

CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AND UNIFORM
GUIDANCE REPORTS AND SCHEDULES

BJC HealthCare
Years Ended December 31, 2020 and 2019
With Reports of Independent Auditors

Ernst & Young LLP



BJC HealthCare

Consolidated Financial Statements, Supplementary Information, and Uniform Guidance Reports and Schedules

Years Ended December 31, 2020 and 2019

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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, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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

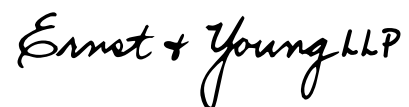
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BJC HealthCare at December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to February 23, 2021. The Financial Responsibility Supplemental Schedule required by the U.S. Department of Education and Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated February 23, 2021, on our consideration of BJC HealthCare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of BJC HealthCare's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BJC HealthCare's internal control over financial reporting and compliance.



February 23, 2021, except for the Schedule of Expenditures of
Federal Awards, for which the date is March 29, 2022

BJC HealthCare

Consolidated Balance Sheets (Dollars in Millions)

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 433.9	\$ 90.9
Accounts receivable:		
Patients	745.9	823.8
Other	88.1	77.5
Other current assets	234.2	237.7
Total current assets	1,502.1	1,229.9
Investments	7,343.4	6,298.4
Property and equipment, net	3,035.4	3,200.2
Other noncurrent assets	521.8	469.0
Total assets	\$ 12,402.7	\$ 11,197.5
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	\$ 8.3	\$ 8.1
Long-term debt subject to self-liquidity	263.7	267.5
Short-term borrowings	103.0	103.0
Other current liabilities	1,305.0	1,046.7
Total current liabilities	1,680.0	1,425.3
Noncurrent liabilities:		
Long-term debt, excluding current portion	1,862.4	1,667.5
Self-insurance liabilities	189.3	168.7
Pension/postretirement liabilities	1,128.0	665.2
Other noncurrent liabilities	1,031.5	604.9
Total noncurrent liabilities	4,211.2	3,106.3
Total liabilities	5,891.2	4,531.6
Net assets:		
Without donor restrictions	5,898.9	6,084.4
With donor restrictions	612.6	581.5
Total net assets	6,511.5	6,665.9
Total liabilities and net assets	\$ 12,402.7	\$ 11,197.5

See accompanying notes.

BJC HealthCare

Consolidated Statements of Operations and Changes in Net Assets
(Dollars in Millions)

	Year Ended December 31	
	2020	2019
Revenues without donor restrictions:		
Patient service revenue	\$ 5,143.2	\$ 5,168.1
Other operating revenue	443.6	210.0
Total revenues without donor restrictions	<u>5,586.8</u>	<u>5,378.1</u>
Expenses:		
Salaries and benefits	2,612.9	2,504.2
Supplies and other	2,275.9	2,191.2
Depreciation and amortization	366.8	358.7
Interest	59.8	58.6
Total expenses	<u>5,315.4</u>	<u>5,112.7</u>
Income from continuing operations	271.4	265.4
Loss from discontinued operations	(177.6)	(2.1)
Investment earnings, net	294.6	562.4
Unrealized losses on interest rate swap contracts, net	(77.0)	(66.5)
Other nonoperating expense, net	(30.2)	(58.6)
Excess of revenues over expenses	<u>\$ 281.2</u>	<u>\$ 700.6</u>

BJC HealthCare

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

	Year Ended December 31	
	2020	2019
Net assets without donor restrictions:		
Excess of revenues over expenses	\$ 281.2	\$ 700.6
Pension and other postretirement liability adjustment and other	(467.6)	(302.7)
Net assets released for property acquisitions	0.9	2.8
(Decrease) increase in net assets without donor restrictions	<u>(185.5)</u>	400.7
Net assets with donor restrictions:		
Contributions, bequests, and grants	30.2	32.9
Investment earnings	29.7	49.7
Net assets released from restrictions	(39.0)	(40.0)
Other	10.2	17.9
Increase in net assets with donor restrictions	<u>31.1</u>	60.5
(Decrease) increase in net assets	(154.4)	461.2
Net assets at beginning of year	<u>6,665.9</u>	<u>6,204.7</u>
Net assets at end of year	<u>\$ 6,511.5</u>	<u>\$ 6,665.9</u>

See accompanying notes.

BJC HealthCare

Consolidated Statements of Cash Flows (Dollars in Millions)

	Year Ended December 31	
	2020	2019
Operating activities		
(Decrease) increase in net assets	\$ (154.4)	\$ 461.2
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Loss on deconsolidation	35.4	–
Unrealized loss on interest rate swaps	77.0	66.5
Restricted contributions	(30.2)	(32.9)
Depreciation and amortization	366.8	381.4
Pension and other postretirement liability adjustment and other	467.6	302.7
Gain on debt extinguishment	–	(4.3)
Decrease (increase) in patient accounts receivable	37.5	(37.4)
(Increase) decrease in other current assets	(8.1)	1.3
Increase in other current liabilities	272.1	22.0
Investments classified as trading, net	(950.5)	(839.6)
Increase in other assets	(59.5)	(62.7)
Increase in self-insurance liabilities	15.6	4.4
Increase in other noncurrent liabilities	348.2	31.5
Net cash provided by operating activities	<u>417.5</u>	<u>294.1</u>
Investing activities		
Purchases of property and equipment, net	(202.1)	(395.5)
Sales and distributions of interests in alternative investments	402.5	568.9
Purchases of interests in alternative investments	(682.2)	(368.1)
Net cash used in investing activities	<u>(481.8)</u>	<u>(194.7)</u>
Financing activities		
Principal payments on debt	(8.1)	(7.9)
Proceeds from issuance of debt	200.0	–
Restricted contributions	30.2	32.9
Proceeds from short-term borrowings	–	103.0
Proceeds from line of credit	400.0	–
Payments on line of credit	(400.0)	(103.0)
Net cash provided by financing activities	<u>222.1</u>	<u>25.0</u>
Net increase in cash and cash equivalents and restricted cash	157.8	124.4
Cash and cash equivalents and restricted cash, beginning of year	298.2	173.8
Cash and cash equivalents and restricted cash, end of year	<u>\$ 456.0</u>	<u>\$ 298.2</u>
Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	\$ 433.9	\$ 90.9
Restricted cash included in investments	22.1	207.3
	<u>\$ 456.0</u>	<u>\$ 298.2</u>

See accompanying notes.

BJC HealthCare

Notes to Consolidated Financial Statements (Dollars in Millions)

December 31, 2020

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, St. Louis Children's Hospital (Children's), Progress West Hospital, 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 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. The lease agreement (Lease) expired on December 31, 2020, as further discussed in Note 5.

Consolidation

The accompanying consolidated financial statements include the accounts of BJC and its controlled subsidiaries. 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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents generally include cash and highly liquid debt instruments with original, short-term maturities of less than 90 days. Highly liquid debt instruments with original, short-term maturities of less than 90 days that are included as part of the investment portfolio are excluded from cash equivalents as they are commingled with longer-term investments. Amounts included in restricted cash include cash held within investments and may represent funds set aside within the investment portfolio based on management's policy or contractual arrangements.

Investments and Investment Earnings

Investments include assets held under the Lease, assets held in escrow, self-insurance agreements, captive insurance agreement, 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 and commingled funds, 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 investment earnings in excess of revenues over expenses.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

BJC invests in alternative investments (primarily hedge funds and private equity, real asset, and credit funds) generally through limited liability corporations (LLCs) and limited liability partnerships (LLPs), which are reported based on the net asset value of the investments. The calculated net asset values are provided by the respective organizations and 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 investments based on the net asset value, whether realized or unrealized, are included in investment earnings in excess of revenues over expenses.

Investment securities purchased and sold are reported based on the 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 on the consolidated balance sheets.

Securities Lending Program

BJC participates in securities lending transactions with its investment custodian whereby a portion of its securities is 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 13.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Interest Rate Swaps

BJC uses interest rate swap contracts in managing its capital structure. BJC recognizes these derivative instruments as either assets or liabilities on 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 on the accompanying consolidated statements of operations and changes in net assets. BJC also does not offset fair value amounts recognized for derivative instruments or fair value amounts recognized for cash collateral posted.

Inventory

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

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. BJC follows the American Hospital Association guidelines for assigning useful lives to property and equipment purchased. BJC capitalizes certain internally developed software costs in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350-40, *Intangibles – Goodwill and Other 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 are 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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

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 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:

	2020	2019
Operating	\$ 5,338.6	\$ 5,531.2
Board designated:		
Quasi-endowment funds	192.4	181.3
Research and education	3.0	2.5
Patient care	7.1	11.0
Special programs	21.8	21.6
MRHS and health promotion	100.0	100.0
Community benefit and other	236.0	236.8
	\$ 5,898.9	\$ 6,084.4

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

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

	<u>2020</u>	<u>2019</u>
Endowment funds	\$ 321.1	\$ 303.1
Quasi-endowment funds	75.8	76.0
Research and education	69.1	61.6
Pledges receivable	41.5	46.7
Patient care	35.1	35.3
Held by third-party trustees	43.5	39.4
Special programs	17.6	11.5
Community benefit and other	4.5	4.4
Property and equipment	4.4	3.5
	<u>\$ 612.6</u>	<u>\$ 581.5</u>

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 earned. 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 12) recorded on a nonrecurring basis. Pledges receivable totaling \$41.6 and \$46.8 are included in other accounts receivable and other noncurrent assets at December 31, 2020 and 2019, 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 4.4% and 4.7% in 2020 and 2019, respectively, which approximates fair value at the date the pledge is received.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Management believes total pledges will be received as follows:

	2020	2019
Within one year	\$ 11.9	\$ 13.8
One to five years	11.5	19.8
After five years	30.3	24.9
	<u>53.7</u>	<u>58.5</u>
Less present value factor	(11.8)	(11.4)
Less allowance for uncollectible pledges	(0.3)	(0.3)
	<u>\$ 41.6</u>	<u>\$ 46.8</u>

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 and pension and other postretirement liability adjustments and other.

Operating and Nonoperating Income

BJC's primary mission is to meet the healthcare needs of the population 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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

New Accounting Standards Not Yet Adopted

In September 2020, the FASB issued Accounting Standards Update No. (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU affects presentation and disclosure of contributed nonfinancial assets in the statement of activities and notes to the financial statements. This ASU is effective for BJC beginning January 1, 2022. BJC is currently evaluating the effects of the standard on the consolidated financial statements.

New Accounting Standards Adopted

In June 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU affects loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. On January 1, 2020, this ASU was early adopted by BJC with no material impact to the consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The updated standard expands the range of transactions that qualify for hedge accounting and simplifies the presentation and disclosure requirements. On January 1, 2020, this ASU adopted by BJC with no material impact to the consolidated financial statements.

Reclassifications

Certain balances in the 2019 consolidated balance sheets, consolidated statements of operations and changes in net assets, consolidated statements of cash flows, and accompanying footnotes have been reclassified to conform to the current year presentation, which is predominantly related to the discontinued operations discussed in Note 5.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

BJC provides healthcare services in healthcare facilities that 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 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 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

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

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 and operating income increased by \$43.8 and \$24.0 in 2020 and 2019, 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. 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 judgments 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 \$174.9 and \$197.8 in 2020 and 2019, 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, 2020 and 2019, were not significant.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

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:

	2020	2019
Medicare	\$ 1,583.0	\$ 1,577.0
Medicaid	804.9	785.0
Managed care	2,509.1	2,577.6
Other	223.7	206.0
Self-pay	22.5	22.5
	\$ 5,143.2	\$ 5,168.1

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

	2020	2019
HealthCare facilities	\$ 4,799.3	\$ 4,810.9
Physician practices	167.2	169.3
Other	176.7	187.9
	\$ 5,143.2	\$ 5,168.1

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, 2020 and 2019, 34% and 32%, respectively, of patient accounts receivable were collectible from government payors. The remaining 66% and 68% of patient accounts receivable in 2020 and 2019, respectively, was collectible from managed care payors, commercial insurance payors, and uninsured and underinsured patients.

As of December 31, 2020 and 2019, BJC expects to collect approximately 20% and 22%, respectively, of all amounts due from uninsured and underinsured patients (including patients with deductibles and co-payment balances due for which third-party coverage exists for part of the bill).

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

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

Other operating revenue is recognized at an amount that reflects the consideration to which 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 provider relief funding (as discussed in Note 3), 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. COVID-19

In March 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) a pandemic. The Centers for Disease Control and Prevention confirmed its spread to the United States and it was declared a national public health emergency, followed by several state emergency declarations, and the Centers for Medicare & Medicaid Services (CMS) issued guidance regarding elective procedures. Several national and international travel restrictions were put in place and the governors in Missouri and Illinois issued executive orders postponing nonessential or elective procedures. In response to anticipated revenue shortfalls, BJC took appropriate temporary actions to reduce capital spending and operational expenses.

During 2020, BJC received approximately \$255.0 of provider relief funds from various provisions in the Coronavirus Aid, Relief and Economic Security Act (CARES Act) of which approximately \$226.8 was recognized as other revenue and \$10.6 was recognized in the loss on discontinued operations in the consolidated statement of operations and changes in net assets. The unrecognized amount of provider relief funds of \$17.6 has been reported as other current liabilities in the consolidated balance sheet.

