BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

CPAs / ADVISORS

blue

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Butler Health System and Subsidiaries
Butler, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Butler Health System and Subsidiaries (collectively referred to as the System), which comprise the consolidated balance sheet as of June 30, 2017, 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 consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2017, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the System adopted new accounting guidance, Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest*, which simplifies the presentation of debt issue costs. The System also early adopted ASU 2015-07 *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Our opinion is not modified with respect to these matters.

Prior Period Consolidated Financial Statements

The consolidated financial statements of the System as of June 30, 2016, were audited by other auditors whose report dated October 6, 2016, expressed an unmodified opinion on those statements.

Blue & Co., LLC

November 2, 2017
Columbus, Ohio

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND 2016

	2017	2016 (As Restated)
Current assets		
Cash and cash equivalents	$ 58,311,691	$ 49,081,066
Patient accounts receivable, less allowances for doubtful accounts of $8,935,452 and $7,943,918 for 2017 and 2016, respectively	31,332,817	34,461,944
Other receivables	7,836,517	9,108,131
Inventories	4,216,374	3,544,014
Prepaid expenses and other current assets	4,326,679	4,341,760
Total current assets	106,024,078	100,536,915
Assets whose use is limited		
Board-designated for future capital improvements	126,937,940	114,319,983
Under trust indenture, held by trustee	4,442,128	2,975,397
Foundation investments	1,319,658	1,613,292
Under agreement for self-insured workers' compensation	1,321,425	1,308,316
Total assets whose use is limited	134,021,151	120,216,988
Investments	11,932,056	11,884,243
Property and equipment, net	155,032,637	154,440,201
Investments in and loans to affiliates	14,126,715	13,276,775
Pension assets	1,814,895	-
Other assets	7,729,925	8,265,902
Total assets	$ 430,681,457	$ 408,621,024

See accompanying notes to consolidated financial statements.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND 2016

	2017	2016 (As Restated)
Current Liabilities		
Accounts payable	$ 3,035,639	$ 3,004,347
Accrued expenses	18,543,890	19,110,431
Accrued salaries and payroll withholdings	4,134,536	4,219,057
Accrued vacation	5,954,985	5,590,994
Accrued interest payable	2,200,629	2,198,556
Current maturities of long-term debt	4,864,998	4,127,233
Estimated third-party payor settlements	2,535,329	1,769,515
Total current liabilities	41,270,006	40,020,133
Long-term debt, net of current maturities	146,746,497	152,214,581
Accrued pension liability	-	8,284,028
Total liabilities	188,016,503	200,518,742
Net Assets		
Unrestricted	239,108,093	204,303,075
Noncontrolling interest in consolidated subsidiaries	2,237,874	2,181,748
Temporarily restricted	875,397	1,174,623
Permanently restricted	443,590	442,836
Total net assets	242,664,954	208,102,282
Total liabilities and net assets	$ 430,681,457	$ 408,621,024

See accompanying notes to consolidated financial statements.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Changes in unrestricted net assets		
Net patient service revenue	$ 341,832,457	$ 321,500,676
Provision for bad debts	(9,294,425)	(9,774,085)
Net patient service revenue less provision for bad debts	332,538,032	311,726,591
Other operating revenue	19,131,486	16,197,445
Contributions	498,548	218,062
Net assets released from restrictions used for operations	428,916	424,909
Total unrestricted revenue	352,596,982	328,567,007
Expenses		
Salaries and wages	105,898,162	97,990,131
Medical and surgical supplies	53,766,239	46,351,956
General supplies and purchased services	39,780,757	40,461,400
Employee benefits	33,723,528	28,213,010
Physicians' fees	56,590,937	52,535,735
Depreciation and amortization	15,984,702	14,849,677
Interest	4,633,614	4,490,307
Utilities and insurance	7,220,462	7,303,237
Professional fees and miscellaneous	6,257,698	5,514,866
Outside medical services	6,450,483	5,735,324
Total expenses	330,306,582	303,445,643
Operating income	22,290,400	25,121,364
Other non-operating income (expense)		
Investment income	3,264,207	4,604,172
Equity in earnings of affiliates	1,134,832	1,665,049
Other income (expense)	(517,097)	56,250
Total other non-operating income	3,881,942	6,325,471
Excess of revenue over expenses	$ 26,172,342	$ 31,446,835

See accompanying notes to consolidated financial statements.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Unrestricted net assets (continued)		
Other changes in unrestricted net assets, net		
Excess of revenue over expenses	$ 26,172,342	$ 31,446,835
Unrealized gain (loss) on investments	4,462,269	(1,140,072)
Net assets released from restrictions used for capital expenditures	389,769	300,358
Distributions to non-controlling interest	(1,190,282)	(1,182,726)
Change in pension assets and liabilities	5,027,046	(4,364,898)
Change in unrestricted net assets before effect of non-controlling interest	34,861,144	25,059,497
Less non-controlling interest:		
Less amount attributed to non-controlling interest	(56,126)	(24,686)
Change in unrestricted net assets non-controlling interest	(56,126)	(24,686)
Change in unrestricted net assets controlling interest	34,805,018	25,034,811
Changes in temporarily restricted net assets		
Contributions	519,256	671,073
Net realized gain on investments	203	904
Net assets released from restrictions	(818,685)	(725,284)
Decrease in temporarily restricted net assets	(299,226)	(53,307)
Permanently restricted net assets:		
Net realized gain on investments	754	754
Increase in net assets	34,562,672	25,006,944
Net assets at beginning of year	208,102,282	183,095,338
Net assets at end of year	$ 242,664,954	$ 208,102,282

See accompanying notes to consolidated financial statements.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating activities and nonoperating gains		
Change in net assets	$ 34,562,672	$ 25,006,944
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	15,984,702	14,849,677
Amortization of debt issuance costs	99,283	90,870
Accretion of bond premium	(644,984)	(651,124)
Provision for bad debts	9,294,425	9,774,085
Loss on disposal of property and equipment	554,186	-
Equity in earnings of affiliates	(1,134,832)	(1,665,049)
Change in accumulated asset/liability for pension benefits	(5,027,046)	4,364,898
Change in net unrealized (gain) loss on investments	(4,462,269)	1,140,072
Restricted contributions and realized gains	(519,459)	(671,977)
Changes in operating assets and liabilities		
Patient accounts receivable	(6,165,298)	(9,364,555)
Other receivables	1,271,614	(1,447,094)
Inventories	(672,360)	(69,496)
Prepaid expenses and other current assets	15,081	(727,197)
Other assets	1,726,259	1,438,043
Accounts payable	31,292	(201,139)
Accrued expenses	(287,071)	(1,799,106)
Accrued interest payable	2,073	925,503
Estimated third-party payor settlements	765,814	(194,772)
Accrued pension liability	(5,071,877)	(806,474)
Net cash from operating activities and nonoperating gains	40,322,205	39,992,109
Investing activities		
Change in assets whose use is limited	(13,804,163)	(18,916,533)
(Increase) decrease in investments	4,414,456	(1,184,583)
Purchase of property and equipment	(16,775,901)	(17,442,642)
Increase in investments in and loans to affiliates	284,892	(1,063,795)
Net cash from investing activities	(25,880,716)	(38,607,553)
Financing activities		
Repayment of long-term debt	(4,540,041)	(5,542,470)
Distributions to non-controlling interest	(1,190,282)	(1,182,726)
Proceeds from restricted contributions and realized gains	519,459	671,977
Proceeds from long-term debt	-	12,525,183
Net cash from investing activities	(5,210,864)	6,471,964
Change in cash and cash equivalents	9,230,625	7,856,520
Cash and cash equivalents at beginning of year	49,081,066	41,224,546
Cash and cash equivalents at end of year	$ 58,311,691	$ 49,081,066
Supplemental cash flow information		
Cash paid for interest	$ 4,532,258	$ 3,473,934
Equipment acquired under capital lease	$ 355,423	$ -

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of Butler Health System (BHS), the controlling parent; Butler Healthcare Providers d/b/a Butler Memorial Hospital and Subsidiaries (collectively, BMH); Butler Health System Foundation (the Foundation); Nixsar Corporation (Nixsar); Primary Care Associates of Butler, P.C. (PCA); Butler Medical Providers (BMP); and Butler Ambulatory Surgery Center, LLC (the Surgery Center) (collectively, the System). The transactions and balances of BMH include the accounts of Butler Memorial Hospital (Hospital), BHS FastERcare PLLC (BHS FastERcare), BHS FastERcare Laboratory Services, LLC (BHS FastERcare Lab), and Butler Health Systems Provider-Hospital Organization, LLC (PHO). All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of operations

The System's primary operations are conducted within the Hospital. The Hospital operates a general acute care hospital that provides inpatient, outpatient, and emergency care services. The Foundation provides fundraising activities in support of the System. Nixsar provides realty management services. BMP employs primary care and specialty care physicians. PCA employs primary care physicians. The Surgery Center is a joint venture in which Butler Health System maintains a 51% ownership that operates an ambulatory surgery center. The System's primary service area includes Butler, Pennsylvania and surrounding communities.

