Backed and Securitized Bonds and Notes
Fair value at January 1, 2012	$ –
Purchases	33.8
Settlements	(80.2)
Investment earnings	36.4
Transfers in and out/of Level 3	218.8
Fair value at January 1, 2013	208.8
Purchases	**99.9**
Settlements	**(63.4)**
Investment earnings	**18.0**
Transfers in and/or out of Level 3	**–**
Fair value at December 31, 2013	**$ 263.3**

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. The fair values for interest rate swap contracts were derived through observable market data obtained from a pricing vendor. With regards to the equity option derivatives, which are included in other Level 2 securities, 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 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.

10. Fair Value Measurements (continued)

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, while the counterparty credit spread adjustment is based on respective credit default swap spreads. 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, 2013.

Level 3 assets of $263.3 include certain asset-backed and securitized notes and bonds. These underlying securities trade less frequently than other 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. There were no significant transfers into or out of Level 1, Level 2, or Level 3 that occurred between January 1, 2013 and December 31, 2013. BJC recognizes transfers as of the end of the reporting period.

The carrying value of cash and cash equivalents, accounts receivable, and current liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The value of pledges receivable is estimated by management to approximate fair value as of the date the pledge is received. The fair value of BJC's fixed rate bonds is based on quoted market prices for the same or similar issues and approximates $204.1 and $349.1 as of December 31, 2013 and 2012, respectively, and represents a Level 2 measurement. The fair value of BJC's variable rate bonds approximates the carrying amount of $1,113.0 and $642.1 as of December 31, 2013 and 2012, respectively, and excludes the impact of third-party credit enhancements.

11. Postretirement Benefits

BJC sponsors the BJC Defined Contribution Plan, a 401(k) defined contribution plan that covers substantially all employees. Employer contributions to this plan are based on a percentage of participating employees' contributions to a related 403(b) plan. BJC contributed $16.8 and $14.9 to this plan during 2013 and 2012, respectively, which is included in salaries and benefits in the consolidated statements of operations and changes in net assets.

(Dollars in Millions)

11. Postretirement Benefits (continued)

BJC sponsors a defined-benefit pension plan (the Plan) covering substantially all full-time employees who have met certain age requirements and have completed one year of service. Benefits are based on years of service and employee earnings. BJC's minimum funding policy is to contribute annually amounts actuarially determined to fund the benefits of the plans. In 2013 and 2012, 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:

	2013	2012
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 1,926.6**	$ 1,627.2
Service cost	**94.4**	79.1
Interest cost	**85.9**	82.0
Actuarial (gain) loss	**(224.4)**	171.5
Benefits paid	**(37.7)**	(33.2)
Projected benefit obligation at end of year	**1,844.8**	1,926.6
Change in plan assets		
Fair value of plan assets at beginning of year	**1,382.2**	1,152.8
Actual earnings on plan assets	**128.5**	158.1
Employer contributions	**122.2**	104.5
Benefits paid	**(37.7)**	(33.2)
Fair value of plan assets at end of year	**1,595.2**	1,382.2
Unfunded status	**$ (249.6)**	$ (544.4)
Accumulated benefit obligation at end of year	**$ 1,588.4**	$ 1,636.9
Funded (unfunded) status (based on accumulated benefit obligation)	**$ 6.8**	$ (254.7)

The unfunded status is included in pension/postretirement liabilities in the consolidated balance sheets. BJC has other postretirement plans with unfunded benefit obligations of $4.6 and $4.9 at December 31, 2013 and 2012, respectively.

(Dollars in Millions)

11. Postretirement Benefits (continued)

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

	2013	2012
Unrecognized actuarial losses	**$ 329.2**	$ 623.5
Unrecognized prior service cost	**0.4**	0.9
	$ 329.6	$ 624.4

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

	2013	2012
Unrecognized actuarial losses	**$ (246.5)**	$ 109.3
Amortization of actuarial losses	**(47.8)**	(32.1)
Amortization of prior service cost	**(0.5)**	(0.5)
	$ (294.8)	$ 76.7

The pension and other postretirement liability adjustment of $295.2 for the year ended December 31, 2013, on 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 unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2014, total $0.2 and $19.0, respectively. The impact of the change in discount rate on the projected benefit obligation of the Plan was a decrease of approximately $227.4 at December 31, 2013.

(Dollars in Millions)

11. Postretirement Benefits (continued)

No plan assets are expected to be returned to BJC during the year ending December 31, 2014.

	2013	2012
Weighted-average assumptions used to determine benefit obligations for the year ended December 31		
Discount rate	**5.25%**	4.50%
Rate of increase in compensation levels	**4.00**	4.00
Weighted-average assumptions used to determine expense for the year ended December 31		
Discount rate	**4.50%**	5.13%
Rate of compensation increases	**4.00**	4.00
Expected long-term rate of return	**7.75**	7.75

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.