Additionally, during 2020, BJC received \$479.6 of Medicare advance payments as part of the CMS Accelerated and Advance Payments Program (the Program). As of December 31, 2020, the consolidated balance sheet includes \$179.9 in other current liabilities and \$299.7 in other noncurrent liabilities related to these advance payments, with repayment to occur based upon terms and conditions of the Program. As of December 31, 2020, BJC transferred \$51.1 of payments related to the Program received on behalf of BHC to the Boone County Trustees in conjunction with the lease termination discussed in Note 5.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

3. COVID-19 (continued)

The CARES Act also provides for a deferral of payments of the employer portion of Social Security tax incurred during the pandemic. At December 31, 2020, BJC deferred \$91.4 of Social Security taxes with \$45.7 included in other current liabilities and \$45.7 in other noncurrent liabilities.

4. Affiliation Agreement With Washington University

BJC has an affiliation agreement with Washington University (the University) that expires on December 31, 2027, but that may be canceled upon a 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 (\$9.6 and \$9.2 in 2020 and 2019, respectively) 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 on the consolidated statements of operations and changes in net assets for these services under the affiliation agreement totaled \$142.0 and \$137.4 in 2020 and 2019, 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 \$264.5 and \$231.5 in 2020 and 2019, respectively.

In addition, BJC received \$23.0 and \$36.0 from the University in 2020 and 2019, respectively, for certain purchased services and leased facilities and equipment. These amounts are included in other operating revenue on 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 \$41.3 and \$75.6 in 2020 and 2019, respectively. Grants payable are included in other

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

4. Affiliation Agreement With Washington University (continued)

current and other noncurrent liabilities totaling \$182.6 and \$196.8 at December 31, 2020 and 2019, respectively. Management believes total grants payable will be paid as follows:

	<u>2020</u>	<u>2019</u>
Within one year	\$ 154.7	\$ 162.1
Over one to five years	26.4	31.8
After five years	1.5	2.9
	<u>\$ 182.6</u>	<u>\$ 196.8</u>

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.

The outstanding commitment is recognized on the consolidated balance sheets in other current liabilities (\$20.0 at December 31, 2020 and 2019) and other noncurrent liabilities of \$107.5 and \$124.1 at December 31, 2020 and 2019, respectively.

As of December 31, 2020, BJC has an unrecorded, conditional commitment to the University to fund a medical research and education initiative of up to \$93.7 to be paid by the Foundations over the next ten years, if certain criteria are met.

5. Agreement With Boone County Trustees

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 (Trustees). Effective January 1, 2021, Boone Health, Inc. (an entity controlled by the Trustees) became a corporate member of CHAS. Under the terms of a Transition Agreement, BJC agreed to continue to operate BHC through March 31, 2021, but the Trustees are responsible for all financial results. The System's consolidated financial statements include amounts due to the Trustees (included in other current liabilities) of \$54.3 and a receivable from Boone Hospital of \$12.7 (included in accounts receivable other) at December 31, 2020. Due to the lease transition, the System recognized a loss on discontinued operations of \$177.6 related to the operating performance in 2020 of BHC and the transfer of cash, working capital, net assets, and other settlements due to the Trustees.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

5. Agreement With Boone County Trustees (continued)

A summary of the major classes of assets and liabilities included in the balance sheet as of December 31, 2019, and as part of the loss on discontinued operations as of December 31, 2020, as presented below:

	2020	2019
Assets		
Cash and cash equivalents	\$ 72.2	\$ 26.9
Patients accounts receivable	40.4	42.3
Other accounts receivable	4.3	2.4
Other current assets	9.3	8.7
Investments	25.7	55.0
Property and equipment, net	–	27.6
Other noncurrent assets	6.8	13.6
Total assets	\$ 158.7	\$ 176.5
Liabilities		
Other current liabilities	\$ 82.7	\$ 49.3
Other noncurrent liabilities	14.9	3.9
Total liabilities	\$ 97.6	\$ 53.2

Operating results from discontinued operations are reported in the consolidated statements of operations and changes in net assets and are summarized as follows for the years ended December 31:

	2020	2019
Revenues without donor restrictions	\$ 349.5	\$ 343.5
Salaries and benefits	140.6	132.3
Supplies and other	196.7	190.6
Depreciation and amortization	43.6	22.7
	(31.4)	(2.1)
Lease termination settlement and other	110.8	–
Loss on deconsolidation	35.4	–
	\$ (177.6)	\$ (2.1)

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

6. Financial Assets and Liquidity Resources

As of December 31, 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:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 433.9	\$ 90.9
Accounts receivable	834.0	901.3
Other current assets	41.2	40.5
Investments	7,343.4	6,323.3
Total financial assets	8,652.5	7,356.0
Less:		
Board-designated investments	(583.0)	(602.2)
Investments with donor restrictions	(518.5)	(486.2)
Funds held for others	(97.0)	(84.5)
Assets limited as to use	(81.9)	(130.0)
Pledges receivable with restrictions	(10.9)	(12.1)
Investments with liquidity of more than one year	(1,809.7)	(1,482.5)
Total financial assets available within one year	5,551.5	4,558.5
Liquidity resources:		
Unused line of credit	300.0	300.0
Unused commercial paper	147.0	147.0
Total financial assets and liquidity resources available within one year	\$ 5,998.5	\$ 5,005.5

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. BJC has \$0 outstanding under the line of credit at December 31, 2020 and 2019.

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

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

7. Investments

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

	2020		2019
Unrestricted investments	\$ 5,852.7	\$	4,813.2
Securities on loan	50.0		54.4
Held at Foundations	1,379.0		1,325.7
Assets limited as to use:			
Under self-insurance trusts	25.9		28.2
Under the Lease	–		60.4
Held in escrow	12.2		–
Under captive insurance agreement	43.8		41.4
	7,363.6		6,323.3
Less current portion of self-insurance trusts	(20.2)		(24.9)
	\$ 7,343.4	\$	6,298.4

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

7. Investments (continued)

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

	2020		2019
Cash	\$ 22.1	\$	207.3
Short-term investments	474.4		487.9
Income securities:			
U.S. government and agency obligations	1,190.9		514.0
Corporate debt securities	761.7		892.6
Asset-backed and securitized bonds and notes	492.4		605.2
Commodities	351.5		–
Equity securities	0.1		36.6
Alternative investments:			
Hedge funds	971.8		836.6
Private equity, real asset, and credit funds	2,034.4		1,752.9
Other investments:			
Fixed income – commingled funds	431.5		426.4
Equity – commingled funds	620.7		536.6
Other	39.6		29.0
Accrued interest and dividends receivable	10.6		14.2
	7,401.7		6,339.3
Less current portion of self-insurance trusts	(20.2)		(24.9)
	7,381.5		6,314.4
Amounts due to brokers	(76.0)		(27.7)
Amounts due from brokers	37.9		11.7
	\$ 7,343.4	\$	6,298.4

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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

7. Investments (continued)

Equity securities and commodities expose BJC to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity and commodity 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 two years from December 31, 2020, which may reduce liquidity. Due to restrictions, private equity, real asset, and credit funds are not redeemable. However, the potential to sell interests in these investments in the secondary market prior to the end of the fund term does exist. BJC has unfunded commitments of \$1,531.0 to private equity, real asset, and credit funds as of December 31, 2020. 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, options, forwards, and futures derivatives as part of its investment strategy. These contracts are subject to counterparty credit risk, the risk that contractual obligations of the counterparties 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, counterparties posted \$22.3 and \$12.8 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the notional value of derivatives was approximately \$990.2 and \$886.5, respectively. The fair value of derivatives in an asset position, included in investments on the consolidated balance sheets, was \$22.5 and \$12.9 at December 31, 2020 and 2019, respectively. BJC recognized a gain of \$40.5 and \$135.1 in 2020 and 2019, respectively, related to the change in fair value of the derivative instruments, which are recorded in investment earnings within the consolidated statements of operations and changes in net assets.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

7. Investments (continued)

At December 31, 2020 and 2019, investments include the fair value of securities on loan of \$50.0 and \$54.4, respectively. Posted collateral for these securities on loan at December 31, 2020 and 2019, totaled \$51.0 and \$55.9, respectively, and is included in investments on the consolidated balance sheets.

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

	2020	2019
Interest and dividends	\$ 138.0	\$ 160.6
Net realized gains	199.7	227.2
Net unrealized (losses) gains	(13.4)	224.3
Total investment earnings, net	\$ 324.3	\$ 612.1
Included in investment earnings	\$ 294.6	\$ 562.4
Included in net assets with donor restrictions	29.7	49.7
Total investment earnings, net	\$ 324.3	\$ 612.1

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

8. Property and Equipment

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

	2020	2019
Land and land improvements	\$ 255.2	\$ 261.8
Building and improvements	2,372.2	2,644.6
Equipment	4,260.3	4,151.3
	6,887.7	7,057.7
Less accumulated depreciation	(4,146.4)	(4,020.6)
	2,741.3	3,037.1
Construction-in-progress	294.1	163.1
	\$ 3,035.4	\$ 3,200.2

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

8. Property and Equipment (continued)

At December 31, 2020, BJC had outstanding commitments of \$97.0 related to all property activities, including construction, architecture, information systems, and engineering services. Net interest capitalized in 2020 and 2019 totaled \$1.5 and \$4.9, respectively.

9. Other Current Assets and Liabilities

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

	2020	2019
Inventory	\$ 108.6	\$ 109.5
Due from third-party payors	41.2	40.5
Prepaid expenses and other	64.2	62.8
Current portion of self-insurance trust	20.2	24.9
	\$ 234.2	\$ 237.7

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

	2020	2019
Accounts payable	\$ 138.4	\$ 134.3
Accrued payroll and related liabilities	324.0	257.5
Accrued expenses and other	177.2	116.1
Due to third-party payors	28.6	35.5
Medicare advance payments	179.9	—
Due to Washington University	408.8	379.9
Contingent liabilities (Note 17)	—	64.7
Current portion of lease liabilities	27.9	33.4
Current portion of self-insurance liabilities	20.2	25.3
	\$ 1,305.0	\$ 1,046.7

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

10. Debt Obligations

Debt obligations consist of the following at December 31:

	2020		2019
Series 2011A-B, 2012E, 2013B, 2016A-B, 2017A-C, and 2017E-I variable rate term bonds, privately placed, interest (rates from 0.56% to 0.80% at December 31, 2020) set at prevailing market rates, due through 2058	\$ 980.0	\$	980.0
Series 2008A variable rate demand bonds supported by a standby bond purchase agreement, interest (rate of 0.08% at December 31, 2020) set at prevailing rates, due through 2038	78.7		79.2
Series 2008B-E variable rate demand bonds subject to self-liquidity, interest (rates from 0.08% to 0.10% at December 31, 2020) set at prevailing rates, due through 2038	267.5		271.2
Series 2013A, 2013C, 2014, 2015A, 2017D, 2020A, and 2020B fixed rate debt, interest rates from 1.48% to 4.37%, due through 2058	802.2		606.1
Short-term borrowings	103.0		103.0
	2,231.4		2,039.5
Add unamortized debt issuance costs and debt premiums, net	6.0		6.6
Less current maturities of long-term debt	(8.3)		(8.1)
Less long-term debt subject to self-liquidity	(263.7)		(267.5)
Less short-term borrowings	(103.0)		(103.0)
	\$ 1,862.4	\$	1,667.5

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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

10. Debt Obligations (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 \$2,231.4 and \$2,039.5 at December 31, 2020 and 2019, 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, 2020.

At December 31, 2020 and 2019, BJC had \$267.5 and \$271.2, 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. In December 2019, BJC changed the liquidity provider supporting Series 2008A bonds from self-liquidity to a standby bond purchase agreement.

In May 2020, \$200.0 of tax-exempt Series 2020AB 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. The Series 2020AB bonds mature in 2052. In 2020, the System incurred \$0.3 in costs related to new issuances, which will be amortized over the life of the bonds.

In December 2019, BJC initiated a taxable commercial paper program supported by self-liquidity for general corporate purposes. Under the program, BJC is registered to issue up to \$250.0. At December 31, 2020, \$103.0 of commercial paper was outstanding and is included in short-term borrowings on the consolidated balance sheet. Annual interest rates charged as of December 31, 2020, ranged from 0.18% to 0.20%.

At December 31, 2020, BJC has a general operating line of credit of \$300.0. This facility has a five-year term expiring December 2024. BJC has \$0 outstanding under the line of credit at December 31, 2020 and 2019.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

10. Debt Obligations (continued)

Scheduled principal payments on long-term debt are as follows:

	<u>Scheduled</u>
Year ending December 31:	
2021	\$ 8.3
2022	16.7
2023	17.2
2024	17.5
2025	17.9

The amount of interest paid, net of interest capitalized, totaled \$41.7 and \$51.8 in 2020 and 2019, respectively.

11. 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 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, 2020 and 2019, BJC posted \$107.7 and \$61.4, respectively, as collateral, which is reported as other noncurrent assets on the consolidated balance sheets. BJC does not anticipate nonperformance by its counterparties.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

11. Interest Rate Swaps (continued)

At December 31, 2020 and 2019, the notional amount of BJC's outstanding interest rate swap contracts is \$936.9 and \$948.3, respectively.