Basis of presentation

Net assets, revenue and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the System and changes therein are classified and reported as follows:

- Unrestricted Net Assets - net assets that are not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets - net assets subject to donor-imposed stipulations that will be met/expire either by actions of the System and/or the passage of time.
- Permanently Restricted Net Assets - net assets subject to law or donor-imposed stipulations that require funds be maintained permanently by the System.

Use of estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America 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 consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents and deposit risk

Cash and cash equivalents include cash on hand, demand deposits and investments in highly liquid debt instruments with an original maturity of three months or less. As of June 30, 2017 and 2016, the System had cash balances with financial institutions that exceeded the Federal Deposit Insurance Corporation (FDIC) limits. The System has not experienced any losses in such accounts.

Other receivables

Other receivables consist of amounts receivable relating to certain pay for performance insurance programs, amounts due under certain Pennsylvania Department of Medicaid programs, and insurance receivables relating to malpractice coverage. Other receivables are reported at net realizable value. No allowance for doubtful collections was recorded because management believes realization losses on other receivables will not be material.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis, and market is considered to be replacement value.

Investments and investment risk

Investments in equity securities with readily determinable fair values are measured at fair value. Cash and cash equivalents are carried at cost which approximates fair value. The collective trust investment are based on valuations provided by investment managers. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

Investment income (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses. Interest income is measured as earned on the accrual basis. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis. Donor-restricted investment income is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the type of restriction.

The System's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported on the consolidated balance sheets are subject to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Assets whose use is limited

Assets whose use is limited include assets held by a bond trustee under trust indenture, assets held by the Foundation, assets held by a trustee in connection with the System's self-insured workers' compensation program and funds which have been set aside by the Board of Trustees. The Board of Trustees retains control of these assets and may, at its discretion, subsequently use these assets for other purposes.

Property and equipment

Property and equipment are carried at cost for purchased assets or fair market value at the date of donation for donated assets. Property and equipment include assets held under capital lease arrangements. Depreciation and amortization of property and equipment, which includes amortization of assets recorded under capital leases, are provided for using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the System’s property and equipment ranges from 3 to 40 years.

Major improvements and betterments to property and equipment are capitalized. Expenses for maintenance and repairs which do not extend the lives of the related assets are charged to expense as incurred. When retired or otherwise disposed of, the asset and its related accumulated depreciation or amortization is adjusted accordingly, and any resulting gain or loss is included on the consolidated statements of operations and changes in net assets.

Other Assets

Other assets consist of an interest the System has in the cash value life insurance policies of physicians and goodwill.

Goodwill of $4,648,325 has been recorded in other assets as of June 30, 2017 and 2016. The excess of cost over the fair value of the identifiable assets acquired in a business combination is reported as goodwill in accordance with accounting principles generally accepted in the United States of America. The System is required to perform an impairment test for goodwill at least annually or more frequently if adverse events or changes in circumstances indicate that the asset may be impaired. The System performs the annual impairment test at the end of each year.

Non-controlling interest

Non-controlling interests represent the portion of equity (net assets) that is attributable to investors that are external to and not included in the System's consolidated financial statements.

Debt issuance costs

Costs incurred in connection with the issuance of long-term debt are amortized over the term of the debt. The costs incurred in issuing the debt are classified with long-term debt, as a deduction, and are amortized using the effective-interest method. Amortization of debt issuance costs amounted to $99,283 and $90,870 for the years ended June 30, 2017 and 2016, respectively.

Excess of Revenues Over Expenses

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating income or loss. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, accumulated liability for pension benefits, and net assets released from restrictions used for capital expenditures.

Medical malpractice

The provision and related liability for estimated general and professional liability claims include estimates of the ultimate cost for both reported claims and claims incurred but not reported and, in management's opinion, provide an adequate reserve for loss contingencies. The System has accrued $1,530,468 and $2,179,303 associated with open asserted claims as of June 30, 2017 and 2016, respectively. This accrual is included in accrued expenses on the consolidated balance sheets. As the System expects these claims to be covered by their insurance policies, a corresponding receivable has been included in other receivables on the consolidated balance sheets.

Patient accounts receivable and Net Patient Service Revenue

The System recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, and managed care and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the type of service provided to the patient. The System recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for services rendered based upon previously agreed-to rates with a payor. The System utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. Another factor that is considered and could further influence the level of the contractual reserves includes the status of accounts receivable balances as inpatient or outpatient. The System's management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, employers, and patients. These third-party payors provide payments to the System at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per deim payments. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts based on the System's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to their service area and the healthcare industry. For receivables associated with self-pay payments, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The June 30, 2017 and 2016 allowance for doubtful accounts of approximately $8,935,000 and $7,944,000, respectively, relates to reserves for self-pay balances.

The allowance for doubtful accounts is based on a percentage of self-pay accounts receivable at June 30, 2017 and 2016. The System's self-pay write-offs decreased $3,867 from $8,306,758 for 2016 to $8,302,891 for 2017. The System does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

<u>Charity Care</u>

The System provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the System does not collect amounts deemed to be charity care, they are not reported as revenue.

Of the System's total reported expenses (approximately $330,307,000 and $303,446,000 during 2017 and 2016, respectively), an estimated $3,418,229 and $3,557,913 arose from providing services to charity patients during 2017 and 2016, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total expenses divided by gross patient service revenue.

In addition to the charity care provided for direct patient care, the Hospital provides services at a loss for the Pennsylvania Medicaid Program. The Hospital also provides subsidized health services for programs that respond to identified community needs, including Behavioral Health, Substance Abuse, Skilled Nursing, Maternal Services, and Family Services. The cost of these community benefits, including charity care, amounted to approximately $11,645,000 and $13,577,000 for the years ended June 30, 2017 and 2016, respectively. These types of costs include community health improvement services, health professions education, research, in-kind contributions to other community groups, and community building activities.

As an inpatient acute care hospital participating in Pennsylvania's Medicaid System, the Hospital is subject to Pennsylvania's Hospital Assessment Program. Net amounts received through this program totaled approximately $850,337 and $18,848 for 2017 and 2016, respectively and are reported within net patient service revenue in the consolidated financial statements.

Donor-restricted gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported on the consolidated statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Income taxes

The Hospital, BHS, the Foundation, Nixsar, and BMP are not-for-profit corporations and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Accordingly, no provision for income taxes has been provided.

The Surgery Center's members have elected to have the Surgery Center's income taxed as a partnership under the provisions of the Code; therefore, taxable income or loss is reported to the partners for inclusion in their respective tax returns. No provision for federal or state income taxes is included in the accompanying consolidated financial statements.

PCA is a for-profit corporation subject to federal and state income taxes. Management believes the tax impact of PCA is immaterial to the consolidated financial statements as a whole. BHS FastERcare, PHO, and BHS FastERcare Lab are Pennsylvania limited liability companies and, therefore, taxable income or loss is reported to the members for inclusion in their respective tax returns. No provision for federal or state income taxes is included in the accompanying consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the System and recognize a tax liability if an uncertain position has been taken that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these entities and has concluded that as of June 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements.

The System has filed its federal and state income tax returns for periods through June 30, 2016 and is subject to routine audits by taxing jurisdictions. However, as of the date the consolidated financial statements were issued, there were no audits for any tax periods in progress. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the current year presentation. There were no changes in previously reported net assets as a result of these classifications.

Subsequent Events

The System has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued, which is November 2, 2017.

2. CHANGE IN ACCOUNTING PRINCIPLE

During 2017, the System adopted Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the consolidated financial statements are issued. When conditions or events that raise substantial doubt exist, additional disclosures will be required to enable financial statement users to understand those conditions or events, management's evaluation of them and management's plans that either alleviated substantial doubt or are intended to mitigate the conditions or events that raise substantial doubt. The adoption of ASU No. 2014-15 did not have a material effect on the accompanying consolidated financial statements.

