

# **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

*CPAs / ADVISORS*



# BUTLER HEALTH SYSTEM AND SUBSIDIARIES

## TABLE OF CONTENTS JUNE 30, 2018 AND 2017

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations and Changes in Net Assets .....	5
Consolidated Statements of Cash Flows .....	7
Notes to Consolidated Financial Statements .....	8
<b>Supplementary Information</b>	
Report of Independent Auditors on Supplementary Information .....	37
Consolidating Balance Sheets .....	38
Consolidating Statements of Operations and Changes in Net Assets .....	40
Obligated Group Consolidating Balance Sheets .....	42
Obligated Group Consolidating Statements of Operations and Changes in Net Assets .....	44



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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 sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Butler Health System and Subsidiaries  
Butler, Pennsylvania

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, 2018 and 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.

A handwritten signature in black ink that reads "Denise G. LLC". The signature is written in a cursive, somewhat stylized font.

October 3, 2018  
Westerville, Ohio

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS JUNE 30, 2018 AND 2017

	2018	2017
<b>Current assets</b>		
Cash and cash equivalents	\$ 72,787,536	\$ 58,311,691
Patient <b>accounts receivable</b> , less allowances for doubtful accounts of \$9,855,880 and \$8,935,452 for 2018 and 2017, respectively	33,124,629	31,332,817
Other receivables	4,612,187	7,836,517
Inventories	4,195,556	4,216,374
Prepaid expenses and other current assets	4,282,676	4,326,679
Total current assets	119,002,584	106,024,078
<b>Assets whose use is limited</b>		
Board-designated for future capital improvements	132,245,409	126,937,940
Under trust indenture, held by trustee	4,469,433	4,442,128
Foundation investments	1,790,678	1,319,658
Under agreement for self-insured workers' compensation	1,336,177	1,321,425
Total assets whose use is limited	139,841,697	134,021,151
<b>Investments</b>	12,003,402	11,932,056
<b>Property and equipment, net</b>	148,370,903	155,032,637
<b>Investments in and loans to affiliates</b>	13,267,789	14,126,715
<b>Pension assets</b>	3,663,040	1,814,895
<b>Other assets</b>	7,535,177	7,729,925
<b>Total assets</b>	\$ 443,684,592	\$ 430,681,457

*See accompanying notes to consolidated financial statements.*

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS JUNE 30, 2018 AND 2017

	2018	2017
<b>Current Liabilities</b>		
Accounts payable	\$ 3,896,652	\$ 3,035,639
Accrued expenses	18,727,968	18,543,890
Accrued salaries and payroll withholdings	4,508,688	4,134,536
Accrued vacation	6,145,265	5,954,985
Accrued interest payable	2,212,639	2,200,629
Current maturities of long-term debt	4,248,148	4,864,998
Estimated third-party payor settlements	1,235,918	2,535,329
Total current liabilities	40,975,278	41,270,006
 <b>Long-term debt, net of current maturities</b>	 142,147,824	 146,746,497
Total liabilities	183,123,102	188,016,503
 <b>Net Assets</b>		
Unrestricted	256,290,476	239,108,093
Noncontrolling interest in consolidated subsidiaries	2,524,695	2,237,874
Temporarily restricted	1,301,661	875,397
Permanently restricted	444,658	443,590
Total net assets	260,561,490	242,664,954
<b>Total liabilities and net assets</b>	\$ 443,684,592	\$ 430,681,457

*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, 2018 AND 2017

	2018	2017
<b>Changes in unrestricted net assets</b>		
Net patient service revenue	\$ 355,139,181	\$ 341,832,457
Less: Provision for bad debts	(8,446,969)	(9,294,425)
Net patient service revenue less provision for bad debts	346,692,212	332,538,032
Other operating revenue	21,906,399	19,131,486
Contributions	255,512	498,548
Net assets released from restrictions used for operations	175,395	428,916
Total unrestricted revenue	369,029,518	352,596,982
<b>Expenses</b>		
Salaries and wages	111,715,552	105,898,162
Medical and surgical supplies	55,858,659	53,766,239
General supplies and purchased services	40,457,306	39,780,757
Employee benefits	37,862,404	33,723,528
Physicians' fees	63,251,703	56,590,937
Depreciation and amortization	17,051,417	15,984,702
Interest and amortization of debt issuance costs	4,942,942	4,633,614
Utilities and insurance	9,277,594	7,220,462
Professional fees and miscellaneous	8,888,509	6,257,698
Outside medical services	7,152,554	6,450,483
Total expenses	356,458,640	330,306,582
Operating income	12,570,878	22,290,400
<b>Other non-operating income (expense)</b>		
Investment income	5,179,711	3,264,207
Equity in earnings of affiliates	1,681,936	1,134,832
Other income (expense)	66,474	(517,097)
Total other non-operating income	6,928,121	3,881,942
Excess of revenue over expenses	\$ 19,498,999	\$ 26,172,342