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

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	2020	2019
Interest rate swap contracts	Other noncurrent liabilities	\$ (202.6)	\$ (125.6)

The effects of BJC's interest rate swaps on 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 Losses	Amount of Loss	
		2020	2019
Interest rate swap contracts	Unrealized losses on interest rate swap contracts	\$ (77.0)	\$ (66.5)
Interest rate swap contracts	Interest	(19.0)	(7.6)

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

12. 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 Measurement*, 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).

Certain of BJC's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, commodities, 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 money market mutual funds, commodities, and financial instruments, such as 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. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

12. 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, 2020:

	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	\$ 22.1	\$ 22.1	\$ —	\$ —
Short-term investments	474.4	474.4	—	—
Income securities:				
U.S. government and agency obligations	1,190.9	—	1,190.9	—
Corporate debt securities	761.7	—	761.7	—
Asset-backed and securitized bonds and notes	492.4	—	337.8	154.6
Commodities	351.5	351.5	—	—
Equity securities	0.1	0.1	—	—
Other	39.6	15.0	24.6	—
Subtotal	3,332.7	863.1	2,315.0	154.6
Assets at net asset value:				
Hedge funds	971.8			
Private equity, real asset, and credit funds	2,034.4			
Fixed income – commingled funds	431.5			
Equity – commingled funds	620.7			
Accrued interest and dividends receivable	10.6			
Total investments	7,401.7			
Deferred compensation agreements	62.3	62.3	—	—
Total financial assets	<u>\$ 7,464.0</u>	<u>\$ 925.4</u>	<u>\$ 2,315.0</u>	<u>\$ 154.6</u>
Liabilities				
Interest rate swap contracts	\$ 202.6	\$ —	\$ 202.6	\$ —
Total financial liabilities	<u>\$ 202.6</u>	<u>\$ —</u>	<u>\$ 202.6</u>	<u>\$ —</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

12. 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, 2019:

	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	\$ 207.3	\$ 207.3	\$ —	\$ —
Short-term investments	487.9	487.9	—	—
Income securities:				
U.S. government and agency obligations	514.0	—	514.0	—
Corporate debt securities	892.6	—	892.6	—
Asset-backed and securitized bonds and notes	605.2	—	460.1	145.1
Equity securities	36.6	36.6	—	—
Other	29.0	13.9	15.1	—
Subtotal	2,772.6	745.7	1,881.8	145.1
Assets at net asset value:				
Hedge funds	836.6			
Private equity, real asset, and credit funds	1,752.9			
Fixed income – commingled funds	426.4			
Equity – commingled funds	536.6			
Accrued interest and dividends receivable	14.2			
Total investments	6,339.3			
Deferred compensation agreements	54.7	54.7	—	—
Total financial assets	\$ 6,394.0	\$ 800.4	\$ 1,881.8	\$ 145.1
Liabilities				
Interest rate swap contracts	\$ 125.6	\$ —	\$ 125.6	\$ —
Total financial liabilities	\$ 125.6	\$ —	\$ 125.6	\$ —

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

12. 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, 2019	\$ 135.8
Purchases	57.8
Settlements	(30.0)
Investment earnings	6.2
Transfers in and/or out of Level 3	(24.7)
Fair value at December 31, 2019	145.1
Purchases	32.3
Settlements	(24.7)
Investment earnings	11.9
Transfers in and/or out of Level 3	(10.0)
Fair value at December 31, 2020	\$ 154.6

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, 2020.

Level 3 assets of \$154.6 and \$145.1 as of December 31, 2020 and 2019, respectively, include certain asset-backed and securitized notes and bonds. These underlying securities trade less frequently than other fixed-income instruments, which represents 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 HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

12. Fair Value Measurements (continued)

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 \$10.0 of securitized notes and bonds from Level 3 to Level 2 in 2020 as additional observable market inputs were obtained. BJC transferred \$24.7 of securitized notes and bonds from Level 3 to Level 2 in 2019 as additional observable market inputs were obtained. BJC recognizes transfers as of the end of the reporting period. There were no transfers between Level 1 and Level 2 in 2020 or 2019.

The carrying values 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.

13. 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 \$27.4 and \$35.7 to this plan during 2020 and 2019, respectively, which is included in salaries and benefits on 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 2020 and 2019, BJC had no minimum required pension contributions. During 2019, BJC offered a one-time lump-sum buy-out of future benefit payments to terminated vested plan participants under age 65. As a result of this offer, \$67.0 was paid to 1,467 participants in November 2019.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

13. Postretirement Benefits (continued)

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

	2020	2019
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 3,360.7	\$ 2,779.1
Service cost	129.3	103.2
Interest cost	104.7	117.9
Actuarial loss	547.0	511.0
Benefits paid	(92.1)	(150.5)
Projected benefit obligation at end of year	4,049.6	3,360.7
Change in plan assets		
Fair value of plan assets at beginning of year	2,698.4	2,404.5
Actual earnings on plan assets	187.9	341.4
Employer contributions	129.9	103.0
Benefits paid	(92.1)	(150.5)
Fair value of plan assets at end of year	2,924.1	2,698.4
Unfunded status	\$ (1,125.5)	\$ (662.3)
Accumulated benefit obligation at end of year	\$ 3,571.3	\$ 2,990.3
Unfunded status (based on accumulated benefit obligation)	\$ (647.2)	\$ (291.9)

The unfunded status is included in pension/postretirement liabilities on the consolidated balance sheets. BJC has other postretirement plans with unfunded benefit obligations of \$2.5 and \$2.9 at December 31, 2020 and 2019, respectively.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

13. Postretirement Benefits (continued)

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:

	2020	2019
Unrecognized actuarial losses	\$ 1,482.9	\$ 1,015.8

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

	2020	2019
Unrecognized actuarial loss	\$ 542.6	\$ 344.1
Amortization of actuarial losses	(75.5)	(37.4)
	\$ 467.1	\$ 306.7

The pension and other postretirement liability adjustment and other of \$(467.6) for the year ended December 31, 2020, on the consolidated statement of operations and changes in net assets also includes \$(0.5) related to the other postretirement plans and other.

The impact of the decrease in discount rate on the projected benefit obligation of the Plan was an increase of approximately \$538.4 and \$483.0 at December 31, 2020 and 2019, respectively.

	2020	2019
Weighted average assumptions used to determine benefit obligations for the year ended December 31		
Discount rate	2.68%	3.52%
Rate of increase in compensation levels	3.48	3.42
Weighted average assumptions used to determine expense for the year ended December 31		
Discount rate for benefit obligations	3.52%	4.47%
Rate of compensation increases	3.42	3.37
Expected long-term rate of return	7.00	7.00
Mortality projection scale	MSS-2020	MSS-2019

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

13. Postretirement Benefits (continued)

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 for plan assets. Peer data and historical returns are reviewed to check for reasonableness of BJC's long-term rate of return assumption.

	2020	2019
Components of net periodic benefit cost:		
Service cost	\$ 129.3	\$ 103.2
Interest cost	104.7	117.9
Expected earnings on plan assets	(183.5)	(174.5)
Recognized net actuarial loss	75.5	37.3
Net periodic benefit cost	\$ 126.0	\$ 83.9

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, options, forwards, and 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, 2020 and 2019, plan assets on loan included in the fair value of plan assets totaled \$3.9 and \$3.0, respectively. Posted collateral for these securities on loan at December 31, 2020 and 2019, totaled \$4.0 and \$3.0, respectively.

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

Asset Category	2020		2019	
	Target Asset Allocation	Actual Asset Allocation	Target Asset Allocation	Actual Asset Allocation
Cash	—%	1.3%	—%	1.2%
Growth	25.0	30.6	28.0	33.3
Income	28.0	23.3	29.0	24.2
Illiquid	47.0	44.8	43.0	41.3
Total	100.0%	100.0%	100.0%	100.0%

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

13. Postretirement Benefits (continued)

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

The fair value of pension plan assets was determined using the following inputs at December 31, 2020:

	Total	Fair Value Measurements Using		
		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	\$ 133.7	\$ 133.7	\$ –	\$ –
Income securities:				
U.S. government and agency obligations	172.2	–	172.2	–
Corporate debt securities	252.5	–	252.5	–
Asset-backed and securitized bonds and notes	138.9	–	47.7	91.2
Equity securities	0.7	0.7	–	–
Other	10.2	–	10.2	–
Subtotal	708.2	134.4	482.6	91.2
Assets at net asset value:				
Hedge funds	410.4			
Private equity, real asset, and credit funds	1,340.4			
Fixed income – commingled funds	78.8			
Equity – commingled funds	372.6			
Accrued interest and dividends receivable	2.8			
Amounts due from brokers, net	10.9			
Fair value of plan assets	\$ 2,924.1	\$ 134.4	\$ 482.6	\$ 91.2

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

13. Postretirement Benefits (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2019:

	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Cash and short-term investments	\$ 202.4	\$ 202.4	\$ —	\$ —
Income securities:				
U.S. government and agency obligations	28.7	—	28.7	—
Corporate debt securities	264.2	—	264.2	—
Asset-backed and securitized bonds and notes	205.1	—	116.6	88.5
Equity securities	36.4	36.4	—	—
Other	5.4	—	5.4	—
Subtotal	<u>742.2</u>	<u>238.8</u>	<u>414.9</u>	<u>88.5</u>
Assets at net asset value:				
Hedge funds	455.2			
Private equity, real asset, and credit funds	1,152.0			
Fixed income – commingled funds	80.3			
Equity – commingled funds	275.6			
Accrued interest and dividends receivable	4.0			
Amounts due to brokers, net	<u>(10.0)</u>			
	2,699.3			
Liabilities				
Derivatives in a liability position	0.9	—	0.9	—
Fair value of plan assets	<u>\$ 2,698.4</u>	<u>\$ 238.8</u>	<u>\$ 414.0</u>	<u>\$ 88.5</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued) *(Dollars in Millions)*

13. Postretirement Benefits (continued)

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 \$5.6 of securitized notes and bonds from Level 3 to Level 2 in 2020 by obtaining additional observable market inputs in the form of multiple corroborating broker quotes. BJC transferred \$20.8 of securitized notes and bonds from Level 3 to Level 2 in 2019 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.

Certain hedge fund investments have restrictions on the timing of withdrawals, up to two years from December 31, 2020, which may reduce liquidity. Due to restrictions, private equity, real asset, and credit funds are not redeemable. However, the potential to sell interests in these investments in the secondary market prior to the end of the fund term does exist.

Management opted to use the net asset value, or its equivalent, as a practical expedient for fair value of the Plan's interest in hedge funds, private equity, real asset, 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, 2020, the Plan has unfunded commitments of \$958.2 to private equity, real asset, 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 distributions from existing investments from the Plan's assets.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

13. Postretirement Benefits (continued)

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 2021	\$	166.8
Expected benefit payments:		
2021		108.2
2022		117.2
2023		126.9
2024		136.5
2025		145.5
2026–30		856.1

14. 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 (except for MRHS, which was effective November 15, 2017), self-insured retentions were between \$3.0 (for all hospitals except Barnes-Jewish and Children's) 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. At December 31, 2020 and 2019, BJC recorded a liability for the self-insurance program of \$192.2 and \$178.6, respectively, included in other current liabilities and self-insurance liabilities on the consolidated balance sheets. In addition, at December 31, 2020 and 2019, BJC recorded insurance receivables of \$10.3 and \$8.9, respectively, included in other noncurrent assets in the consolidated balance sheets.

The estimated cost of claims is actuarially determined based upon past experience, and is discounted using a discount rate of 2.00% and 3.00% in 2020 and 2019, respectively. 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 \$25.9 and \$28.2 as of December 31, 2020 and 2019, respectively, which are used for the payment of professional and general liability claim settlements and expenses. During 2020 and 2019, \$38.3 and \$39.3, respectively, of professional and general liability expenses was included in supplies and other on the consolidated statements of operations and changes in net assets.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

15. Leases

BJC leases certain healthcare equipment, vehicles, and real property. Most leases include options to renew, index and non-index escalation clauses, and options to purchase the leased property, all of which are factored into the determination of lease payments when appropriate.

For leases with a term greater than 12 months, BJC records the related right-of-use assets and liabilities at the present value of lease payments over the term of the lease. Lease payments are discounted using either the rate implicit in the lease (if readily determinable) or the risk-free rate. BJC separates lease and non-lease components for real property. For all other classes of assets, BJC has elected not to separate lease and non-lease components.

BJC elected not to apply the recognition requirements of ASC 842, *Leases*, to short-term leases. BJC recognizes short-term lease payments in excess of revenues over expenses on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. BJC also elected the package of transition provisions available that allowed carryforward of the historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs.

The amounts relating to BJC's lease expense are as follows:

	2020	2019
Lease expenses:		
Long-term lease expense	\$ 29.2	\$ 22.6
Short-term lease expense	23.0	29.1
Variable lease expense	3.1	3.1
Total lease expense	\$ 55.3	\$ 54.8

Other lease information:

	2020
Operating cash flows for leases	\$ 35.7
Right-of-use assets obtained in exchange for new lease liabilities	29.9
Weighted average remaining lease term (in years)	21.5
Weighted average discount rate	2.2%

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

15. Leases (continued)

BJC has a land lease that terminates in 2071 and represents 36% of the right-of-use assets and liabilities. Without this lease, the weighted average remaining lease term is 5.3 years and the weighted average discount rate is 1.33%.