	2013	2012
Components of net periodic benefit cost:		
Service cost	**$ 94.4**	$ 79.1
Interest cost	**85.9**	82.0
Expected earnings on plan assets	**(106.4)**	(95.9)
Amortization of prior service cost	**0.5**	0.5
Recognized net actuarial loss	**47.8**	32.1
Net periodic benefit cost	**$ 122.2**	$ 97.8

(Dollars in Millions)

11. Postretirement Benefits (continued)

BJC's goal is to maintain parity between the duration of assets and liabilities to meet the anticipated growth of plan liabilities. The plan's assets are invested in a portfolio designed to preserve principal and obtain competitive investment earnings and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating funds to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles, and approaches. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Plan assets may also be loaned to established brokerage firms in return for securities collateral. At December 31, 2013, plan assets on loan included in the fair value of plan assets totaled $4.5. The fair value of accepted collateral of $4.7 is recorded net of an equal obligation to return the collateral upon completion of the lending arrangement. BJC did not participate in a securities lending program at December 31, 2012.

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

Asset Category	Target Asset Allocation	Plan Assets at December 31 2013	2012
Cash	–%	**0.1%**	2.8%
Growth	50.0	**62.2**	59.1
Income	25.0	**25.4**	27.4
Illiquid	25.0	**12.3**	10.7
Total	100.0%	**100.0%**	100.0%

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

(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2013:

		Fair Value Measurements at Using		
	Fair Market Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservab le Inputs (Level 3)**
Cash and short-term investments	**$ 20.7**	**$ 20.7**	**$ –**	**$ –**
Income securities:				
U.S. government and agency obligations	**25.4**	**–**	**25.4**	**–**
Corporate debt securities	**212.4**	**–**	**212.4**	**–**
Asset-backed and securitized bonds and notes	**146.9**	**–**	**44.6**	**102.3**
Equity securities	**649.0**	**427.5**	**221.5**	**–**
Alternative investments:				
Hedge funds	**344.6**	**–**	**–**	**344.6**
Private equity	**194.8**	**–**	**–**	**194.8**
Other	**1.4**	**1.2**	**0.2**	**–**
	$ 1,595.2	**$ 449.4**	**$ 504.1**	**$ 641.7**

(Dollars in Millions)

11. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2012:

		Fair Value Measurements at Using		
	Fair Market Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash and short-term investments	$ 73.6	$ 73.6	$ –	$ –
Income securities:				
U.S. government and agency obligations	6.8	–	6.8	–
Corporate debt securities	258.5	–	258.5	–
Asset-backed and securitized bonds and notes	79.9	–	–	79.9
Equity securities	539.7	339.7	200.0	–
Alternative investments:				
Hedge funds	250.4	–	–	250.4
Private equity	147.8	–	–	147.8
Other	25.5	20.8	4.7	–
	$ 1,382.2	$ 434.1	$ 470.0	$ 478.1

(Dollars in Millions)

11. Postretirement Benefits (continued)

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

	Asset-Backed and Securitized Bonds and Notes	Hedge Funds	Private Equity
Fair value at January 1, 2012	$ –	$ 211.0	$ 68.0
Purchases, sales and settlements, net	12.6	15.0	69.2
Actual earnings on plan assets	7.1	24.4	10.6
Transfers in and/or out of Level 3	60.2	–	–
Fair value at January 1, 2013	79.9	250.4	147.8
Purchases, sales and settlements, net	**15.1**	**71.7**	**24.7**
Actual earnings on plan assets	**7.3**	**22.5**	**22.3**
Transfers in and/or out of Level 3	**–**	**–**	**–**
Fair value at December 31, 2013	**$ 102.3**	**$ 344.6**	**$ 194.8**

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. There were no significant transfers between Level 1, Level 2, or Level 3 that occurred between January 1, 2013 and December 31, 2013. BJC recognizes transfers as of the end of the reporting period.

Private equity investments have restrictions on the timing of withdrawals, up to 10 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 initial investment date, which may reduce liquidity. These investments represent the Plan's ownership interest in the net asset value (NAV) of the respective partnership.

(Dollars in Millions)

11. Postretirement Benefits (continued)

Level 3 securities consist of limited partnership interests in hedge funds and private equity. ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The NAV per share, or its equivalent, was used as a practical expedient for fair value of the Plan's interest in hedge funds and private equity 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, 2013, the Plan has commitments to fund $174.5 in alternative investments.

The Level 3 assets also consist of certain asset-backed and securitized bonds and notes of $102.3 at December 31, 2013 and trade less frequently than other income instruments which generates 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.