The System early adopted ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. As such, certain investments that were measured at net asset value per share practical expedient have not been classified in the fair value hierarchy table. The 2016 fair value measurement disclosures have been restated for this change.

Lastly, the System adopted ASU 2015-03, *Interest – Imputation of Interest*, which simplifies the presentation of debt issue costs by presenting them as direct deduction from face amount of the related note payable. Previously, debt issue costs were aggregated and presented as a deferred charge within the other assets section of the balance sheet. Debt issue costs will continue to be amortized over the term of the related debt, but are now are presented as a component of interest expense in the consolidated statement of operations and changes in net assets. The adoption of this standard did not have an impact on the consolidated statements of operations and changes in net assets or the consolidated statements of cash flows.

The 2016 consolidated balance sheet has been retroactively restated to adopt this new guidance as detailed in the following table.

	As previously reported	Effects of implementation	As restated
Consolidated balance Sheet:			
Deferred financing costs	$ 1,247,880	$ (1,247,880)	$ -
Long-term debt	$ 153,462,461	$ (1,247,880)	$ 152,214,581

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2017	2016
Patient accounts receivable	$ 97,942,398	$ 117,443,959
Less allowances for:		
Uncollectible accounts	(8,935,452)	(7,943,918)
Contractual adjustments	(57,674,129)	(75,038,097)
Net patient accounts receivable	$ 31,332,817	$ 34,461,944

The System provides services without collateral to its patients, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	2017		2016	
	Accounts Receivable	Revenue	Accounts Receivable	Revenue
Medicare	42%	52%	37%	50%
Medicaid	13%	11%	9%	11%
Blue Cross	12%	19%	18%	21%
Other third-party payors	20%	17%	23%	17%
Patient pay	13%	1%	13%	1%
Total	100%	100%	100%	100%

4. INVESTMENT INCOME

Investment income and gains and losses for assets whose use is limited and investments are comprised of the following as of June 30:

	2017	2016
Other non-operating income:		
Interest and dividend income	$ 3,264,207	$ 4,604,172
Other changes in unrestricted net assets:		
Unrealized gain (loss) on investments	4,462,269	(1,140,072)
Total investment income	$ 7,726,476	$ 3,464,100

5. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the System has the ability to access.

- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Money Markets: Valued based at the subscription and redemption activity at a $1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the System are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the System are deemed to be actively traded.

Collective trust fund: Valued based upon the units of the collective trust fund held by the System at year end times the respective unit value. The unit value of the collective trust fund is estimated on the basis of various internal valuation methods, including, but not limited to, estimated future cash flows discounted at rates commensurate with the risks involved.

The System’s policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in 2017 and 2016.

Assets measured at fair value on a recurring basis as of June 30, 2017 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual funds - fixed income	$ 528,021	$ -	$ -	$ 528,021
Board-designated for future capital improvements:				
Mutual funds - domestic equities	23,227,174	-	-	23,227,174
Mutual funds - fixed income	63,214,439	-	-	63,214,439
Mutual funds - foreign equity	21,811,939	-	-	21,811,939
	108,781,573	-	-	108,781,573
Cash and cash equivalents:				
Investments	-	-	-	11,404,035
Board-designated for future capital improvements	-	-	-	7,532,582
Under trust indenture, held by trustee	-	-	-	4,442,128
Foundation investments	-	-	-	1,319,658
Under agreement for self-insured workers' compensation	-	-	-	1,321,425
Collective trust fund (a)				11,151,806
Total assets whose use is limited and investments	$ 108,781,573	$ -	$ -	$ 145,953,207

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the consolidated balance sheets.

Assets measured at fair value on a recurring basis as of June 30, 2016 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual funds - fixed income	$ 523,059	$ -	$ -	$ 523,059
Board-designated for future capital improvements:				
Mutual funds - domestic equities	19,402,300	-	-	19,402,300
Mutual funds - fixed income	59,276,627	-	-	59,276,627
Mutual funds - foreign equity	17,935,711	-	-	17,935,711
	97,137,697	-	-	97,137,697
Cash and cash equivalents:				
Investments	-	-	-	11,361,184
Board-designated for future capital improvements	-	-	-	7,498,515
Under trust indenture, held by trustee	-	-	-	2,975,397
Foundation investments	-	-	-	1,613,292
Under agreement for self-insured workers' compensation	-	-	-	1,308,316
Collective trust fund (a)				10,206,830
Total assets whose use is limited and investments	$ 97,137,697	$ -	$ -	$ 132,101,231

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value in the consolidated balance sheets.

Fair value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of June 30, 2017 and 2016, respectively.

June 30, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
Collective trust fund				
SEI Core Property Collective Investment Trust	$ 11,151,806	$ -	Quarterly	95 Days

June 30, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
Collective trust fund				
SEI Core Property Collective Investment Trust	$ 10,206,830	$ -	Quarterly	95 Days

6. PROPERTY AND EQUIPMENT

Property and equipment, recorded at cost, consist of the following as of June 30:

	2017	2016
Land	$ 4,415,181	$ 4,415,181
Land improvements	12,260,878	11,806,701
Buildings	114,761,056	110,078,806
Equipment	243,856,711	234,081,371
Leasehold improvements	10,039,702	11,301,383
Construction in progress	1,201,863	2,974,791
Total cost	386,535,391	374,658,233
Less accumulated depreciation	(231,502,754)	(220,218,032)
Net carrying amount	$ 155,032,637	$ 154,440,201

The System has committed to a number of projects to be put in service in subsequent years. $200,000 and $400,000 have been committed to be spent for a parking lot project and the elevator replacement project, respectively.

7. LONG TERM DEBT

Long term obligations consist of the following as of June 30:

	Interest Rate	Due Date	2017	2016
Variable rate hospital revenue bonds, series 2009A	Variable rate	Through 2039	$ 38,075,000	$ 39,335,000
Hospital revenue bonds, series 2015A	Multiple rates	Through 2040	88,770,000	89,615,000
Delayed draw term note	Variable rate	Through 2025	16,000,906	17,555,906
Joint venture loans payable	Variable rate	Through 2018	609,081	1,124,289
Capital leases	Multiple rates	Through 2020	915,333	924,743
			144,370,320	148,554,938
Add bond premium, net of accumulated amortization of $1,296,108 and $651,124 at June 30, 2017 and 2016, respectively			8,389,772	9,034,756
Less: unamortized loan costs			(1,148,597)	(1,247,880)
Less: current portion			(4,864,998)	(4,127,233)
Long-term portion			$ 146,746,497	$ 152,214,581

Variable Rate Hospital Revenue Bonds, Series 2009A

In April 2009, $50,000,000 of Variable Rate Hospital Revenue Bonds, Series 2009A (2009A Bonds) were issued by the Butler County Hospital Authority (Authority) under the terms of a Master Trust Indenture dated as of September 15, 1986, as amended and supplemented. The proceeds were used to finance a portion of the cost of the Hospital's expansion project, including the expansion of the main Hospital facility, investment in off-site facilities to support outpatient services, and investment in information technology (Expansion Project). The proceeds were also used to fund a debt service reserve fund and pay the costs of the bonds issuance.

The 2009A Bonds initially bore interest at a weekly rate, not to exceed 12%, determined by a remarketing agent to be the lowest interest rate necessary which would allow for the sale of the bonds at par, taking into consideration prevailing financial market conditions. The trust indenture also provided for the option to convert the bonds to a term rate, as calculated at specified conversion dates throughout the term of the bonds, not to exceed 8%. On June 29, 2010, the trust indenture was amended to allow for conversion of the interest calculation to a Bank-Bought Interest Rate, as defined in the amended Master Trust Indenture.

The bonds were restructured during March 2015 which resulted in $9,000,000 of the bonds being defeased with the proceeds from the issuance of the Hospital Revenue Bonds, Series 2015A. The interest rate was adjusted to the product of 68% of LIBOR plus .91% which was 1.74% as of June 30, 2017. Scheduled principal payments commenced April 1, 2015, and are due through 2039. The bonds are secured by pledged revenue.