Future annual undiscounted cash flows for lease liabilities are as follows:

Year ending December 31:	
2021	\$ 33.2
2022	27.2
2023	23.7
2024	20.3
2025	14.2
Thereafter	136.7
Total	<u>255.3</u>
Less interest	(71.8)
Lease liability	<u>\$ 183.5</u>

As of December 31, 2020, BJC has \$181.6 of right-of-use assets included in other noncurrent assets, \$27.9 of current lease liabilities included in other current liabilities, and \$155.6 of long-term lease liabilities included in other noncurrent liabilities on the consolidated balance sheet. As of December 31, 2019, BJC has \$179.7 of right-of-use assets included in other noncurrent assets, \$33.4 of current lease liabilities included in other current liabilities, and \$146.3 of long-term lease liabilities included in other noncurrent liabilities on the consolidated balance sheet.

16. 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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

16. Functional Classification of Expenses (continued)

Expenses by functional classification for the years ended December 31 consist of the following:

	2020		
	Healthcare Services	Administrative Services	Total
Salaries and benefits	\$ 2,459.1	\$ 153.8	\$ 2,612.9
Supplies and other	2,181.7	94.2	2,275.9
Depreciation and amortization	202.2	164.6	366.8
Interest	60.1	(0.3)	59.8
Total	\$ 4,903.1	\$ 412.3	\$ 5,315.4
	2019		
	Healthcare Services	Administrative Services	Total
Salaries and benefits	\$ 2,331.9	\$ 172.3	\$ 2,504.2
Supplies and other	2,100.4	90.8	2,191.2
Depreciation and amortization	217.9	140.8	358.7
Interest	58.5	0.1	58.6
Total	\$ 4,708.7	\$ 404.0	\$ 5,112.7

17. 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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) *(Dollars in Millions)*

17. Contingencies (continued)

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 nonexempt (hourly) employees at BJC's Missouri entities from October 21, 2008 through June 9, 2015. In 2018, BJC recorded \$64.7 as an expense related to the settlement with the class, which was included in current liabilities at December 31, 2019. On March 6, 2020, the court granted final approval of the settlement and all amounts were paid to the class in 2020.

18. Endowments

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

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

As a result of this interpretation, the Foundations classify as 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 is 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

BJC HealthCare

Notes to Consolidated Financial Statements (continued) *(Dollars in Millions)*

18. Endowments (continued)

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

BJC HealthCare

Notes to Consolidated Financial Statements (continued)
(Dollars in Millions)

18. Endowments (continued)

At December 31, 2020, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 321.2	\$ 321.2
Board-designated endowment funds	192.4	—	192.4
Total funds	<u>\$ 192.4</u>	<u>\$ 321.2</u>	<u>\$ 513.6</u>

At December 31, 2019, the endowment net asset composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 303.1	\$ 303.1
Board-designated endowment funds	181.3	—	181.3
Total funds	<u>\$ 181.3</u>	<u>\$ 303.1</u>	<u>\$ 484.4</u>

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

18. Endowments (continued)

For the years ended December 31, 2020 and 2019, the changes in the endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ 159.6	\$ 272.7	\$ 432.3
Investment return:			
Investment income	3.4	4.7	8.1
Net depreciation	18.7	29.7	48.4
Total investment return	22.1	34.4	56.5
Contributions	–	3.3	3.3
Appropriations, net of recoveries	(5.9)	(8.7)	(14.6)
Other changes	5.5	1.4	6.9
Endowment net assets, December 31, 2019	181.3	303.1	484.4
Investment return:			
Investment income	2.7	3.6	6.3
Net appreciation	11.2	17.7	28.9
Total investment return	13.9	21.3	35.2
Contributions	–	7.3	7.3
Appropriations, net of recoveries	(5.8)	(10.6)	(16.4)
Other changes	3.0	0.1	3.1
Endowment net assets, December 31, 2020	<u>\$ 192.4</u>	<u>\$ 321.2</u>	<u>\$ 513.6</u>

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 their 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 investment policies approved by the Foundations' boards of directors, the endowment net assets are invested in a manner that is intended to produce results that exceed results of their relevant benchmarks while assuming a

BJC HealthCare

Notes to Consolidated Financial Statements (continued) *(Dollars in Millions)*

18. Endowments (continued)

reasonable level of investment risk. The Foundations expect their endowment funds 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.

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).

The Foundations have adopted a policy in which earnings are allocated annually for spending ranging from 2% to 5% of the 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.

BJC HealthCare

Notes to Consolidated Financial Statements (continued) (Dollars in Millions)

19. U.S. Department of Education Financial Responsibility Ratio Information

The following information is required by the U.S. Department of Education for the year ended December 31, 2020:

Net assets with donor restrictions: restricted in perpetuity	\$ 246.0
Net assets with donor restrictions: other for purpose or time	366.6
Net assets with donor restrictions	<u>\$ 612.6</u>
Property and equipment, net:	
Property and equipment, net, including construction-in-progress beginning balance	\$ 3,200.2
Property and equipment, net – ending balance with outstanding debt for original purchase	43.1
Property and equipment, net – ending balance without outstanding debt for original purchase	(207.9)
Total property and equipment, net (includes construction-in-progress)	<u>\$ 3,035.4</u>
Interest cost	\$ 104.7
Expected earnings on plan assets	(183.5)
Recognized net actuarial loss	75.5
Other components of net periodic pension costs	<u>\$ (3.3)</u>
Total revenues without donor restrictions	\$ 5,586.8
Investment earnings, net	294.6
Total revenues and gains without donor restrictions	<u>\$ 5,881.4</u>

20. Subsequent Events

BJC evaluated events and transactions occurring subsequent to December 31, 2020 through February 23, 2021, the date the accompanying consolidated financial statements were issued. During this period, there were no subsequent events that required recognition or disclosure in the consolidated financial statements.

Supplementary Information

BJC HealthCare

Financial Responsibility Supplemental Schedule Required by the U.S. Department of Education

Ratio Element	Reference to Financial Statements and/or Notes	
Primary Reserve Ratio		
Expendable Net Assets		
Net assets without donor restrictions	Consolidated Balance Sheet	\$ 5,898.9
Net assets with donor restrictions	Consolidated Balance Sheet	612.6
Net assets with donor restrictions in perpetuity	Note 19: U.S. Department of Education	246.0
Net assets with donor restrictions: other for purpose or time	Note 19: U.S. Department of Education Financial Responsibility	366.6
Property and equipment, net (includes construction in progress)		
Property and equipment – beginning balance	Consolidated Balance Sheet Note 19: U.S. Department of Education Financial Responsibility	3,035.4 3,200.2
Property and equipment – ending balance with outstanding debt for original purchase	Note 19: U.S. Department of Education Financial Responsibility	43.1
Property and equipment – ending balance without outstanding debt for original purchase	Note 19: U.S. Department of Education Financial Responsibility	(207.9)
Lease right-of-use assets, net		
Lease right-of-use assets beginning balance	Note 15: Leases	181.6
Lease right-of-use assets, change	Note 15: Leases	179.7
Post-employment and pension liabilities	Note 15: Leases Consolidated Balance Sheet	1.9 1,128.0
Long-term debt – for long-term purposes		
Long-term debt – for long-term purposes beginning balance	Note 10: Debt Obligations Note 10: Debt Obligations	2,231.4 2,039.5
Long-term debt – for long-term purposes, change	Note 10: Debt Obligations	191.9
Lease right-of-use assets, net		
Lease right-of-use assets beginning balance	Note 15: Leases	181.6
Lease right-of-use assets, change	Note 15: Leases	179.7 1.9
Total Expenses and Losses		
Total expenses without donor restrictions	Consolidated Statements of Operations and Changes in Net Assets	5,315.4
Other nonoperating expense, net	Consolidated Statements of Operations and Changes in Net Assets	30.2
Other components of net periodic pension costs	Note 19: U.S. Department of Education Financial Responsibility	(3.3)
Other losses change in value of interest rate swaps	Consolidated Statements of Operations and Changes in Net Assets	77.0
Pension-related changes other than net periodic costs	Consolidated Statements of Operations and Changes in Net Assets	(467.6)

BJC HealthCare

Financial Responsibility Supplemental Schedule Required by the U.S. Department of Education (continued)

Ratio Element	Reference to Financial Statements and/or Notes	
Equity Ratio		
Modified net assets		
Net assets without donor restrictions	Consolidated Balance Sheet	\$ 5,898.9
Net assets with donor restrictions	Consolidated Balance Sheet	612.6
Modified assets		
Total assets	Consolidated Balance Sheet	12,402.7
Lease right-of-use assets beginning balance	Note 15: Leases	179.7
Net Income Ratio		
Change in net assets without donor restrictions	Consolidated Statements of Operations and Changes in Net Assets	(185.5)
Total revenue and gains without donor restrictions	Note 19: U.S. Department of Education Financial Responsibility	5,881.4
Investment earnings, net	Consolidated Statements of Operations and Changes in Net Assets	294.6

BJC HEALTHCARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 1/1/2020 - 12/31/2020

<i>Federal Awarding Agency/Program Title</i>	<i>Federal Assistance Listing Number</i>	<i>Additional Award Identification</i>	<i>Name of Funder Pass-Through Entity</i>	<i>Identifying Number Assigned By Funder Pass-Through Entity</i>	<i>Total Amount Provided to Subrecipients</i>	<i>Federal Expenditures</i>	<i>Federal Program Total</i>	<i>Cluster Name</i>	<i>Cluster Total</i>
DEPARTMENT OF JUSTICE									
CRIME VICTIM ASSISTANCE	16.575		MISSOURI DEPARTMENT OF SOCIAL SERVICES	ER13021DV05		\$15,779	\$15,779	N/A	\$0
TOTAL DEPARTMENT OF JUSTICE						<u>\$15,779</u>			
DEPARTMENT OF TREASURY									
COVID-19 CORONAVIRUS RELIEF FUND	21.019	COVID-19	MISSOURI DEPARTMENT OF PUBLIC SAFETY THE SALVATION ARMY ST. CHARLES COUNTY BOONE COUNTY	N/A N/A N/A N/A		\$3,462,475	\$3,462,475	N/A	\$0
TOTAL DEPARTMENT OF TREASURY						<u>\$3,462,475</u>			
FEDERAL COMMUNICATIONS COMMISSION									
COVID-19 TELEHEALTH PROGRAM	32.006	COVID-19				\$991,588	\$991,588	N/A	\$0
TOTAL FEDERAL COMMUNICATIONS COMMISSION						<u>\$991,588</u>			
DEPARTMENT OF EDUCATION									
FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS	84.007					\$83,801	\$83,801	STUDENT FINANCIAL ASSISTANCE	\$10,167,183
FEDERAL WORK-STUDY PROGRAM	84.033					\$6,414	\$6,414	STUDENT FINANCIAL ASSISTANCE	\$10,167,183
FEDERAL PELL GRANT PROGRAM	84.063					\$923,804	\$923,804	STUDENT FINANCIAL ASSISTANCE	\$10,167,183
FEDERAL DIRECT STUDENT LOANS	84.268					\$9,153,164	\$9,153,164	STUDENT FINANCIAL ASSISTANCE	\$10,167,183
COVID-19 EDUCATION STABILIZATION FUND	84.425	COVID-19, 84.425E				\$334,771	\$504,378	N/A	\$0
COVID-19 EDUCATION STABILIZATION FUND	84.425	COVID-19, 84.425F				\$169,607	\$504,378	N/A	\$0
TOTAL DEPARTMENT OF EDUCATION						<u>\$10,671,561</u>			
DEPARTMENT OF HEALTH AND HUMAN SERVICES									
HOSPITAL PREPAREDNESS PROGRAM (HPP) AND PUBLIC HEALTH EMERGENCY PREPAREDNESS (PHEP) ALIGNED COOPERATIVE AGREEMENTS	93.074		ILLINOIS DEPARTMENT OF PUBLIC HEALTH	0728004H-AM01	\$130,098	\$295,052	\$295,052	N/A	\$0
NURSE ANESTHETIST TRAINEESHIP	93.124					\$10,299	\$10,299	N/A	\$0
COORDINATED SERVICES AND ACCESS TO RESEARCH FOR WOMEN, INFANTS, CHILDREN, AND YOUTH	93.153		WASHINGTON UNIVERSITY	WU-20-90-MOD-2		\$78,270	\$78,270	N/A	\$0
COVID-19 SMALL RURAL HOSPITAL IMPROVEMENT GRANT PROGRAM	93.301	COVID-19	MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES	DH200048727		\$84,317	\$87,880	N/A	\$0
SMALL RURAL HOSPITAL IMPROVEMENT GRANT PROGRAM	93.301		MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES	MHA 6387		\$3,563	\$87,880	N/A	\$0
CANCER CONTROL	93.399		DECATUR MEMORIAL HOSPITAL	N/A		\$666,299	\$666,299	RESEARCH AND DEVELOPMENT	\$673,321
COVID-19 CLAIMS REIMBURSEMENT TO HEALTH CARE PROVIDERS AND FACILITIES FOR TESTING, TREATMENT, AND VACCINE ADMINISTRATION FOR THE UNINSURED	93.461	COVID-19	MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES	N/A		\$4,829,308	\$4,829,308	N/A	\$0
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	93.558		MISSOURI DEPARTMENT OF SOCIAL SERVICES	PG941900005		\$1,282	\$1,282	N/A	\$0
COVID-19 CHILD CARE AND DEVELOPMENT BLOCK GRANT	93.575	COVID-19	MISSOURI DEPARTMENT OF SOCIAL SERVICES	N/A		\$105,000	\$105,000	N/A	\$0
FAMILY VIOLENCE PREVENTION AND SERVICES/DOMESTIC VIOLENCE SHELTER AND SUPPORTIVE SERVICES	93.671		MISSOURI DEPARTMENT OF SOCIAL SERVICES	PG941900005		\$3,719	\$3,719	N/A	\$0
MENTAL AND BEHAVIORAL HEALTH EDUCATION AND TRAINING GRANTS	93.732		ST. LOUIS UNIVERSITY	ERS 22727-44862		\$7,022	\$7,022	RESEARCH AND DEVELOPMENT	\$673,321