*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, 2018 AND 2017

	2018	2017
<b>Unrestricted net assets (continued)</b>		
<b>Other changes in unrestricted net assets, net</b>		
Excess of revenue over expenses	\$ 19,498,999	\$ 26,172,342
Unrealized gain on investments	259,997	4,462,269
Net assets released from restrictions used for capital expenditures	63,840	389,769
Distributions to non-controlling interest	(1,286,066)	(1,190,282)
Change in pension assets and liabilities	(1,067,566)	5,027,046
Change in unrestricted net assets before effect of non-controlling interest	17,469,204	34,861,144
Less non-controlling interest:		
Less amount attributed to non-controlling interest	(286,821)	(56,126)
Change in unrestricted net assets non-controlling interest	(286,821)	(56,126)
Change in unrestricted net assets controlling interest	17,182,383	34,805,018
<b>Changes in temporarily restricted net assets</b>		
Contributions	666,124	519,256
Net realized gain (loss) on investments	(625)	203
Net assets released from restrictions	(239,235)	(818,685)
Increase (decrease) in temporarily restricted net assets	426,264	(299,226)
<b>Permanently restricted net assets</b>		
Net realized gain on investments	1,068	754
Increase in net assets	17,896,536	34,562,672
<b>Net assets at beginning of year</b>	242,664,954	208,102,282
<b>Net assets at end of year</b>	\$ 260,561,490	\$ 242,664,954

*See accompanying notes to consolidated financial statements.*

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>Operating activities and nonoperating gains</b>		
Change in net assets	\$ 17,896,536	\$ 34,562,672
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	17,051,417	15,984,702
Amortization of debt issuance costs	97,393	99,283
Accretion of bond premium	(628,127)	(644,984)
Provision for bad debts	8,446,969	9,294,425
(Gain) loss on disposal of property and equipment	(4,707)	554,186
Equity in earnings of affiliates	(1,681,936)	(1,134,832)
Change in accumulated asset for pension benefits	1,067,566	(5,027,046)
Change in net unrealized gain on investments	(259,997)	(4,462,269)
Restricted contributions and realized gains	(666,567)	(520,213)
Changes in operating assets and liabilities		
Patient accounts receivable	(10,238,781)	(6,165,298)
Other receivables	3,224,330	1,271,614
Inventories	20,818	(672,360)
Prepaid expenses and other current assets	44,003	15,081
Other assets	1,480,814	1,726,259
Accounts payable	861,013	31,292
Accrued expenses	748,510	(287,071)
Accrued interest payable	12,010	2,073
Estimated third-party payor settlements	(1,299,411)	765,814
Pension assets	(2,915,711)	(5,071,877)
Net cash from operating activities and nonoperating gains	<u>33,256,142</u>	<u>40,321,451</u>
<b>Investing activities</b>		
Change in assets whose use is limited	(5,820,546)	(13,804,163)
Decrease in investments	188,651	4,414,456
Purchase of property and equipment	(10,389,683)	(16,775,901)
Proceeds from sale of property and equipment	4,707	-
Increase in investments in and loans to affiliates	2,540,862	284,892
Net cash from investing activities	<u>(13,476,009)</u>	<u>(25,880,716)</u>
<b>Financing activities</b>		
Repayment of long-term debt	(4,684,789)	(4,540,041)
Distributions to non-controlling interest	(1,286,066)	(1,190,282)
Proceeds from restricted contributions and realized gains	666,567	520,213
Net cash from investing activities	<u>(5,304,288)</u>	<u>(5,210,110)</u>
Change in cash and cash equivalents	14,475,845	9,230,625
<b>Cash and cash equivalents at beginning of year</b>	58,311,691	49,081,066
<b>Cash and cash equivalents at end of year</b>	<u>\$ 72,787,536</u>	<u>\$ 58,311,691</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 4,833,539	\$ 4,532,258
Equipment acquired under capital lease	\$ -	\$ 355,423

See accompanying notes to consolidated financial statements.

# BUTLER HEALTH SYSTEM AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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### 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.

# **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017**

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### 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, 2018 and 2017, the System had cash balances with financial institutions that exceeded the Federal Deposit Insurance Corporation 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 of losses on other receivables will not be material.

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis, and net realizable value 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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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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.

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 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, 2018 and 2017. 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 \$97,393 and \$99,283 for the years ended June 30, 2018 and 2017, 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, distributions to non-controlling interest, and net assets released from restrictions used for capital expenditures.