Hospital Revenue Bonds, Series 2015A

In March 2015, $90,615,000 of Hospital Revenue Bonds, Series 2015A (2015A Bonds) were issued by the Authority under the terms of a Master Trust Indenture dated September 15, 1986, as amended and supplemented. The proceeds of these bonds were used to defease the 2009B Bonds, 2010A Bonds, and part of the 2009A Bonds. The bonds will accrue interest at fixed rates ranging between 2% and 5% per annum. The interest rate in effect at June 30, 2017 was 3%. The payments commenced on July 1, 2015, and continue through 2039.

Delayed Draw Term Note

In March 2015, a $20,000,000 Delayed Draw Term Note (Note) was issued to finance the construction of a medical office building. Under the terms of the Note, draws could be taken prior to March 31, 2016, up to $20,000,000. As of June 30, 2017, draws had been taken on the Note, totaling $19,835,000. Payments commenced on January 1, 2016, and are due in monthly installments through 2025, with a balloon payment in the amount of $14,723,750 due at that time. The Note accrues interest at a rate of One Month LIBOR + 1.10%, which was 2.33% as of June 30, 2017.

Joint Venture Loan Payable

In May 2015, the Hospital entered into a joint venture limited partnership agreement with another institution with 3% ownership. The agreement called for $1,162,500 to be paid initially and $1,162,500 to be financed through a loan payable to the institution. The Loan Payable accrues 2.18%. The Loan Payable will be repaid quarterly through the assignment of any and all distributions from the joint venture. As of June 30, 2017, $609,081 is outstanding on The Loan Payable. Any outstanding payments at the end of 36 months will be due in full.

The Butler Health System Obligated Group (Obligated Group) consists of Butler Health System, BMH, BMP, and Nixsar. All members of the Obligated Group are jointly and severally liable for all outstanding obligations of the Obligated Group.

The Master Trust Indentures contain various financial and other covenants. The Obligated Group is required to maintain certain financial ratios including minimum days cash on hand, a minimum debt service coverage ratio, and a minimum debt-to-capitalization ratio. Management believes they are in compliance with all covenants as of June 30, 2017.

Capital Leases

The System has entered into five capital lease agreements. Four of these capital lease obligations are payable in monthly installments ranging from $1,509 to $27,058. One of the capital leases is payable in quarterly installments of $21,910. The leases include interest rates ranging from .27% to 2.66%. The leases are secured by the equipment leased.

Net book value of the leased equipment included within property and equipment follows:

	2017	2016
Equipment	$ 2,280,034	$ 1,833,334
Less: accumulated depreciation	1,355,083	1,024,268
	$ 924,951	$ 809,066

Combined aggregate maturities of long-term debt and capital leases for five years subsequent to June 30, 2017, are as follows:

	Long-term debt	Capital leases
2018	$ 4,364,077	$ 513,272
2019	3,859,996	213,085
2020	3,965,008	145,524
2021	4,089,992	59,991
2022	4,230,000	-
Thereafter	122,945,914	-
Total	$ 143,454,987	931,872
Less amounts representing interest		16,539
		$ 915,333

8. OPERATING LEASES

The System has various non-cancelable operating lease agreements expiring through fiscal 2021. Expense associated with these operating lease agreements amounted to $237,165 and $621,594 for the years ended June 30, 2017 and 2016, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2017, that have initial or remaining lease terms in excess of one year:

2018	$	237,165
2019		231,629
2020		160,912
2021		53,160
	$	1,653,278

9. NET PATIENT SERVICE REVENUE

Net patient service revenue is comprised of the following:

	2017	2016
Revenue		
Inpatient services	$ 447,784,099	$ 413,365,600
Outpatient services	800,959,018	787,345,938
Total patient revenue	1,248,743,117	1,200,711,538
Revenue deductions		
Contractual allowances	(901,339,719)	(873,214,271)
Charity care	(5,570,941)	(5,996,591)
Provision for bad debts	(9,294,425)	(9,774,085)
Total revenue deductions	(916,205,085)	(888,984,947)
Total net patient service revenue	$ 332,538,032	$ 311,726,591

10. PENSION PLANS

Pension Plan

The Hospital maintains three noncontributory defined benefit pension plans (Plan) covering substantially all employees. The benefits are based on the participant's number of years of service and the employee's compensation. The Hospital's funding policy is to contribute an amount annually that satisfies at least the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

The following table sets forth the benefit obligation, fair value of Plan assets, and the funded status of the Hospital's Plan amounts recognized in the consolidated financial statements as of and for the years ended June 30:

	2017	2016
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 96,280,713	$ 94,836,233
Service cost	3,180,021	3,106,664
Interest cost	4,278,679	4,403,360
Actuarial gains	(1,102,293)	(680,448)
Benefits paid	(5,931,755)	(5,385,096)
Benefit obligation at end of year	96,705,365	96,280,713
Change in plan assets:		
Fair value of plan assets at beginning of year	87,996,685	90,110,629
Actual return on plan assets	9,165,330	436,152
Contributions	7,290,000	2,835,000
Benefits paid	(5,931,755)	(5,385,096)
Fair value of plan assets at end of year	98,520,260	87,996,685
Funded status and amounts recognized on the consolidated balance sheets	$ 1,814,895	$ (8,284,028)
Accumulated benefit obligation	$ 93,317,992	$ 93,153,275

To develop the expected long-term rate of return on assets assumption, the Hospital considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The following table sets forth the components of net periodic pension cost for the years ended June 30:

	2017	2016
Service cost	$ 3,180,021	$ 3,106,664
Interest cost	4,278,679	4,403,360
Expected return on plan assets	(7,565,820)	(7,410,860)
Amortization of prior service credit	(63,953)	(56,235)
Recognized net actuarial loss	2,389,196	1,985,597
Net periodic benefit cost	$ 2,218,123	$ 2,028,526

The following table sets forth the reclassifications to net pension cost of amounts previously recognized as changes in unrestricted net assets separate from expenses but not yet included in net pension cost when they arose:

	2017	2016
Prior service credit	$ (63,953)	$ (56,235)
Actuarial loss	2,389,196	1,985,597
Total	$ 2,325,243	$ 1,929,362

During 2017 and 2016, an actuarial gain of $2,701,803 and an actuarial loss of $(6,294,260), respectively, were recognized as changes in unrestricted net assets separate from expenses; however, not included in net periodic benefit cost for the period.

The Hospital expects to make contributions of approximately $5,000,000 to the Plan in 2018.

Estimated amounts that will be amortized from other changes in unrestricted net assets over the next fiscal year are as follows:

	2018
Prior service credit	$ (71,482)
Net loss	1,945,973
Total	$ 1,874,491

The System recognized the change in accumulated assets and liabilities for pension benefits on the consolidated statements of operations and changes in net assets. These amounts represent the change in funded status, adjusted for employer contributions and net periodic pension cost and are recognized as follows for June 30:

	2017	2016
Change in pension assets and liabilities	$ 5,027,046	$ (4,364,898)

The assumptions used in determining the actuarial present value of the projected benefit obligation as of June 30 are as follows:

	2017	2016
Discount rate	4.77%	4.58%
Rate of compensation increase	3.00%	3.00%

The assumptions used to determine the net periodic benefit cost as of June 30 are as follows:

	2017	2016
Discount rate	4.58%	4.77%
Expected return on plan assets	8.25%	8.25%
Rate of compensation increase	3.00%	3.00%

The plan assets are invested pursuant to the pension investment policy. The allocations by type of investment as of June 30, 2017 and 2016, as well as the range of long-term target allocations are presented below:

Asset Category	Target Allocation	2017	2016
Equities	48%-68%	45%	46%
Debt securities	27%-47%	42%	44%
Other	0%-10%	13%	10%

Other Plan investments include the SEI Core Property Collective Investment Trust (Fund), a non-readily marketable collective trust fund held by the Plan. The significant investment strategy of the Fund is investing in private investments.

The Plan assets are invested in separately managed portfolios using investment management firms. The Plan's objective is to maximize total return without assuming undue risk exposure. The Plan maintains a well-diversified asset allocation that best meets these objectives. Plan assets are largely comprised of equity mutual funds, which include companies with all market capitalization sizes. Fixed income mutual funds include both short-term and intermediate maturities. Investments in derivative securities are not permitted for the sole purpose of speculating on the direction of market interest rates.

In each investment account, investment managers are responsible to monitor and react to economic indicators, such as GDP, CPI, and the Federal Monetary Policy, that may affect the performance of their account. The performance of all managers and the aggregate asset allocation are reviewed on a quarterly basis.