BJC HEALTHCARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 Fiscal Period 1/1/2020 - 12/31/2020

<i>Federal Awarding Agency/Program Title</i>	<i>Federal Assistance Listing Number</i>	<i>Additional Award Identification</i>	<i>Name of Funder Pass-Through Entity</i>	<i>Identifying Number Assigned By Funder Pass-Through Entity</i>	<i>Total Amount Provided to Subrecipients</i>	<i>Federal Expenditures</i>	<i>Federal Program Total</i>	<i>Cluster Name</i>	<i>Cluster Total</i>
<i>OPIOID STR</i>	<i>93.788</i>		<i>ILLINOIS DEPARTMENT OF HUMAN SERVICES</i>	<i>43CYC03502</i>		<i>\$395,992</i>	<i>\$395,992</i>	<i>N/A</i>	<i>\$0</i>
<i>HOSPITAL PREPAREDNESS PROGRAM (HPP) EBOLA PREPAREDNESS AND RESPONSE ACTIVITIES</i>	<i>93.817</i>		<i>MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES</i>	<i>DH1603A0001-02</i>		<i>\$70,886</i>	<i>\$70,886</i>	<i>N/A</i>	<i>\$0</i>
<i>NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM</i>	<i>93.889</i>		<i>ILLINOIS DEPARTMENT OF PUBLIC HEALTH</i>	<i>17280004I</i>		<i>\$46,917</i>	<i>\$150,317</i>	<i>N/A</i>	<i>\$0</i>
<i>COVID-19 NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM</i>	<i>93.889</i>	<i>COVID-19</i>	<i>MISSOURI HOSPITAL ASSOCIATION</i>	<i>MHA 6749.1</i>		<i>\$103,400</i>	<i>\$150,317</i>	<i>N/A</i>	<i>\$0</i>
<i>CANCER PREVENTION AND CONTROL PROGRAMS FOR STATE, TERRITORIAL AND TRIBAL ORGANIZATIONS</i>	<i>93.898</i>		<i>MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES</i>	<i>ERS16120015-01</i>					
			<i>MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES</i>	<i>ERS16148591-01</i>					
			<i>MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES</i>	<i>ERS16120066-01</i>					
			<i>MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES</i>	<i>ERS16120074</i>					
			<i>MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES</i>	<i>ERS16148598</i>					
			<i>MISSOURI DEPARTMENT OF HEALTH AND SENIOR SERVICES</i>	<i>ERS16148592</i>		<i>\$179,624</i>	<i>\$179,624</i>	<i>N/A</i>	<i>\$0</i>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES						\$130,098	\$6,880,950		
TOTAL EXPENDITURES OF FEDERAL AWARDS						\$130,098	\$22,022,353		

Please Note:

Italicized award lines indicate pass-through funding.

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.

BJC HealthCare

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

1. Significant Accounting Policies

The schedule of expenditures of federal awards, by grantor agency, presents the program expenditures for all federal award programs of BJC HealthCare that had expenditures for the year ended December 31, 2020. For purposes of this report, federal awards are those received directly from a federal agency and those awards received from other agencies, the original source of which was a federal agency.

The expenditures reported in the schedule of expenditures of federal awards have been presented on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Accordingly, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the consolidated financial statements.

2. Indirect Costs

Indirect cost rates for BJC HealthCare were based on applicable U.S. Department of Health and Human Services negotiated rates, the 10% de minimis indirect cost rate allowed by the Uniform Guidance, or sponsor-specific rates.

3. Loan/Loan Guarantee Outstanding Balances

BJC HealthCare participates in the Federal Direct Student Loans (Assistance Listing No. 84.268) program, which includes Federal Stafford Loans and Federal Parent Loans for Undergraduate Students. During the fiscal year ended December 31, 2020, new loans made under the Federal Direct Student Loans program totaled \$9,153,164. Since these loans are made directly by the federal government to students, new loans made during the fiscal year ended December 31, 2020, relating to the program are considered current year federal expenditures, whereas the outstanding loan balances are not.

4. Donated Pharmaceuticals (Unaudited)

BJC HealthCare received \$2,345,585 of donated pharmaceuticals from the federal stockpile for the year ended December 31, 2020, which is valued based on the fair value of the pharmaceuticals at the time of donation.

Internal Control and Compliance Reports and Schedule

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors, Chief Executive Officer, and Chief Financial Officer
BJC HealthCare

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of BJC HealthCare, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BJC HealthCare's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BJC HealthCare's internal control. Accordingly, we do not express an opinion on the effectiveness of BJC HealthCare's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BJC HealthCare’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

February 23, 2021

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors, Chief Executive Officer, and Chief Financial Officer
BJC HealthCare

Report on Compliance for Each Major Federal Program

We have audited BJC HealthCare's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on BJC HealthCare's major federal programs for the year ended December 31, 2020. BJC HealthCare's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of BJC HealthCare's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BJC HealthCare's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our adverse, qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of BJC HealthCare's compliance.

Basis for Adverse Opinion on COVID-19 Coronavirus Relief Fund (Assistance Listing No. 21.019)

As described in the accompanying schedule of findings and questioned costs, BJC HealthCare did not comply with the requirements regarding the COVID-19 Coronavirus Relief Fund (Assistance Listing No. 21.019) as described in Finding No. 2020-004 for A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, and H. Period of Performance. Compliance with such requirements is necessary, in our opinion, for BJC HealthCare to comply with requirement applicable to that program.

Adverse Opinion on COVID-19 Coronavirus Relief Fund (Assistance Listing No. 21.019)

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, BJC HealthCare did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the COVID-19 Coronavirus Relief Fund for the year ended December 31, 2020.

Basis for Qualified Opinion on COVID-19 Telehealth Program (Assistance Listing No. 32.006)

As described in the accompanying schedule of findings and questioned costs, BJC HealthCare did not comply with the requirements regarding the COVID-19 Telehealth Program (Assistance Listing No. 32.006) as described in Finding No. 2020-005 for A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, H. Period of Performance, and N. Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for BJC HealthCare to comply with requirements applicable to that program.

Qualified Opinion on COVID-19 Telehealth Program (Assistance Listing No. 32.006)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, BJC HealthCare complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the COVID-19 Telehealth Program (Assistance Listing No. 32.006) for the year ended December 31, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, BJC HealthCare complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2020.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as follows:

Finding No.	Assistance Listing No.	Program (or Cluster) Name	Compliance Requirement
2020-002	84.268	Student Financial Assistance Cluster	N. Special Tests and Provisions: N2 Disbursements to or on Behalf of Students
2020-003	Various	Student Financial Assistance Cluster	N. Special Tests and Provisions: N11 Gramm-Leach-Bliley Act – Student Information Security
2020-006	93.461	COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	A. Activities Allowed or Unallowed and E. Eligibility

Our opinion on each major federal program is not modified with respect to these matters.

We performed audit procedures with respect to the Student Financial Assistance Cluster major federal program related to compliance requirements in Special Tests and Provisions N11, *Gramm-Leach Bliley Act-Student Information Security* as outlined in the OMB Compliance Supplement for the year ended December 31, 2020. We determined whether BJC HealthCare has designated an individual to coordinate the information security program. We determined whether BJC HealthCare performed a risk assessment that addresses the three required areas noted in 16 CFR 314.4(b) and whether BJC HealthCare documented a safeguard for each risk identified from the three required to be risk assessed by 16 CFR 314.4(b). Our audit procedures did not evaluate whether the designated individual that coordinated the information security program is competent to oversee the program nor whether the individual possessed the adequate authority to carry out those duties. Our audit procedures also did not determine whether the risk assessment sufficiently addressed the required areas, whether the risks identified are the appropriate risks or that the identified risks appear to be a complete list. Further, our audit procedures did not determine whether the documented safeguards have been put in place or that they will effectively mitigate, reduce or even address the identified risks. Our opinion on the Student Financial Assistance Cluster major federal program is not modified with respect to this matter.

Our audit of the major federal program identified as Assistance Listing No. 93.461 included certain audit procedures for the compliance requirement associated with activities allowed or unallowed that were limited to tests of compliance that reimbursements received, or expected to be received, related to health services allowed under this federal program. Our audit of compliance was not designed to test or provide assurance on the determination of whether a service was medically necessary, obtained through a legally appropriate referral, properly performed, rendered in a quality manner from a clinical perspective, adequately supervised, accurately documented and classified (i.e., that the correct medical bill code assigned represents the health service performed), or rendered and billed by non-sanctioned individuals. Performing procedures related to these matters is not within our professional expertise. Additional information on the nature of our procedures is available in the AICPA Audit and Accounting Guide, *Health Care Entities*. Our audit procedures for the compliance requirement associated with eligibility were limited to tests of compliance that services reimbursed, or expected to be reimbursed, were for individuals who received a temporary member identification number from the third-party service provider used by HRSA to identify a lack of active health care coverage.

BJC HealthCare's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. BJC HealthCare's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of BJC HealthCare is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered BJC HealthCare's internal control over compliance with requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BJC HealthCare's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be material weaknesses.

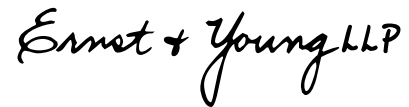
Finding No.	Assistance Listing No.	Program (or Cluster) Name	Compliance Requirement
2020-002	84.268	Student Financial Assistance Cluster	N. Special Tests and Provisions: N2 Disbursements to or on Behalf of Students
2020-003	Various	Student Financial Assistance Cluster	N. Special Tests and Provisions: N11 Gramm-Leach-Bliley Act – Student Information Security
2020-004	21.019	COVID-19 Coronavirus Relief Fund	A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, and H. Period of Performance
2020-005	32.006	COVID-19 Telehealth Program	A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, H. Period of Performance, and N. Special Tests and Provisions
2020-006	93.461	COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	A. Activities Allowed or Unallowed and E. Eligibility

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Finding No.	Assistance Listing No.	Program (or Cluster) Name	Compliance Requirement
2020-001	Various	Student Financial Assistance Cluster	N. Special Tests and Provisions: N4 Enrollment Reporting

BJC HealthCare’s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. BJC HealthCare’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



March 29, 2022

BJC HealthCare

Schedule of Findings and Questioned Costs

Year Ended December 31, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:
Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None Reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified?

 X Yes _____ No

Significant deficiency(ies) identified?

 X Yes _____ None Reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified – Student Financial Assistance Cluster
Adverse – COVID-19 Coronavirus Relief Fund
Qualified – COVID-19 Telehealth Program
Unmodified – COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X Yes _____ No

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section I – Summary of Auditor’s Results (continued)

Identification of major federal programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063, and 84.268	Student Financial Assistance Cluster
21.019	COVID-19 Coronavirus Relief Fund
32.006	COVID-19 Telehealth Program
93.461	COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

None identified.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs

Finding 2020-001 – N4 Enrollment Reporting

Identification of the federal program:

Federal Program: Student Financial Assistance Cluster: Federal Pell Grant Program (Assistance Listing No. 84.063) and Federal Direct Student Loans (Assistance Listing No. 84.268)

Federal Agency: United States Department of Education

BJC HealthCare Location: Goldfarb School of Nursing

Award Periods: July 1, 2019 through June 30, 2020, and July 1, 2020 through June 30, 2021

Criteria or specific requirement (including statutory, regulatory or other citation):

Section 200.303(a) of the Uniform Guidance states the following regarding the auditee and internal control:

“The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

Condition:

There was no evidence that an authorized individual was reviewing the monthly SFRNSLC enrollment report for completeness and accuracy prior to its upload to the National Student Clearinghouse (NSC)/National Student Loan Data System. Furthermore, there was no evidence that a review of the NSC Error Resolution Report was performed for any errors identified subsequent to the monthly SFRNSLC enrollment report uploads, including the specific actions undertaken to remediate any identified errors.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Cause:

Although a review of the enrollment report is performed by the Registrar, there is no formal documentation to evidence the procedures performed, what information was evaluated, the precision of the review, what types of noncompliance were identified, and what actions were taken to address any issues identified.