#### Claims Reserve

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 \$2,093,824 and \$1,530,468 associated with open asserted claims as of June 30, 2018 and 2017, 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.

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## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 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.

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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The June 30, 2018 and 2017 allowance for doubtful accounts of approximately \$9,856,000 and \$8,935,000, 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, 2018 and 2017. The System's self-pay write-offs decreased \$776,350 from \$8,302,891 for 2017 to \$7,526,541 for 2018. 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.

#### Charity Care

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 \$356,459,000 and \$330,307,000 during 2018 and 2017, respectively), an estimated \$3,805,243 and \$3,426,426 arose from providing services to charity patients during 2018 and 2017, 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 \$16,267,000 and \$14,441,000 for the years ended June 30, 2018 and 2017, 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 \$349,229 and \$850,337 for 2018 and 2017, respectively and are reported within net patient service revenue in the consolidated financial statements.

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 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, 2018 and 2017, 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, 2017 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).

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

#### Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the current year presentation. There were no changes in 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 October 3, 2018.

## 2. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2018	2017
Patient accounts receivable	\$ 96,365,037	\$ 97,942,398
Less allowances for:		
Uncollectible accounts	(9,855,880)	(8,935,452)
Contractual adjustments	(53,384,528)	(57,674,129)
Net patient accounts receivable	\$ 33,124,629	\$ 31,332,817

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:

	2018		2017	
	Accounts Receivable	Revenue	Accounts Receivable	Revenue
Medicare	42%	53%	42%	52%
Medicaid	11%	11%	13%	11%
Blue Cross	13%	18%	12%	19%
Other third-party payors	20%	17%	20%	17%
Patient pay	14%	1%	13%	1%
Total	100%	100%	100%	100%

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 3. 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:

	<u>2018</u>	<u>2017</u>
Other non-operating income:		
Interest and dividend income	\$ 133,993	\$ 98,142
Realized gain on sale of investments	5,045,718	3,166,065
Total	<u>5,179,711</u>	<u>3,264,207</u>
Other changes in unrestricted net assets:		
Unrealized gain (loss) on investments	259,997	4,462,269
Total investment income	<u>\$ 5,439,708</u>	<u>\$ 7,726,476</u>

#### 4. 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, 2018 and 2017.

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

*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 at the net asset value (NAV) of units of a collective trust. The NAV, as provided by the investment manager, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Transactions (purchases and sales) may occur daily. Were the System to initiate a full redemption of the collective trust, the investment advisor reserves the right to temporarily delay the withdrawal in order to ensure that securities liquidations will be carried out in an orderly business manner.

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 2018 and 2017.

Assets measured at fair value on a recurring basis as of June 30, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Mutual funds - fixed income	\$ 533,616	\$ -	\$ -	\$ 533,616
Board-designated for future capital improvements:				
Mutual funds - domestic equities	19,640,175	-	-	19,640,175
Mutual funds - fixed income	69,571,414	-	-	69,571,414
Mutual funds - foreign equity	23,311,471	-	-	23,311,471
Under trust indenture, held by trustee:				
Money market mutual funds	4,469,433	-	-	4,469,433
	<u>\$ 117,526,109</u>	<u>\$ -</u>	<u>\$ -</u>	117,526,109
Cash and cash equivalents:				
Investments				11,469,786
Board-designated for future capital improvements				7,609,798
Foundation investments				1,790,678
Under agreement for self-insured workers' compensation				1,336,177
Collective trust fund (a)				12,112,551
Total assets whose use is limited and investments				<u>\$ 151,845,099</u>

(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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
<b>Investments:</b>				
Mutual funds - fixed income	\$ 528,021	\$ -	\$ -	\$ 528,021
<b>Board-designated for future capital improvements:</b>				
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
	<u>\$ 108,781,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>108,781,573</u>
<b>Cash and cash equivalents:</b>				
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				<u>\$ 145,953,207</u>

(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, 2018 and 2017, respectively.

June 30, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
<u>Collective trust fund</u>				
SEI Core Property Collective Investment Trust	\$ 12,112,551	\$ -	Quarterly	95 Days
June 30, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
<u>Collective trust fund</u>				
SEI Core Property Collective Investment Trust	\$ 11,151,806	\$ -	Quarterly	95 Days

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

#### 5. PROPERTY AND EQUIPMENT

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

	2018	2017
Land	\$ 4,415,181	\$ 4,415,181
Land improvements	12,896,721	12,260,878
Buildings	116,359,766	114,761,056
Equipment	248,966,982	243,856,711
Leasehold improvements	10,292,407	10,039,702
Construction in progress	2,534,602	1,201,863
Total cost	395,465,659	386,535,391
Less: accumulated depreciation	(247,094,756)	(231,502,754)
Net carrying amount	\$ 148,370,903	\$ 155,032,637

The System has committed to a number of projects to be put in service in subsequent years. \$2,900,000 has been committed to improvements on the 5 Main Nursing units and \$1,900,000 to an expansion of the Laboratory Department.