The following table represents plan assets measured at fair value, as defined in Note 5, on a recurring basis as of June 30, 2017.

	Level 1	Level 2	Level 3	Total
Mutual funds - domestic equities	$ 26,209,335	$ -	$ -	$ 26,209,335
Mutual funds - foreign equity	18,543,411	-	-	18,543,411
Mutual funds - fixed income	41,210,330	-	-	41,210,330
	85,963,076	-	-	85,963,076
Collective trust fund (a)	-	-	-	12,557,184
	$ 85,963,076	$ -	$ -	$ 98,520,260

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value.

The following table represents plan assets measured at fair value, as defined in Note 5, on a recurring basis as of June 30, 2016.

	Level 1	Level 2	Level 3	Total
Mutual funds - domestic equities	$ 23,935,895	$ -	$ -	$ 23,935,895
Mutual funds - foreign equity	15,176,722	-	-	15,176,722
Mutual funds - fixed income	37,385,425	-	-	37,385,425
	76,498,042	-	-	76,498,042
Collective trust fund (a)	-	-	-	11,498,643
	$ 76,498,042	$ -	$ -	$ 87,996,685

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented at fair value.

Fair value of Investments in Entities that Use Net Asset Value

The following table summarizes investments measured at fair value based on net asset value (NAVs) per share as of June 30, 2017 and 2016, respectively.

June 30, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
Collective trust fund				
SEI Core Property Collective Investment Trust	$ 12,557,184	$ -	Quarterly	95 Days

June 30, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
Collective trust fund				
SEI Core Property Collective Investment Trust	$ 11,498,643	$ -	Quarterly	95 Days

The benefit payments which reflect expected future services as of June 30, 2017, as appropriate, are expected to be paid as follows:

2018	$ 6,791,252
2019	5,470,916
2020	6,461,508
2021	6,719,622
2022	5,604,729
Years 2023 - 2027	40,720,704

11. INVESTMENTS IN AND LOANS TO AFFILIATES

Investments in and loans to affiliates include the Hospital's investments in entities in which the Hospital has a financial interest. The Hospital applies the equity method of accounting for investments in which significant influence over operating and financial policies of the investee exists even though the Hospital has equal to or less than 50% ownership. Investments recorded on the equity method are adjusted for the Hospital's proportionate share of undistributed earnings or losses and these amounts are included in other non-operating income (expense) on the accompanying consolidated statements of operations.

Investments in and loans to affiliates consist of the following as of June 30:

	2017	2016
Butler Cancer Associates, Inc.	$ 4,326,891	$ 3,770,215
Chartwell Pennsylvania, LP	2,522,271	2,522,415
CHART	2,063,540	2,063,540
Concordia Visiting Nurses	1,014,764	898,723
Benbrook Medical Holdings, LLC	974,109	1,018,712
MedCare Equipment Company, LLC	922,547	922,547
UPMC Musculoskeletal Joint Venture, Inc.	723,479	750,897
CLHHC/HVHS/Good Samaritan Hospice of Pittsburgh	446,945	549,698
BHS/HVHS Multispecialty Group, Inc.	288,856	258,475
VieCare - Butler, LLC	254,850	254,850
UPMC OB/GYN	208,600	-
Benbrook Medical Holdings II, LLC	126,232	129,938
IRMC/BHS Multispecialty Physician Group, Inc.	124,656	-
Butler Physicians Realty, LLC	74,257	73,782
South Butler Medical Holdings LP	52,685	61,077
Benbrook 107, LLC	1,344	1,265
South Butler Medical Holdings Management Company, LLC	689	641
Total	$ 14,126,715	$ 13,276,775

The Hospital has a 50% ownership in Butler Cancer Associates, Inc. (BCA), a joint venture with the UPMC Cancer Center to provide oncology services to the Butler service area. The Hospital did not receive member distributions during the years ended June 30, 2017 and 2016. This investment is recorded under the equity method of accounting.

The table below represents summarized BCA assets, liabilities and results from operations.

	2017	2016
Assets		
Cash	$ 656,085	$ -
Accounts receivable, net	2,639,626	2,241,304
Inventroy phamarcy/rebates	282,033	300,105
Prepaid expenses	22,407	145,441
Property and equipment, net	5,215,919	6,087,522
Total assets	8,816,070	8,774,372
Liabilities		
Accrued expenses	162,288	245,158
Amounts due to UPMC	-	988,784
Total liabilities	162,288	1,233,942
Total net assets	8,653,782	7,540,430
Total liabilities and net assets	$ 8,816,070	$ 8,774,372
Change in net assets		
Net patient service revenue	$ 13,978,325	$ 12,921,982
Expenses	12,863,787	12,284,597
Total change in net assets	$ 1,114,538	$ 637,385

The Hospital has a 3% ownership in Chartwell Pennsylvania, LP, an entity that provides home infusion therapy and specialty services in Western and Central Pennsylvania, Northeastern West Virginia, and Southeastern Ohio. The Hospital received dividends of $420,000 and $180,000 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the cost method of accounting.

The Hospital has a 4% ownership in CHART, a reciprocal risk retention group. The Hospital received dividends of $603,000 and $542,000 for the years ended June 30, 2017 and 2016, respectively. The investment is recorded under the cost method of accounting.

During the fiscal year ended June 30, 2016, the Hospital acquired a 12% ownership in Concordia Visiting Nurses, an entity with several partners for the purpose of providing in home health care, personal care, and social services. The Hospital received member distributions from this joint venture of $480,000 and $240,000 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the equity method of accounting.

The Hospital has a 21.47% ownership in Benbrook Medical Holdings, LLC, a joint venture with several physicians for the purpose of acquiring real property and constructing a 55,000 square foot building to be leased to BHS and to operate an ambulatory surgery center. The Hospital received member distributions from this joint venture of $103,038 and $103,038 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the equity method of accounting.

The Hospital entered into a loan agreement with Benbrook Medical Holdings, LLC for $915,741. The balance of the loan receivable was $539,070 and $584,125 as of June 30, 2017 and 2016, respectively. The loan bears interest at 5.75% per annum and is due in equal monthly installments through 2025.

The Hospital has a 2.6% ownership in MedCare Equipment Company, LLC, an entity that provides durable medical equipment and related services. The Hospital received member distributions from MedCare Equipment Company, LLC of $390,728 and $340,913 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the cost method of accounting.

During the fiscal year ended June 30, 2016, the Hospital acquired a 10% ownership in Butler Health System/UPMC Musculoskeletal Joint Venture, Inc., a joint venture with UPMC Community Medicine, Inc. for the purpose of providing health services to residents in Allegheny and Butler counties. The Hospital received no member distributions during the years ended June 30, 2017 or 2016. This investment is recorded under the equity method of accounting.

During the fiscal year ended June 30, 2016, the Hospital acquired a 12% ownership in CLHHC/HVHS/Good Samaritan Hospice of Pittsburgh, an entity with several partners for the purpose of providing hospice services and other activities to residents in the surrounding Pittsburgh area. The Hospital received member distributions from this joint venture of $480,000 and $240,000 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the equity method of accounting.

During the fiscal year ended June 30, 2016, the Hospital acquired a 50% ownership in BHS/HVHS Multispecialty Group, Inc, a joint venture with Heritage Valley Health System, Inc. for the purpose of providing health care services and physician services to residents of the Allegheny, Beaver, and Butler counties. The Hospital received no member distributions during the years ended June 30, 2017 or 2016. This investment is recorded under the equity method of accounting.

The Hospital has a 15% ownership in VieCare - Butler, LLC, a joint venture with VieCare, Inc. to provide independent living services and other activities to the residents of Butler County. No member distributions were received during the years ended June 30, 2017 or 2016. This investment is recorded under the cost method of accounting.

During the fiscal year ended June 30, 2017, the Hospital acquired a 15% ownership in Butler Health System UPMC OB/GYN Joint Venture, Inc., a joint venture with UPMC Community Medicine, Inc., for the purpose of providing a stable and reliable platform for physician and health services offered to residents of the Allegheny, Lawrence, and Butler counties and surrounding counties. The Hospital received no member distributions during the year ended June 30, 2017. This investment is recorded under the equity method of accounting.

The Hospital has a 17.43% ownership in Benbrook Medical Holdings II, LLC, a joint venture with several physicians for the purpose of acquiring real property and leasing the same to BMP. The Hospital received member distributions from this joint venture of $17,432 and $20,919 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the equity method of accounting.