Effect or potential effect:

An incorrect enrollment report may be submitted. A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to loan holders by the U.S. Department of Education.

Questioned costs:

None.

Context:

Total Federal Pell Grants and Federal Direct Loans for the Goldfarb School of Nursing were \$923,804 and \$9,153,164, respectively, representing 9.1% and 90.0%, respectively, of total Student Financial Assistance Cluster federal expenditures of \$10,167,183.

Identification as a repeat finding, if applicable:

This is a repeat finding and is related to finding 2019-001 from the prior year.

Recommendation:

The Registrar should formalize the review of the monthly SFRNSLC enrollment report prior to its upload and any subsequent error reports. Specific elements of the review process should be documented including the specific items reviewed, the results of the review, and the follow-up actions taken and signed off by the Registrar to evidence performance of the monthly review.

Views of Responsible Officials:

Management agrees with the finding and has developed a plan to address the finding.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2020-002 – N2 Disbursements to or on Behalf of Students – Direct Loan Quality Assurance System

Identification of the federal program:

Federal Program: Student Financial Assistance Cluster: Federal Direct Student Loans (Assistance Listing No. 84.268)

Federal Agency: United States Department of Education

BJC HealthCare Location: Goldfarb School of Nursing

Award Periods: July 1, 2019 through June 30, 2020, and July 1, 2020 through June 30, 2021

Criteria or specific requirement (including statutory, regulatory or other citation):

Section 200.303(a) of the Uniform Guidance states the following regarding the auditee and internal control:

“The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

34 CFR 685.300(b)(9) requires institutions to “Provide for the implementation of a quality assurance system, as established by the Secretary and developed in consultation with the school, to ensure that the school is complying with program requirements and meeting program objectives.”

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Condition:

The Goldfarb School of Nursing did not implement a quality assurance system for the Federal Direct Loan program.

Cause:

The Goldfarb School of Nursing does not have a quality assurance system, including evidence of periodic monitoring and evaluation.

Effect or potential effect:

The Goldfarb School of Nursing is not in compliance with the requirement of its program participation agreement to implement a quality assurance system.

Questioned costs:

None.

Context:

Total Federal Direct Loans for the Goldfarb School of Nursing were \$9,153,164, representing 90.0% of total Student Financial Assistance Cluster federal expenditures of \$10,167,183.

Identification as a repeat finding, if applicable:

This is a repeat finding and is related to finding 2019-002 from the prior year.

Recommendation:

The Goldfarb School of Nursing should formally document all aspects of its direct loan quality assurance system and implement periodic monitoring and evaluation of the direct loan quality assurance system.

Views of responsible officials:

Management agrees with the finding and has developed a plan to address the finding.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2020-003 – N11 Gramm-Leach-Bliley Act (GLBA) – Student Information Security

Identification of the federal program:

Federal Program: Student Financial Assistance Cluster

Federal Agency: United States Department of Education

BJC HealthCare Location: Goldfarb School of Nursing

Award Periods: July 1, 2019 through June 30, 2020, and July 1, 2020 through June 30, 2021

Criteria or specific requirement (including statutory, regulatory or other citation):

Section 200.303(a) of the Uniform Guidance states the following regarding the auditee and internal control:

“The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

16 CFR 314.4(b) requires institutions to “Identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks. At a minimum, such a risk assessment should include consideration of risks in each relevant area of your operations, including: (1) Employee training and management; (2) Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.”

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

16 CFR 314.4(c) requires institutions to “Design and implement information safeguards to control the risks you identify through risk assessment, and regularly test or otherwise monitor the effectiveness of the safeguards’ key controls, systems, and procedures.”

Condition:

Further, the Goldfarb School of Nursing does not have internal controls in place around requirements listed in 16 CFR 314.4(b) and (c).

The Goldfarb School of Nursing did not perform a risk assessment that addresses the three required areas specific to the Gramm-Leach-Bliley Act (GLBA), as noted in 16 CFR 314.4(b).

Further, since a risk assessment specific to GLBA was not completed, the Goldfarb School of Nursing did not document safeguards in response to the identified risks as required by 16 CFR 314.4(c).

Cause:

The Goldfarb School of Nursing did not have policies and procedures, including internal controls, addressing the requirements of 16 CFR 314.4(b) and (c).

Effect or potential effect:

The absence of internal controls and policies and procedures could result in the improper safeguard or improper storage of student account information.

Questioned costs:

None.

Context:

Under an institution’s Program Participation Agreement with the U.S. Department of Education and the GLBA, schools must protect student financial aid information, with particular attention to information provided to institutions by the U.S. Department of Education or otherwise obtained in support of the administration of the federal student financial aid programs. Total expenditures for the Student Financial Assistance Cluster were \$10,167,183 for the year ended December 31, 2020.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Identification as a repeat finding, if applicable:

This is a repeat finding and is related to finding 2019-003 from the prior year.

Recommendation:

We recommend that the Goldfarb School of Nursing perform the required risk assessment and document and implement safeguards responding to identified risks. Management should implement policies and procedures, including internal controls, to ensure that the Goldfarb School of Nursing is in compliance with 16 CFR 314.4(b) and (c).

Views of responsible officials:

Management agrees with the finding and has developed a plan to address the finding.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2020-004 – A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles and H. Period of Performance

Identification of the federal program:

Federal Program: COVID-19 Coronavirus Relief Fund, Assistance Listing No. 21.019

Federal Agency: United States Department of the Treasury

Pass-Through Entity: St. Charles County

BJC HealthCare Locations: Barnes-Jewish St. Peters Hospital and Progress West HealthCare

Pass-Through Award Numbers: None identified

Pass-Through Entity: Boone County

BJC HealthCare Locations: Boone Hospital Center

Pass-Through Award Number: PO No. 2020 000344

Pass-Through Award Period: March 1, 2020 through December 30, 2020

Criteria or specific requirement (including statutory, regulatory or other citation):

Section 200.303(a) of the Uniform Guidance states the following regarding the auditee and internal control:

“The non-Federal entity must:

- (b) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Section 601(d) of the Social Security Act, Title VI–Coronavirus Relief, Fiscal Recovery, and Critical Capital Projects Fund states:

“(d) USE OF FUNDS.—A State, Tribal government, and unit of local government shall use the funds provided under a payment made under this section to cover only those costs of the State, Tribal government, or unit of local government that— (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); (2) were not accounted for in the budget most recently approved as of the date of enactment of this section for the State or government; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021.”

The *Coronavirus Relief Fund program guidance* and frequently asked questions as published in the Federal Register, Vol. 86, No. 10, on January 15, 2021 state the following:

“41. May Fund payments be used for expenditures necessary to prepare for a future COVID-19 outbreak?

Fund payments may be used only for expenditures necessary to address the current COVID-19 public health emergency. For example, a State may spend Fund payment to create a reserve of personal protective equipment or develop increased intensive care unit capacity to support regions in its jurisdiction not yet affected, but likely to be impacted by the current COVID-19 pandemic.”

Question 58 states, “.....Such acquisitions and improvements must be completed, and the acquired or improved property acquisition of equipment be put in use in service of the COVID-19-related use for which it was acquired by December 30.”

“Eligible expenditures include, but are not limited to, payment for ...3. Payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency.”

“As discussed above, governments may allocate payroll and benefits of such employees with respect to time worked on COVID-19-related matters.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Covered benefits include, but are not limited to, the costs of all types of leave (vacation, family-related, sick, military, bereavement, sabbatical, jury duty), employee insurance (health, life, dental, vision), retirement (pension, 401(k)), unemployment benefit plans (federal and state), workers compensation insurance, and Federal Insurance Contributions Act (FICA) taxes (which includes Social Security and Medicare taxes).”

“47. The guidance provides that funding may be used to meet payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency. May Fund payments be used to cover such an employee’s entire payroll cost or just the portion of time spent on mitigating or responding to the COVID-19 public health emergency?”

As a matter of administrative convenience, the entire payroll cost of an employee whose time is substantially dedicated to mitigating or responding to the COVID-19 public health emergency is eligible, provided that such payroll costs are incurred by December 31, 2021. An employer may also track time spent by employees related to COVID-19 and apply Fund payments on that basis but would need to do so consistently within the relevant agency or department.”

Condition:

Barnes-Jewish St. Peters Hospital and Progress West HealthCare – There was no direct evidence showing the review of the personal protective equipment (PPE) inventory and equipment expenditures related to the grant agreements.

In addition, BJC HealthCare’s methodology for allocating PPE expenditures was based on PPE quantities on hand from its central supply purchasing warehouse that relied on information technology systems that could not be supported by source invoice documentation as that information was not retained. As a result, underlying quantities of PPE on hand and average cost could not be tested.

Furthermore, certain equipment purchases were allocated to the two locations; however, documentation was not retained to support the quantity used by each location. The equipment was not received and/or put in use in service of the COVID-19-related use for which it was acquired by December 30, 2020, which was the period of performance ending date per the grant agreement with St. Charles County.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Boone Hospital Center – The review and approval of effort certification reports related to exempt employee payroll expenditures charged to the federal program were not operating effectively. Furthermore, we noted that exempt employee payroll costs charged to the federal program were not properly calculated.

Cause:

Barnes-Jewish St. Peters Hospital and Progress West HealthCare – Evidence of review and approval over the PPE inventory and equipment listings as well as source invoice documentation was not retained.

Boone Hospital Center – Evidence of review and approval over the non-exempt employee and exempt employee payroll expenditure listings was not retained and the review was not sufficiently precise to identify errors in the computation of exempt employee payroll costs charged to the federal program.

Effect or potential effect:

Barnes-Jewish St. Peters Hospital and Progress West HealthCare – Total PPE inventory and equipment expenditures charged to the federal program could be inaccurate or incomplete.

Boone Hospital Center – Total non-exempt employee and exempt employee payroll expenditures charged to the federal program could be inaccurate or incomplete. Certain exempt employee payroll costs charged to the federal program were unallowable.

Questioned costs:

COVID-19 Coronavirus Relief Fund, Assistance Listing No. 21.019 – \$2,000,000 (St. Charles County pass-through award) and \$5,787 (Boone County pass-through award PO No. 2020 000344)

Context:

Barnes-Jewish St. Peters Hospital and Progress West HealthCare – PPE inventory costs charged to the CRF program totaled \$1,798,899, representing 89.9% of the St. Charles County pass-through grant of \$2,000,000 and 52.0% of total federal expenditures of \$3,462,475 for the year ended December 31, 2020. Equipment costs charged to the CRF program totaled \$201,101, representing 10.1% of the St. Charles County pass-through grant of \$2,000,000 and 5.5% of total federal expenditures of \$3,462,475 for the year ended December 31, 2020.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Boone Hospital Center – For 26 exempt employee payroll transactions (out of a total of 161 exempt employee payroll transactions) tested for internal controls over allowability and period of performance, we noted the following control deviations:

- For 2 of 26, there was no evidence of review of the effort certification by the employee's manager.
- For 1 of 26, the employee signed the effort certification report as both preparer and reviewer.

For 26 exempt employee payroll transactions tested for compliance with the allowability and period of performance compliance requirements (totaling \$123,488 in payroll and \$33,712 in benefits), we noted 25 that were not properly calculated resulting in a net overstatement of costs charged to the federal program of \$5,787 (\$4,546 in payroll and \$1,241 in benefits). The nature of these exceptions can be categorized as follows:

- Incorrect hourly pay rates were utilized in the calculation.
- Nonproductive hours (i.e., hours not worked by the employee in response to COVID-19, such as authorized absences and employee time off) were utilized in the calculation.
- Hours allocated for the pay period were overstated based on a standard allocation of 80 hours per pay period when some employees only worked 72 hours per pay period.
- Hours allocated for the pay period did not agree to the effort certification report.

Non-exempt employee (\$701,989) and exempt employee (\$726,141) payroll and benefits expenses charged to the CRF program totaled \$1,428,130, representing 41.2% of total federal expenditures of \$3,462,475 for the year ended December 31, 2020.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Recommendation:

Management should reinforce the importance of developing and executing sufficiently precise review controls related to the CRF expenditure listings in order to ensure completeness and accuracy of the expenditures incurred related to the federal program. Evidence of review and approval, including elements of the review process validated by the reviewer, should be maintained.

Source documentation for all expenditure transactions should be maintained to support the allowability of the costs charged to federal programs.

Views of responsible officials:

As it relates to the findings as reported for St. Charles County funds, BJC HealthCare purchased the personal protective equipment during a time of duress during an unprecedented pandemic. Due to the consolidated nature of BJC's supply chain organization, we performed a calculation, using a reasonable methodology, to allocate PPE to the individual hospitals. The allocation method to the hospitals was appropriate but did not allow an individual invoice to be identified as being charged to particular hospitals. In addition, the funds were provided after the spending was incurred which made compliance very difficult.

As it relates to the findings as reported for the Boone County funds, during the pandemic, BJC HealthCare implemented one-time manual tracking of time spent on various pandemic related activities. The manual process did not have appropriate controls to ensure the accuracy of the information.