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 2014	$	81.0
Expected benefit payments:		
2014	$	49.5
2015		56.4
2016		64.1
2017		72.6
2018		81.1
2019–2023		557.7

(Dollars in Millions)

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 self-insurance program. Effective November 15, 2006, self-insured retentions were between $5.0 and $8.0 per occurrence with no aggregate. BJC purchased a claims-made policy providing $2.0 in coverage effectively reducing the self-insured retention for professional liability to $3.0 from November 15, 2006, to the present for its hospitals, excluding Barnes-Jewish and Children's, which have a self-insured retention of $8.0. This claims-made policy was renewed through November 2014. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of self-insured limits. The estimated cost of claims is actuarially determined based upon past experience and discounted using a discount rate of 4% in 2013 and 2012. The reserve includes provisions for asserted and unasserted claims and incidents that have occurred but have not been reported. BJC has a revocable self-insurance trust of $75.8 and $80.8 as of December 31, 2013 and 2012, respectively, which is used for the payment of professional and general liability claim settlements and expenses. During 2013 and 2012, $15.1 and $11.8, respectively, of professional and general liability expenses were included in supplies and other in the consolidated statements of operations and changes in net assets. In addition, at December 31, 2013 and 2012, BJC recorded net insurance receivables of $13.9 and $15.9, respectively, included in other noncurrent assets in the consolidated balance sheets.

13. Operating Leases

Lease expense for the years ended December 31, 2013 and 2012, totaled $73.1 and $72.4, respectively.

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

Year ending December 31:		
2014	$	36.1
2015		25.9
2016		24.8
2017		24.0
2018		23.3
Thereafter		173.4
	$	307.5

(Dollars in Millions)

14. Contingencies

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

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

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

15. Temporarily and Permanently Restricted Net Assets

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

	2013	2012
Healthcare services:		
Research and education	**$ 97.2**	$ 90.8
Special programs	**78.4**	70.6
Patient care	**32.4**	26.8
Operations	**27.3**	23.2
Property and equipment	**4.9**	4.0
	$ 240.2	$ 215.4

(Dollars in Millions)

15. Temporarily and Permanently Restricted Net Assets (continued)

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

	2013	2012
Healthcare services:		
Special programs	**$ 77.4**	$ 78.0
Operations	**44.1**	30.5
Research and education	**43.3**	41.0
Patient care	**25.9**	24.4
	$ 190.7	$ 173.9

16. Endowments

The Foundations' endowments consist of approximately 569 individual funds established for a variety of purposes. The Foundations' endowments include both donor-restricted endowment funds and funds designated by the Foundations' Boards of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions in accordance with U.S. GAAP.

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

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

(Dollars in Millions)

16. Endowments (continued)

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

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

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

At December 31, 2013, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 108.2	$ 143.4	$ 251.6
Board-designated endowment funds	128.4	–	–	128.4
Total funds	$ 128.4	$ 108.2	$ 143.4	$ 380.0

(Dollars in Millions)

16. Endowments (continued)

At December 31, 2012, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 92.0	$ 141.9	$ 233.9
Board-designated endowment funds	118.4	–	–	118.4
Total funds	$ 118.4	$ 92.0	$ 141.9	$ 352.3

For the years ended December 31, 2013 and 2012, the changes in the endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2012	$ 101.4	$ 72.5	$ 140.6	$ 314.5
Investment return:				
Investment income	1.6	2.8	–	4.4
Net appreciation	13.2	24.5	0.5	38.2
Total investment return	14.8	27.3	0.5	42.6
Contributions	–	–	1.9	1.9
Appropriations, net of recoveries	(4.4)	(7.6)	–	(12.0)
Other changes	6.6	(0.2)	(1.1)	5.3
Endowment net assets, January 1, 2013	**118.4**	**92.0**	**141.9**	**352.3**
Investment return:				
Investment income	**2.4**	**4.1**	**–**	**6.5**
Net appreciation	**10.2**	**18.7**	**0.4**	**29.3**
Total investment return	**12.6**	**22.8**	**0.4**	**35.8**
Contributions	**–**	**–**	**1.2**	**1.2**
Appropriations, net of recoveries	**(4.2)**	**(6.7)**	**–**	**(10.9)**
Other changes	**1.6**	**0.1**	**(0.1)**	**1.6**
Endowment net assets, December 31, 2013	**$ 128.4**	**$ 108.2**	**$ 143.4**	**$ 380.0**

16. Endowments (continued)

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

The Foundations rely on a total return strategy in which investment earnings are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends, net of fees).

Spending Policy

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

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

17. Subsequent Events

BJC evaluated events and transactions occurring subsequent to December 31, 2013 through February 25, 2014, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.

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