During the fiscal year ended June 30, 2017, the Hospital acquired a 49% ownership in IRMC/BHS Multispecialty Physician Group, Inc., a joint venture with Indiana Regional Medical Center for the purpose of providing a stable and reliable platform for the delivery of healthcare services and to enhance the quality and variety of physician services offered to patients in Indiana County, Pennsylvania and surrounding counties. The Hospital received no member distributions during the year ended June 30, 2017. This investment is recorded under the equity method of accounting.

The Hospital has a 16.67% ownership in Butler Physicians Realty, LLC, a joint venture with several physicians to construct a medical office building in Butler County. The Hospital received member distributions from this joint venture of $12,833 and $16,013 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the equity method of accounting.

The Hospital has a 16.13% ownership in South Butler Medical Holdings LP, a joint venture with several partners for the purpose of acquiring real property and leasing the same to BMP. The Hospital received member distributions from this joint venture of $19,359 and $19,359 for the years ended June 30, 2017 and 2016, respectively. This investment is recorded under the equity method of accounting.

The Hospital has an 18.96% ownership in Benbrook 107, LLC, a joint venture with several physicians for the purpose of acquiring real property and leasing the same to BMP. No member distributions were received during the years ended June 30, 2017 or 2016. This investment is recorded under the equity method of accounting.

The Hospital has a 16.21% ownership in South Butler Medical Holdings Management Company, LLC, a joint venture with several partners for the purpose of acquiring real property and leasing the same to BMP. No member distributions were received during the years ended June 30, 2017 or 2016. This investment is recorded under the equity method of accounting.

12. SELF-INSURANCE PLANS

The System provides for workers' compensation costs through a program of self-insurance supplemented by purchased excess liability coverage. Estimated self-insurance costs are accrued based upon data provided by the third-party administrator of the program and historical claims experience. The liability for workers' compensation was approximately $839,000 and $849,000 as of June 30, 2017 and 2016, respectively, and is included in accrued expenses on the accompanying consolidated balance sheets. The discount rate used in determining these liabilities was 2.75% as of June 30, 2017 and 2016.

The System also self-insures its employee health insurance coverage and supplements it with excess liability coverage. The Hospital accrues the estimated costs of incurred and reported and incurred and unreported claims, after consideration of its stop-loss insurance coverages, based upon data provided by the third-party administrator of the program and its historical claims experience. The liability for employee health insurance was approximately $765,000 and $789,000 as of June 30, 2017 and 2016, respectively, and is included in accrued expenses on the accompanying consolidated balance sheets.

13. MEDICAL MALPRACTICE CLAIMS COVERAGE

As of June 30, 2017, the Hospital's medical malpractice insurance coverage is provided under the provisions of the following insurance arrangements:

- Primary coverage — Primary coverage is provided under the terms of an insurance contract which covers losses, if any, which are reported during the period the contract is in force, "claims-made coverage," subject to the per occurrence and aggregate limits of such contract, which are $500,000 and $2,500,000, respectively.

- MCARE Fund coverage — The Pennsylvania Medical Care Availability and Reduction of Error Fund (MCARE Fund) provides excess coverage per the Pennsylvania law governing the MCARE Fund. Pursuant to the per occurrence and aggregate limits set forth in the controlling Pennsylvania statutes, the MCARE Fund provides coverage for losses in excess of the primary coverage that was in effect on the date of the incident. The cost of MCARE Fund coverage is recognized as expense in the period incurred. Increases in the annual surcharges and concerns over the MCARE Fund's ability to manage and pay claims continues to result in proposals to reform or restructure the MCARE Fund. The Hospital will be required to purchase additional primary insurance to take the place of the MCARE Fund coverage if it is reduced. Depending upon the ultimate resolution of this matter, the Hospital may incur additional insurance costs.

- Excess coverage — The Hospital has excess liability insurance contracts which insures against losses in excess of the above coverages reported during the period of policy coverage.

The primary and excess coverages are provided by Community Hospital Alternative for Risk Transfer (CHART), a reciprocal risk retention group, which is a form of a captive insurance company. CHART was formed in April 2002 to provide liability insurance, reinsurance, and risk management services for its subscribers.

The Hospital's estimated medical malpractice claims liability for incurred but not reported claims was approximately $1,551,000 and $997,000 as of June 30, 2017 and 2016, respectively, and is included in accrued expenses on the accompanying consolidated balance sheets. It is reasonably possible that the estimates could change materially in the near term.

The System believes it has adequate insurance coverage for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverage.

14. FUNCTIONAL EXPENSES

The costs of providing the programs and services of the System have been summarized below on a functional basis. Certain costs have been allocated among health care services, general and administrative, and fund raising services based on actual direct expenditures and cost allocations based upon estimates of time spent by System personnel. Although the method used was appropriate, other methods could produce different results. Cost by functional expense as of June 30 2017 and 2016 is as follows:

	2017	2016
Health care services	$ 280,501,003	$ 256,410,340
General and administrative	49,550,608	46,762,898
Fundraising activities	254,971	272,405
Total	$ 330,306,582	$ 303,445,643

15. ACCOUNTING FOR NON-CONTROLLING INTEREST

The breakout of the change in unrestricted net assets is shown in two components, displaying both the portion attributable to both the controlling and non-controlling interest in the table below:

	Controlling Interest	Non-Controlling Interest	Total
Beginning balance as of July 1, 2015	$ 179,268,264	$ 2,157,062	$ 181,425,326
Excess of revenues over expenses	30,239,423	1,207,412	31,446,835
Unrealized (loss) on investments	(1,140,072)	-	(1,140,072)
Net assets released from restrictions used for capital expenditures	300,358	-	300,358
Distributions to non-controlling interest	-	(1,182,726)	(1,182,726)
Change in pension assets and liabilities	(4,364,898)	-	(4,364,898)
Change in net assets	25,034,811	24,686	25,059,497
Ending balance as of June 30, 2016	$ 204,303,075	$ 2,181,748	$ 206,484,823
Beginning balance as of July 1, 2016	$ 204,303,075	$ 2,181,748	$ 206,484,823
Excess of revenues over expenses	24,925,934	1,246,408	26,172,342
Unrealized (loss) on investments	4,462,269	-	4,462,269
Net assets released from restrictions used for capital expenditures	389,769	-	389,769
Distributions to non-controlling interest	-	(1,190,282)	(1,190,282)
Change in pension assets and liabilities	5,027,046	-	5,027,046
Change in net assets	34,805,018	56,126	34,861,144
Ending balance as of June 30, 2017	$ 239,108,093	$ 2,237,874	$ 241,345,967

16. COMMITMENTS AND CONTINGENCIES

The System is involved in litigation arising in the normal course of business. Certain litigation is in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of the System. Management believes that these matters will be resolved without material adverse effect on the System's financial position or results of operations. However, the ultimate outcome and effect on the System's consolidated financial statements is unknown.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory 'actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying consolidated financial statements; however, the possible future financial effects of this matter on the System, if any, are not presently determinable.

17. RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), which deferred the effective date for all entities by one year. These new standards, which the System is not required to adopt until its year ending June 30, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new standard, which the System is not required to adopt until its year ending June 30, 2020, is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The primary impact on the System will be that changes in the fair value of equity investments will be recognized in excess of revenues over expenses, rather than other changes in net assets as currently required.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the System is not required to adopt until its year ending June 30, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their consolidated balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's consolidated balance sheet.

On August 18, 2016, the FASB Issued ASU No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the System is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

The System is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.