BJC does not have any funds remaining under these programs. If BJC participates in this program again, then prior to accepting the funds, BJC will implement appropriate controls to ensure compliance.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2020-005 – A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, H. Period of Performance, and N. Special Tests and Provisions

Identification of the federal program:

Federal Program: COVID-19 Telehealth Program, Assistance Listing No. 32.006 (Telehealth)

Federal Agency: Federal Communications Commission

BJC HealthCare Location: Barnes-Jewish Hospital

Award Number: Not applicable

Award Period: March 13, 2020 through December 31, 2020

Criteria or specific requirement (including statutory, regulatory or other citation):

Section 200.303(a) of the Uniform Guidance states the following regarding the auditee and internal control:

“The non-Federal entity must:

- (c) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

The Telehealth program terms and conditions as outlined in the *COVID-19 Telehealth Program Frequently Asked Questions (FAQs)* state: “For recurring services, funding recipients seeking reimbursement for eligible recurring services may apply their funding commitment towards six months of eligible recurring services as long as those services are implemented on or after March 13, 2020 and prior to December 31, 2020. Existing services that were not purchased to respond to the coronavirus disease are not eligible for funding.”

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Condition:

Video conferencing software costs were charged to the federal program beyond the maximum number of months allowed for such costs. In addition, these costs were for a licensing period that extended beyond the end of the period of performance of the federal award.

Cause:

Management's review control in place was not designed properly as it did not validate allowability of expenditures beyond comparison to the budget.

Effect or potential effect:

Certain costs charged to the federal program were unallowable and not within the period of performance.

Questioned costs:

COVID-19 Telehealth Program, Assistance Listing No. 32.006 – \$83,083

Context:

Recurring services for video conferencing software were charged to the federal program and covered a one-year license period; however, only six months of recurring services are allowed under the federal program. In addition, three months of the license period occurred after December 31, 2020 (the end of the period of performance). The unallowed portion of video conferencing software costs totaled \$83,083, representing 8.4% of total federal expenditures for the COVID-19 Telehealth Program of \$991,588.

Identification as a repeat finding, if applicable:

This is not a repeat finding.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Recommendation:

Management should reinforce the importance of developing and executing sufficiently precise review controls over expenditures incurred related to the federal program. Evidence of review and approval, including elements of the review process validated by the reviewer, should be maintained.

Views of responsible officials:

We agree with this finding and will update policies and work procedures to ensure compliance with COVID-19 Telehealth Program regulations. We will also implement additional internal controls over the review and approval of expenditures charged to the federal program.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2020-006 – A. Activities Allowed or Unallowed and E. Eligibility

Identification of the federal program:

Federal Program: COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured, Assistance Listing No. 93.461 (COVID-19 Uninsured Program)

Federal Agency: U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA)

BJC HealthCare Location: Various

Award Numbers: Various

Award Period: February 4, 2020 through December 31, 2020

Criteria or specific requirement (including statutory, regulatory or other citation):

Section 200.303 of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) states the following regarding internal control:

“The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs Section (continued)

Health and Human Services (HHS) – Health Resources and Services and Administrative (HRSA) issued *Terms and Conditions for Participation in the HRSA COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured Program* (T&Cs) outlining requirements that recipients of funding from the HRSA COVID-19 Uninsured Program must comply with including the following sections: Testing Services, Treatment Services and Vaccine Administration, and General Provisions in FY2020 Consolidated Appropriations.

Per the HRSA T&Cs and further clarified in the *HRSA FAQs for COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment and Vaccine Administration*, the FAQ states the following:

“If a provider tests for COVID-19 as part of pre-operative or other medical treatment unrelated to COVID-19, is the test eligible for reimbursement?”

For the HRSA COVID-19 Uninsured Program, COVID-19 testing is eligible for reimbursement if one of the following diagnoses codes is included in any position on the claim:

- Z03.818 – Encounter for observation for suspected exposure to other biological agents ruled out (possible exposure to COVID-19)
- Z11.59 – Encounter for screening for other viral diseases (asymptomatic)
- Z20.828 – Contact with and (suspected) exposure to other viral communicable (confirmed exposure to COVID-19)
- Z11.52 – Encounter for screening for COVID-19 (asymptomatic)
- Z20.822 – Contact with and (suspected) exposure to COVID-19
- Z86.16 – Personal history of COVID-19

Related treatment visits and services are not eligible for reimbursement given the primary reason for treatment is not COVID-19.”

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs Section (continued)

Testing-Related Items and Services means items and services furnished to an individual during health care provider office visits, including, for example, in-person visits and telehealth visits, urgent care center visits, and emergency room visits that result in an order for or administration of COVID-19 Testing but only to the extent such items and services relate to the furnishing or administration of such product or to the evaluation of such individual for purposes of determining the need of such individual for such product.

Condition:

BJC HealthCare did not document its compliance with the HRSA COVID-19 Uninsured Program T&Cs.

For certain emergency department and physician office visits that included COVID-19 testing, but COVID-19 was not the primary reason for the related treatment visit and services, BJC HealthCare erroneously billed the HRSA COVID-19 Uninsured Program for the entire encounter. This was not in compliance with the HRSA COVID-19 Uninsured Program regulations.

Internal controls over the determination of a patient's uninsured/self-pay status were not suitably designed and in certain instances were not operating effectively.

BJC HealthCare did not have internal controls in place related to the timeliness of review of credit balances related to the HRSA COVID-19 Uninsured Program.

Cause:

BJC HealthCare did not have internal controls in place to monitor the T&Cs and underlying HRSA COVID-19 Uninsured Program regulations during the COVID-19 pandemic.

BJC HealthCare did not have internal controls in place to formally document its compliance with the HRSA COVID-19 Uninsured Program T&Cs.

BJC HealthCare did not have internal controls in place to formally document its compliance with the HRSA COVID-19 Uninsured Program's allowability requirements. Outpatient encounters that included COVID-19 testing, where the primary diagnosis was not COVID-19 related, were not identified as not billable under the HRSA COVID-19 Uninsured Program.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs Section (continued)

Standard policies, procedures, and internal controls over the review for patient insurance coverage and review of credit balances used in the federal program were not suitability designed to address the unique aspects of the HRSA COVID-19 Uninsured Program. Certain encounters prior to July 22, 2020, were excluded from assignment for a third-party insurance coverage discovery.

Credit balances were not reviewed in a timely manner to refund payments to HRSA, generally required due to other insurance coverage identified after the encounter was reimbursed HRSA COVID-19 Uninsured Program.

Effect or potential effect:

BJC HealthCare may not be in compliance with the HRSA COVID-19 Uninsured Program T&Cs.

Certain claims submitted to the HRSA COVID-19 Uninsured Program were for unallowable activities and were therefore, not eligible for reimbursement under the HRSA COVID-19 Uninsured Program.

A patient may not be uninsured and therefore the related encounter may be ineligible for reimbursement under the HRSA COVID-19 Uninsured Program.

Credit balances may not be resolved timely and refunds to the HRSA COVID-19 Uninsured Program may not be identified or completed in a timely manner.

Questioned costs:

COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured, Assistance Listing No. 93.461 – \$204,197

Context:

We sampled 40 claims (totaling \$24,418 in federal expenditures) for services occurring during the award period that were billed to the HRSA COVID-19 Uninsured Program and noted one emergency department claim for treatment that was not COVID-19 related that was inappropriately billed to HRSA (totaling \$958 in federal expenditures). Further analysis performed over claims submitted to HRSA related to services with discharge dates during the award period, indicated that 247 patient accounts totaling \$204,197 for treatment not related to COVID-19 were inappropriately billed to HRSA.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs Section (continued)

We sampled 40 claims (totaling \$24,418 in federal expenditures) for services occurring during the award period that were billed to the HRSA COVID-19 Uninsured Program and noted internal controls over the determination of uninsured/self-pay status were not effectively designed or were not operating effectively for 13 of the 40 claims tested as follows:

- For 7 of 40 patient encounters that occurred between the inception of the federal award through July 22, 2020, no third-party insurance search was performed before submitting to HRSA for payment from the HRSA COVID-19 Uninsured Program as the billed amounts fell below a \$500 threshold established for assignment to the third party. We note that a high volume of claims submitted to the HRSA COVID-19 Uninsured Program were below this threshold and were therefore excluded from a third-party insurance search during this time frame.
- For 4 of 40 patient encounters with billed amounts less than \$500 that occurred during the cutover period when another third party was engaged to perform a secondary insurance search, no third-party search to verify the patient was uninsured was assigned, but the encounter was billed to the HRSA COVID-19 Uninsured Program before the search was completed. Therefore, no third-party insurance search was completed before these encounters were billed to HRSA for payment from the HRSA COVID-19 Uninsured Program.
- For 1 of 40 patient encounters with a billed amount less than \$500 that occurred during the cutover period when another third party was engaged to perform a secondary insurance search, both third-party searches to verify the patient was uninsured were assigned, but the encounter was billed to the HRSA COVID-19 Uninsured Program before the second search was completed.
- For 1 of 40 patient encounters with a billed amount less than \$500 that occurred in September 2020, after the cutover period when another third party was engaged to perform a secondary insurance search, neither third-party insurance search was completed to verify the patient was uninsured before submitting to HRSA for payment from the HRSA COVID-19 Uninsured Program.

Total federal expenditures for Assistance Listing No. 93.461 totaled \$4,829,308 for the year ended December 31, 2020.

BJC HealthCare

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs Section (continued)

Identification as a repeat finding, if applicable:

The finding is not a repeat finding.

Recommendation:

BJC HealthCare should implement internal controls to document its review and compliance with the HRSA COVID-19 Uninsured Program T&Cs.

BJC HealthCare should implement sufficiently precise internal controls to review changes to the HRSA COVID-19 Uninsured Program to ensure it is administering the program in compliance with the HRSA COVID-19 Uninsured Program regulations. In addition, internal controls should be implemented to ensure claims submitted to the HRSA COVID-19 Uninsured Program meet the allowability criteria established by the HRSA COVID-19 Uninsured Program regulations before claims are submitted to HRSA for reimbursement.

Standard policies, procedures, and internal controls over the review for patient insurance coverage and review of credit balances should be updated to address the unique aspects of the HRSA COVID-19 Uninsured Program. A reconciliation should be performed between the patient accounts assigned for insurance coverage discovery in BJC HealthCare's patient billing and record-keeping system to the actual results reported by the third-party vendors to verify third-party insurance searches are completed with no other insurance identified, before claims are submitted to HRSA for reimbursement.

Views of responsible officials:

We agree with this finding and will update policies and work procedures to ensure compliance with HRSA COVID-19 Uninsured Program regulations. We will also implement additional internal controls over the submission of claims to HRSA and review of T&Cs of the federal program.

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Summary Schedule of Prior Audit Findings

Year Ended December 31, 2020

Findings and Questioned Costs – Year Ended December 31, 2019

Finding 2019-001 (SFA Cluster) – N4 Enrollment Reporting

This finding has been partially corrected. BJC HealthCare continues to work towards adherence to the procedures and controls outlined in the 2019 corrective action plan. This is a repeat finding from 2018 (2018-001). Goldfarb School of Nursing (GSON) Registration is performing the monthly SFRNSLC uploads to the NSC and email notifications of the uploaded reports are being received by the Registrar, Financial Aid (FA) Compliance Specialist, and the Registration Technical Specialist. The Registration Technical Specialist is performing reviews of reports and as of February 2022, the Registrar is completing a second-tier review with sign-off and date prior to the upload to the NSC. When an email of an error report is received by the Registrar, FA Compliance Specialist, and the Registration Technical Specialist, the Registration Technical Specialist reviews the errors and makes any necessary corrections. Notes of the corrections made are added into Banner by the Registration Technical Specialist. Emails of submissions and reports are being kept by the FA Compliance Specialist each month. The FA Compliance Specialist reviews student enrollment information on NSLDS and notifies Registration of inconsistencies in reporting status. Secondly, BJC Audit Services is tasked with conducting an initial review of procedures to assess effectiveness. The internal review of processes is scheduled for completion in Q1 2022 (begun in November 2021). GSON has quarterly meetings setup with BJC GMO to review results of testing and ensure ongoing effectiveness of the procedures in 2022.

Finding 2019-002 (SFA Cluster) – N2 Disbursements to or on Behalf of Students – Direct Loan Quality Assurance System

This finding has been partially corrected. BJC HealthCare continues to work towards adherence to the procedures and controls outlined in the 2019 corrective action plan. GSON's Financial Aid department implemented a Quality Assurance policy and procedure in June 2021 although the process was already in place for many years. Starting in February 2022, the Financial Technical Specialist sends the Financial Aid Compliance Specialist an email each month indicating whether there were any rejected loan originations in the prior month. R2T4s (Return of Title IV Funds) will be reviewed at the end of each term by the Financial Technical Specialist and FA Compliance Specialist. Secondly, BJC Audit Services is tasked with conducting an initial review of procedures to assess effectiveness. The internal review of processes is scheduled for completion in Q1 2022 (begun in November 2021). GSON has quarterly meetings setup with BJC GMO to review results of testing and ensure ongoing effectiveness of the procedures in 2022.

Finding 2019-003 (SFA Cluster) – Gramm Leach Bliley Act

This finding has been partially corrected. BJC HealthCare continues to work towards adherence to the procedures and controls outlined in the 2019 corrective action plan. GSON has implemented additional steps into their procedures in order to remain in compliance. These steps include annually performing a risk assessment that addresses the three required areas described in 16 C.F.R. 314.4(b):

- Employee training management,
- Information systems, including network and software design, as well as information processing, storage, transmission and disposal; and
- Detecting, preventing and responding to attacks, intrusions, or other system failures

The employee training program was implemented in May 2021, with employee training completed by November 2021. Ongoing employee training will be completed by November each year. GSON has worked with BJC Information Systems Security to document a safeguard for each risk identified in the risk assessment. The risk assessment was completed in August 2021 and will be reviewed annually. This information was provided by request to the Federal Student Aid (FSA) Cyber Compliance Team in September 2021. Secondly, BJC Audit Services is tasked with conducting an initial review of procedures to assess effectiveness. The internal review of processes is scheduled for completion in Q1 2022 (began in November 2021). GSON has quarterly meetings setup with BJC GMO to ensure the annual update of the risk assessment(s) in 2022.

Findings and Questioned Costs – Year Ended December 31, 2018

Finding 2018-001 (SFA Cluster) – N4 Enrollment Reporting

This finding has been partially corrected. The corrective action plan was partially implemented at GSON in Q4 2019, however due to staff turnover at the end of Q3 2019, the following action item was completed in Q4 2020 with the hiring of a Financial Aid Compliance Specialist: the GSON Financial Aid Compliance Specialist checks each student in the NSLDS during the packaging of awards each week. The Compliance Specialist sends an email to the Registrar for any student that needs follow up and the email and subsequent response and resolution is retained. Beginning in February 2022, the Compliance Specialist will conduct reviews of student enrollment records after each scheduled (monthly) upload.

Corrective Action Plan – Year Ended December 31, 2020

Finding 2020-001 (SFA Cluster) – N4 Enrollment Reporting

Identification of the federal program:

Federal Program: Student Financial Assistance Cluster: Federal Pell Grant Program (Assistance Listing No. 84.063) and Federal Direct Student Loans (Assistance Listing No. 84.268)

Federal Agency: United States Department of Education

BJC HealthCare Location: Goldfarb School of Nursing

Award Periods: July 1, 2019, through June 30, 2020 and July 1, 2020, through June 30, 2021

Views of responsible officials and planned corrective actions: BJC HealthCare agrees with the findings as reported.

The Goldfarb School of Nursing is at Barnes-Jewish College (GSON) is committed to ensuring that student enrollment changes are reported accurately and timely to the National Student Loan Data Systems (NSLDS) in accordance with federal regulations. Procedures and processes which have been implemented (to date) to address and correct GSON enrollment reporting compliance are further referenced in the Summary Schedule of Prior Audit Findings (re: 2019-001). To facilitate the completeness of the enrollment reporting process, the following steps will be incorporated into the GSON's procedures:

A second-tier review of student enrollment status reports, as prepared by the GSON Registration Technical Specialist, will be completed by the GSON Registrar prior to the submission of data to the National Student Clearinghouse (NSC). When an email of an error report is received by the Registrar, FA Compliance Specialist, and the Registration Technical Specialist, the Registration Technical Specialist reviews the errors and makes any necessary corrections. Notes of the corrections made are added into Banner by the Registration Technical Specialist. Emails of submissions and reports are being kept by the FA Compliance Specialist each month.

BJC Audit Services will provide initial testing of newly implemented procedures to assess their effectiveness. Quarterly, the GSON staff will conduct testing of procedures and report to the BJC Grants Management Office (GMO) the findings of their samplings. The BJC GMO will review results of the testing and host quarterly calls to ensure on-going effectiveness of the procedures.

Responsible Parties:

Samantha Dean, Registrar, Goldfarb School of Nursing at Barnes-Jewish College

Michael Ward, Vice Dean, Student Affairs, Goldfarb School of Nursing at Barnes-Jewish College

Completion Date:

The corrective action plan will be implemented in Q1 2022.

Corrective Action Plan – Year Ended December 31, 2020 (continued)

Finding 2020-002 (SFA Cluster) – N2 Disbursements to or on Behalf of Students – Direct Loan Quality Assurance System

Identification of the federal program:

Federal Program: Student Financial Assistance Cluster: Federal Direct Student Loans (Assistance Listing No. 84.268)

Federal Agency: United States Department of Education

BJC HealthCare Location: Goldfarb School of Nursing

Award Periods: July 1, 2019, through June 30, 2020 and July 1, 2020, through June 30, 2021

Views of responsible officials and planned corrective actions: BJC HealthCare agrees with the findings as reported.

GSON is committed to implementing and documenting a quality assurance process to ensure that GSON is complying with program requirements and meeting program objectives as defined in 34 CFR 685.300(b)(9). To facilitate these requirements, GSON will formalize a policy and procedure document to ensure the school is reporting loan records, disbursements and adjustments to disbursements correctly to the Common Origination Disbursement (COD) System, disbursing and returning loan funds in accordance with regulatory requirements, disbursing the correct loan amount to the correct student, and completing monthly reconciliations and timely program year closeouts. Procedures and processes which have been implemented (to date) to address the formalization and monitoring and evaluation of the direct loan quality assurance system are further referenced in the Summary Schedule of Prior Audit Findings (re: 2019-002). To facilitate the completeness of periodic monitoring and evaluation of the direct loan quality system, the following steps will be incorporated into GSON's procedures:

BJC Audit Services will provide initial testing of newly implemented procedures to assess their effectiveness. Quarterly, the GSON staff will conduct testing of procedures and report to the BJC Grants Management Office (GMO) the findings of their samplings. The BJC GMO will review results of the testing and host quarterly calls to ensure on-going effectiveness of the procedures.

Responsible Parties:

Stacy Bogier, Director, Enrollment, Goldfarb School of Nursing at Barnes-Jewish College
Michael Ward, Vice Dean, Student Affairs, Goldfarb School of Nursing at Barnes-Jewish College

Completion Date:

The corrective action plan will be implemented in Q1 2022.

Corrective Action Plan – Year Ended December 31, 2020 (continued)

Finding 2020-003 (SFA Cluster) – Gramm Leach Bliley Act

Identification of the federal program:

Federal Program: Student Financial Assistance Cluster

Federal Agency: United States Department of Education

BJC HealthCare Location: Goldfarb School of Nursing

Award Periods: July 1, 2019, through June 30, 2020 and July 1, 2020, through June 30, 2021

Views of responsible officials and planned corrective actions: BJC HealthCare agrees with the findings as reported.

GSON is committed to ensuring that the requirements of the Graham-Leach Bliley Act are applied to applications that are used to collect, store and utilize student financial records that contain personally identifiable information. Procedures and processes which have been implemented to address required risk assessment safeguards and internal controls for student information security are further referenced in the Summary Schedule of Prior Audit Findings (re: 2019-003). To facilitate, the following steps will be incorporated into GSON's processes:

GSON, in consultation with BJC Information Systems Security, will update the risk assessment annually;

BJC Audit Services confirmed the initial risk assessment(s) were completed and in compliance with BJC Information Systems Security's policies and procedures. The BJC GMO will host quarterly calls to ensure the risk assessment(s) are being updated annually.

Responsible Parties:

Carlos Pardo, IS Director (GSON), Goldfarb School of Nursing at Barnes Jewish College
Matt Modica, Manager, IT Security Government, Risk and Compliance, BJC HealthCare
Michael Ward, Vice Dean, Student Affairs, Goldfarb School of Nursing at Barnes-Jewish College

Completion Date:

The corrective action plan will be implemented in Q1 2022.

Corrective Action Plan – Year Ended December 31, 2020 (continued)

Finding 2020-004 – A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles and H. Period of Performance

Identification of the federal program:

Federal Program: COVID-19 Coronavirus Relief Fund, Assistance Listing No. 21.019

Federal Agency: United States Department of the Treasury

Pass-Through Entity: St. Charles County

BJC HealthCare Locations: Barnes-Jewish St. Peters Hospital and Progress West HealthCare

Pass-Through Entity: Boone County

BJC HealthCare Locations: Boone Hospital Center

Pass-Through Award Period: March 1, 2020 through December 30, 2020

Views of responsible officials and planned corrective actions: BJC HealthCare agrees with the findings as reported.

As it relates to the findings as reported for St. Charles County funds, BJC HealthCare purchased the personal protective equipment during a time of duress during an unprecedented pandemic. Due to the consolidated nature of BJC's supply chain organization, we performed a calculation, using a reasonable methodology, to allocate PPE to the individual hospitals. The allocation method to the hospitals was appropriate but did not allow an individual invoice to be identified as being charged to particular hospitals. In addition, the funds were provided after the spending was incurred which made compliance very difficult.

As it relates to the findings as reported for the Boone County funds, during the pandemic, BJC HealthCare implemented one-time manual tracking of time spent on various pandemic related activities. The manual process did not have appropriate controls to ensure the accuracy of the information.

BJC does not have any funds remaining under these programs. If BJC participates in this program again, then prior to accepting the funds, BJC will implement appropriate controls to ensure compliance.

Responsible Parties:

Lori Schreiner, VP Finance, BJC HealthCare

Corrective Action Plan – Year Ended December 31, 2020 (continued)

Finding 2020-005 – A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles, H. Period of Performance, and N. Special Tests and Provisions

Identification of the federal program:

Federal Program: COVID-19 Telehealth Program, Assistance Listing No. 32.006 (Telehealth)

Federal Agency: Federal Communications Commission

BJC HealthCare Location: Barnes-Jewish

Award Number: Not applicable

Award Period: March 13, 2020 through December 31, 2020

Views of responsible officials and planned corrective actions: BJC HealthCare agrees with the finding as reported.

We agree with this finding and will update policies and work procedures to ensure compliance with COVID-19 Telehealth Program regulations. To facilitate, the following steps will be incorporated into the telehealth program:

Pursuant to the BJC Grants Management Office's current external award review process, detailed sponsor and program-specific terms and conditions will be identified and further documented on the Award Summary Form that is distributed to the PI/PD at the time the award is established. Additionally, the Award Summary Form will be distributed to the secondary reviewer who is providing final approval for expenditures charged to the federal program.

Additionally, the FCC program PI/PD will implement a multi-tier review process for all expenses to ensure they are allowable and compliant with terms and conditions of the award.

The unallowed portion of video conferencing software costs totaling \$83,083 was returned to the sponsor in December 2021. Based on approval from the sponsor, we were able to submit an additional invoice for allowable program costs for the same amount.

Responsible Parties:

Maria Gerritzen, Virtual Care Director, BJC HealthCare
Sheila Eckhard, Finance Manager, BJC Grants Management Office
Valerie Gray, Finance Director, BJC Shared Services

Completion Date:

The corrective action plan will be implemented in Q1 2022 as new awards are received.

Corrective Action Plan – Year Ended December 31, 2020 (continued)

Finding 2020-006 – A. Activities Allowed or Unallowed and E. Eligibility

Identification of the federal program:

Federal Program: COVID-19 Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured, Assistance Listing No. 93.461 (COVID-19 Uninsured Program)

Federal Agency: U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA)

BJC HealthCare Location: Various

Award Period: February 4, 2020 through December 31, 2020

Views of responsible officials and planned corrective actions: BJC HealthCare agrees with the findings as reported.

BJC HealthCare is committed to ensuring the submission of claims to HRSA COVID-19 Uninsured Program follows the program regulations. BJC HealthCare is also committed to ensuring appropriate internal controls are implemented to ensure compliance. To facilitate, the following steps will be incorporated into the uninsured program:

While these steps will be implemented, it is noteworthy that the Uninsured Program ceases to accept claims for testing and treatment effective March 22, 2022. Claims for vaccination claims will no longer be accepted after April 5, 2022.

A report of diagnoses submitted on HRSA claims will be reviewed quarterly beginning with the quarter ended June 30, 2022 to ensure that their primary diagnosis is COVID-related. These files will be maintained. (Denise Rickman, Director Revenue Cycle Management (RCM));

Reports of HRSA payments will be developed that delineate payers for all payments on the accounts for use in HRSA audits. (Denise Rickman, Director RCM);

Should HRSA funding be re-instated, five random accounts per month will be reviewed to ensure both primary and secondary Medicaid eligibility vendors have completed their insurance search. This documentation will be maintained. (Denise Rickman, Director RCM);

Credit balance accounts with HRSA payments will be prioritized with resolution expected within 60 days. HRSA credit balance reviews will include a review of each remittance. Process will be implemented on April 1, 2022 with initial credit resolution expected July 1, 2022. (Allison Myers, Director Revenue Cycle Management); and

Compliance with Terms and Conditions will be documented by April 1, 2022. (Lori Schreiner, VP, Finance and Debra Wierciak, VP, RCM Business Operations).

Corrective Action Plan – Year Ended December 31, 2020 (continued)

Finding 2020-006 – A. Activities Allowed or Unallowed and E. Eligibility (continued)

Responsible Parties:

Denise Rickman, Director Revenue Cycle Management

Allison Myers, Director, Revenue Cycle Management

Lori Schreiner, VP, Finance

Debra Wierciak, VP, RCM Business Operations