SUPPLEMENTARY INFORMATION

CPAs / ADVISORS

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REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY INFORMATION

Board of Trustees
Butler Health System and Subsidiaries
Butler, Pennsylvania

We have audited the consolidated financial statements of Butler Health System and Subsidiaries as of and for the year ended June 30, 2017 and 2016, and have issued our report thereon dated November 2, 2017, which expressed an unmodified opinion on those consolidated financial statements, which appears on pages 1 and 2. The consolidating information on pages 37-44 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies, and is 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 audit 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

November 2, 2017
Columbus, Ohio

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2017 Total	June 30, 2016 Total
Current assets							
Cash and cash equivalents	$ 56,268,790	$ 1,070,505	$ 510,367	$ 462,029	$ -	$ 58,311,691	49,081,066
Patient accounts receivable, net	30,514,592	-	255,835	562,390	-	31,332,817	34,461,944
Other receivables	7,744,222	133,796	49,971	2,500	(93,972)	7,836,517	9,108,131
Inventories	3,864,141	-	42,688	309,545	-	4,216,374	3,544,014
Prepaid expenses and other current assets	4,222,704	-	27,574	76,401	-	4,326,679	4,341,760
Total current assets	102,614,449	1,204,301	886,435	1,412,865	(93,972)	106,024,078	100,536,915
Assets whose use is limited							
Board-designated for future capital improvements	126,937,940	-	-	-	-	126,937,940	114,319,983
Under trust indenture, held by trustee	4,442,128	-	-	-	-	4,442,128	2,975,397
Foundation investments	-	1,319,658	-	-	-	1,319,658	1,613,292
Under agreement for self-insured workers' compensation	1,321,425	-	-	-	-	1,321,425	1,308,316
Total assets whose use is limited	132,701,493	1,319,658	-	-	-	134,021,151	120,216,988
Investments	11,932,056	-	-	-	-	11,932,056	11,884,243
Property and equipment, net	153,303,715	-	7,078	1,721,844	-	155,032,637	154,440,201
Investments in and loans to affiliates	14,126,715	-	-	-	-	14,126,715	13,276,775
Interest in net assets of Butler Health System Foundation	862,358	-	-	-	(862,358)	-	-
Pension assets	1,814,895	-	-	-	-	1,814,895	-
Other assets	7,101,924	-	-	628,001	-	7,729,925	8,265,902
Total assets	$ 424,457,605	$ 2,523,959	$ 893,513	$ 3,762,710	$ (956,330)	$ 430,681,457	408,621,024

See Report of Independent Auditors on Supplementary Information on page 36.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEETS
JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2017 Total	June 30, 2016 Total
Current Liabilities							
Accounts payable	$ 2,736,771	$ -	$ 16,359	$ 301,508	$ (18,999)	$ 3,035,639	$ 3,004,347
Accrued expenses	18,111,650	14,437	372,554	120,222	(74,973)	18,543,890	19,110,431
Accrued salaries and payroll withholdings	4,091,392	-	43,144	-	-	4,134,536	4,219,057
Accrued vacation	5,918,726	-	36,259	-	-	5,954,985	5,590,994
Accrued interest payable	2,200,629	-	-	-	-	2,200,629	2,198,556
Current maturities of long-term debt	4,768,283	-	-	96,715	-	4,864,998	4,127,233
Estimated third-party payor settlements	2,535,329	-	-	-	-	2,535,329	1,769,515
Total current liabilities	40,362,780	14,437	468,316	518,445	(93,972)	41,270,006	40,020,133
Long-term debt, net of current maturities	146,512,508	-	-	233,989	-	146,746,497	152,214,581
Accrued pension liability	-	-	-	-	-	-	8,284,028
Total liabilities	186,875,288	14,437	468,316	752,434	(93,972)	188,016,503	200,518,742
Net Assets							
Unrestricted	236,319,808	1,203,574	425,197	1,159,514	-	239,108,093	204,303,075
Noncontrolling interest in consolidated subsidiaries	387,112	-	-	1,850,762	-	2,237,874	2,181,748
Temporarily restricted	875,397	862,358	-	-	(862,358)	875,397	1,174,623
Permanently restricted	-	443,590	-	-	-	443,590	442,836
Total net assets	237,582,317	2,509,522	425,197	3,010,276	(862,358)	242,664,954	208,102,282
Total liabilities and net assets	$ 424,457,605	$ 2,523,959	$ 893,513	$ 3,762,710	$ (956,330)	$ 430,681,457	$ 408,621,024

See Report of Independent Auditors on Supplementary Information on page 36.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2017 Total	June 30, 2016 Total
Changes in unrestricted net assets							
Net patient service revenue	$ 328,849,040	$ -	$ 5,151,704	$ 7,831,713	$ -	$ 341,832,457	$ 321,500,676
Provision for bad debts	(9,095,342)	-	(110,286)	(88,797)	-	(9,294,425)	(9,774,085)
Net patient service revenue less provision for bad debts	319,753,698	-	5,041,418	7,742,916	-	332,538,032	311,726,591
Other operating revenue	18,832,142	-	469,207	312	(170,175)	19,131,486	16,197,445
Contributions	-	503,098	-	-	(4,550)	498,548	218,062
Net assets released from restrictions used for operations	428,916	-	-	-	-	428,916	424,909
Total unrestricted revenue	339,014,756	503,098	5,510,625	7,743,228	(174,725)	352,596,982	328,567,007
Expenses							
Salaries and wages	103,101,106	129,301	851,413	1,781,342	35,000	105,898,162	97,990,131
Medical and surgical supplies	51,687,962	-	366,560	1,711,717	-	53,766,239	46,351,956
General supplies and purchased services	37,781,962	88,665	343,069	1,776,786	(209,725)	39,780,757	40,461,400
Employee benefits	32,864,669	29,036	527,590	302,233	-	33,723,528	28,213,010
Physicians' fees	53,688,351	-	2,902,586	-	-	56,590,937	52,535,735
Depreciation and amortization	15,626,342	3	16,103	342,254	-	15,984,702	14,849,677
Interest	4,630,276	-	-	3,338	-	4,633,614	4,490,307
Utilities and insurance	7,065,018	521	66,288	88,635	-	7,220,462	7,303,237
Professional fees and miscellaneous	6,052,767	7,445	64,920	132,566	-	6,257,698	5,514,866
Outside medical services	6,330,483	-	120,000	-	-	6,450,483	5,735,324
Total expenses	318,828,936	254,971	5,258,529	6,138,871	(174,725)	330,306,582	303,445,643
Operating income	20,185,820	248,127	252,096	1,604,357	-	22,290,400	25,121,364
Other non-operating income (expense)							
Investment income	3,263,689	480	1	37	-	3,264,207	4,604,172
Equity in earnings of affiliates	1,134,832	-	-	-	-	1,134,832	1,665,049
Other income (expense)	(517,097)	-	-	-	-	(517,097)	56,250
Total other non-operating income	3,881,424	480	1	37	-	3,881,942	6,325,471
Excess of revenue over expenses	$ 24,067,244	$ 248,607	$ 252,097	$ 1,604,394	$ -	$ 26,172,342	$ 31,446,835

See Report of Independent Auditors on Supplementary Information on page 36.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2017 Total	June 30, 2016 Total
Unrestricted net assets (continued)							
Other changes in unrestricted net assets, net							
Excess of revenue over expenses	$ 24,067,244	$ 248,607	$ 252,097	$ 1,604,394	$ -	$ 26,172,342	$ 31,446,835
Unrealized gain (loss) on investments	4,462,269	-	-	-	-	4,462,269	(1,140,072)
Net assets released from restrictions used for capital expenditures	389,769	-	-	-	-	389,769	300,358
Distributions to non-controlling interest	(430,782)	-	-	(759,500)	-	(1,190,282)	(1,182,726)
Transfers (to) from affiliates	790,500	-	-	(790,500)	-	-	-
Change in pension assets and liabilities	5,027,046	-	-	-	-	5,027,046	(4,364,898)
Change in unrestricted net assets before effect of non-controlling interest	34,306,046	248,607	252,097	54,394	-	34,861,144	25,059,497
Less non-controlling interest:							
Less amount attributed to non-controlling interest	(29,473)	-	-	(26,653)	-	(56,126)	(24,686)
Change in unrestricted net assets non-controlling interest	(29,473)	-	-	(26,653)	-	(56,126)	(24,686)
Change in unrestricted net assets controlling interest	34,276,573	248,607	252,097	27,741	-	34,805,018	25,034,811
Changes in temporarily restricted net assets							
Contributions	28,242	491,014	-	-	-	519,256	671,073
Net realized gain on investments	-	203	-	-	-	203	904
Net assets transferred (to) from affiliates	793,353	(793,353)	-	-	-	-	-
Decrease in interest in net assets of Butler Health System Foundation	(302,136)	-	-	-	302,136	-	-
Net assets released from restrictions	(818,685)	-	-	-	-	(818,685)	(725,284)
Increase (decrease)in temporarily restricted net assets	(299,226)	(302,136)	-	-	302,136	(299,226)	(53,307)
Permanently restricted net assets:							
Net realized gain on investments	-	754	-	-	-	754	754
Increase (decrease) in net assets	34,006,820	(52,775)	252,097	54,394	302,136	34,562,672	25,006,944
Net assets at beginning of year	203,575,497	2,562,297	173,100	2,955,882	(1,164,494)	208,102,282	183,095,338
Net assets at end of year	$ 237,582,317	$ 2,509,522	$ 425,197	$ 3,010,276	$ (862,358)	$ 242,664,954	$ 208,102,282

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

OBLIGATED GROUP CONSOLIDATING BALANCE SHEETS
JUNE 30, 2017

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2017 Total
Current assets						
Cash and cash equivalents	$ 1,848,405	$ 49,308,900	$ 3,658,034	$ 1,453,451	$ -	$ 56,268,790
Patient accounts receivable, net	-	25,203,151	5,311,441	-	-	30,514,592
Other receivables	-	5,504,175	3,573,415	10,996	(1,344,364)	7,744,222
Inventories	-	3,816,533	47,608	-	-	3,864,141
Prepaid expenses and other current assets	-	2,853,948	1,382,979	-	(14,223)	4,222,704
Total current assets	1,848,405	86,686,707	13,973,477	1,464,447	(1,358,587)	102,614,449
Assets whose use is limited						
Board-designated for future capital improvements	-	126,937,940	-	-	-	126,937,940
Under trust indenture, held by trustee	-	4,442,128	-	-	-	4,442,128
Under agreement for self-insured workers' compensation	-	1,321,425	-	-	-	1,321,425
Total assets whose use is limited	-	132,701,493	-	-	-	132,701,493
Investments	-	11,932,056	-	-	-	11,932,056
Property and equipment	536,339	124,135,845	2,640,342	25,991,189	-	153,303,715
Investments in and loans to affiliates	-	14,126,715	-	-	-	14,126,715
Interest in net assets of Butler Health System Foundation	-	862,358	-	-	-	862,358
Pension assets	-	1,814,895	-	-	-	1,814,895
Other assets	-	1,814,471	5,287,453	-	-	7,101,924
Total assets	$ 2,384,744	$ 374,074,540	$ 21,901,272	$ 27,455,636	$ (1,358,587)	$ 424,457,605

See Report of Independent Auditors on Supplementary Information on page 36.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

OBLIGATED GROUP CONSOLIDATING BALANCE SHEETS
JUNE 30, 2017

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2017 Total
Current Liabilities						
Accounts payable	$ 4,525	$ 2,691,775	$ 40,471	$ -	$ -	$ 2,736,771
Accrued expenses	6,250	13,258,170	6,155,011	50,806	(1,358,587)	18,111,650
Accrued salaries and payroll withholdings	-	2,071,131	2,020,261	-	-	4,091,392
Accrued vacation	-	5,029,604	889,122	-	-	5,918,726
Accrued interest payable	-	2,200,629	-	-	-	2,200,629
Current maturities of long-term debt	-	4,768,283	-	-	-	4,768,283
Estimated third-party payor settlements	-	2,535,329	-	-	-	2,535,329
Total current liabilities	10,775	32,554,921	9,104,865	50,806	(1,358,587)	40,362,780
Long-term debt, net of current maturities	-	146,512,508	-	-	-	146,512,508
Total liabilities	10,775	179,067,429	9,104,865	50,806	(1,358,587)	186,875,288
Net Assets						
Unrestricted	2,373,969	193,744,602	12,796,407	27,404,830	-	236,319,808
Noncontrolling interest in consolidated subsidiaries	-	387,112	-	-	-	387,112
Temporarily restricted	-	875,397	-	-	-	875,397
Total net assets	2,373,969	195,007,111	12,796,407	27,404,830	-	237,582,317
Total liabilities and net assets	$ 2,384,744	$ 374,074,540	$ 21,901,272	$ 27,455,636	$ (1,358,587)	$ 424,457,605

See Report of Independent Auditors on Supplementary Information on page 36.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

OBLIGATED GROUP CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2017 Total
Changes in unrestricted net assets						
Net patient service revenue	$ -	$ 275,665,687	$ 53,206,047	$ -	$ (22,694)	$ 328,849,040
Provision for bad debts	-	(7,396,259)	(1,699,083)	-	-	(9,095,342)
Net patient service revenue less provision for bad debts	-	268,269,428	51,506,964	-	(22,694)	319,753,698
Other operating revenue	284,528	11,770,071	12,783,266	1,411,600	(7,417,323)	18,832,142
Net assets released from restrictions used for operations	-	171,874	257,042	-	-	428,916
Total unrestricted revenue	284,528	280,211,373	64,547,272	1,411,600	(7,440,017)	339,014,756
Expenses						
Salaries and wages	-	93,272,609	9,764,235	-	64,262	103,101,106
Medical and surgical supplies	-	50,203,999	1,479,490	4,473	-	51,687,962
General supplies and purchased services	92,299	32,138,387	8,260,117	583,290	(3,292,131)	37,781,962
Employee benefits	-	26,011,104	6,853,565	-	-	32,864,669
Physicians' fees	-	7,851,865	49,606,124	-	(3,769,638)	53,688,351
Depreciation and amortization	41,370	12,427,622	1,171,366	1,985,984	-	15,626,342
Interest	-	4,630,276	-	-	-	4,630,276
Utilities and insurance	38,706	4,818,123	1,956,713	251,476	-	7,065,018
Professional fees and miscellaneous	39,468	5,039,021	1,371,742	121,431	(518,895)	6,052,767
Outside medical services	-	4,446,468	1,902,973	-	(18,958)	6,330,483
Total expenses	211,843	240,839,474	82,366,325	2,946,654	(7,535,360)	318,828,936
Operating income (loss)	72,685	39,371,899	(17,819,053)	(1,535,054)	95,343	20,185,820
Other non-operating income (expense):						
Investment income	-	3,263,473	-	216	-	3,263,689
Equity in earnings of affiliates	-	1,134,832	-	-	-	1,134,832
Other expense	-	(421,692)	(62)	-	(95,343)	(517,097)
Total other non-operating income (expense)	-	3,976,613	(62)	216	(95,343)	3,881,424
Excess (deficiency) of revenue over expenses	$ 72,685	$ 43,348,512	$ (17,819,115)	$ (1,534,838)	$ -	$ 24,067,244

See Report of Independent Auditors on Supplementary Information on page 36.

BUTLER HEALTH SYSTEM AND SUBSIDIARIES

OBLIGATED GROUP CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2017 Total
Unrestricted net assets (continued)						
Other changes in unrestricted net assets, net						
Excess (deficiency) of revenue over expenses	$ 72,685	$ 43,348,512	$ (17,819,115)	$ (1,534,838)	$ -	$ 24,067,244
Unrealized gain on investments	-	4,462,269	-	-	-	4,462,269
Distributions to non-controlling interest	-	(430,782)	-	-	-	(430,782)
Net assets released from restrictions used for capital expenditures	-	389,769	-	-	-	389,769
Transfers (to) from affiliates	390,500	(14,000,000)	14,000,000	400,000	-	790,500
Change in pension assets and liabilities	-	5,027,046	-	-	-	5,027,046
Change in unrestricted net assets before effect of non-controlling interest	463,185	38,796,814	(3,819,115)	(1,134,838)	-	34,306,046
Less non-controlling interest:						
Less amount attributed to non-controlling interest	-	(29,473)	-	-	-	(29,473)
Change in unrestricted net assets non-controlling interest	-	(29,473)	-	-	-	(29,473)
Change in unrestricted net assets controlling interest	463,185	38,767,341	(3,819,115)	(1,134,838)	-	34,276,573
Changes in temporarily restricted net assets						
Contributions	-	28,242	-	-	-	28,242
Net assets transferred (to) from affiliates	-	536,311	257,042	-	-	793,353
Decrease in interest in net assets of Butler Health System Foundation	-	(302,136)	-	-	-	(302,136)
Net assets released from restrictions	-	(561,643)	(257,042)	-	-	(818,685)
Increase (decrease)in temporarily restricted net assets	-	(299,226)	-	-	-	(299,226)
Increase (decrease) in net assets	463,185	38,497,588	(3,819,115)	(1,134,838)	-	34,006,820
Net assets at beginning of year	1,910,784	156,509,523	16,615,522	28,539,668	-	203,575,497
Net assets at end of year	$ 2,373,969	$ 195,007,111	$ 12,796,407	$ 27,404,830	$ -	$ 237,582,317

See Report of Independent Auditors on Supplementary Information on page 36.