#### 6. LONG TERM DEBT

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

	Interest Rate	Due Date	2018	2017
Variable rate hospital revenue bonds, series 2009A	Variable rate	Through 2039	\$ 36,785,000	\$ 38,075,000
Hospital revenue bonds, series 2015A	Multiple rates	Through 2040	86,450,000	88,770,000
Delayed draw term note	Variable rate	Through 2025	15,855,906	16,000,906
Joint venture loans payable	Variable rate	Through 2021	200,190	609,081
Capital leases	Multiple rates	Through 2020	394,435	915,333
			139,685,531	144,370,320
Add bond premium, net of accumulated amortization of \$2,104,888 and \$1,296,108 at June 30, 2018 and 2017, respectively			7,761,645	8,389,772
Less: unamortized loan costs			(1,051,204)	(1,148,597)
Less: current portion			(4,248,148)	(4,864,998)
Long-term portion			\$ 142,147,824	\$ 146,746,497

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 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 remaining bonds outstanding were purchased by a bank. The bonds are subject to a mandatory purchase in 2025. The interest rate was adjusted to the product of 68% of LIBOR plus .91% which was 2.32% as of June 30, 2018. 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, 2018 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, 2018, 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 3.17% as of June 30, 2018.

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 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, 2018, \$200,190 is outstanding on The Loan Payable. An amendment was made to the loan agreement in 2018 to extend the payment term to 2021.

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 day's 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, 2018.

#### 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:

	2018	2017
Equipment	\$ 2,280,034	\$ 2,280,034
Less: accumulated depreciation	1,811,090	1,355,083
	<u>\$ 468,944</u>	<u>\$ 924,951</u>

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

Combined aggregate maturities of long-term debt and capital leases for five years subsequent to June 30, 2018, are as follows:

	Long-term debt	Capital leases
2019	\$ 4,060,186	\$ 191,656
2020	3,965,008	142,723
2021	4,089,992	64,625
2022	4,230,000	-
2023	4,384,996	-
Thereafter	118,560,914	-
Total	\$ 139,291,096	399,004
Less amounts representing interest		4,569
		\$ 394,435

#### 7. 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 \$237,165 for the years ended June 30, 2018 and 2017, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2018, that have initial or remaining lease terms in excess of one year:

2019	\$ 231,629
2020	160,912
2021	53,160
	\$ 445,701

#### 8. NET PATIENT SERVICE REVENUE

Net patient service revenue is comprised of the following:

	2018	2017
<b>Revenue</b>		
Inpatient services	\$ 455,161,157	\$ 447,784,099
Outpatient services	834,395,880	800,959,018
Total patient revenue	1,289,557,037	1,248,743,117
<b>Revenue deductions</b>		
Contractual allowances	(928,842,341)	(901,339,719)
Charity care	(5,575,515)	(5,570,941)
Provision for bad debts	(8,446,969)	(9,294,425)
Total revenue deductions	(942,864,825)	(916,205,085)
Total net patient service revenue	\$ 346,692,212	\$ 332,538,032

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

#### 9. 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:

	2018	2017
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 96,705,365	\$ 96,280,713
Service cost	3,193,211	3,180,021
Interest cost	4,452,761	4,278,679
Actuarial (gains) losses	1,037,528	(1,102,293)
Benefits paid	(6,509,333)	(5,931,755)
Settlements	(932,095)	-
Benefit obligation at end of year	97,947,437	96,705,365
Change in plan assets:		
Fair value of plan assets at beginning of year	98,520,260	87,996,685
Actual return on plan assets	5,531,645	9,165,330
Contributions	5,000,000	7,290,000
Benefits paid	(6,509,333)	(5,931,755)
Settlements	(932,095)	-
Fair value of plan assets at end of year	101,610,477	98,520,260
Funded status and amounts recognized on the consolidated balance sheets	\$ 3,663,040	\$ 1,814,895
Accumulated benefit obligation	\$ 94,636,946	\$ 93,317,992

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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

	2018	2017
Service cost	\$ 3,193,211	\$ 3,180,021
Interest cost	4,452,761	4,278,679
Expected return on plan assets	(7,720,680)	(7,565,820)
Amortization of prior service credit	(71,482)	(63,953)
Recognized net actuarial loss	1,945,973	2,389,196
Net periodic benefit cost	1,799,783	2,218,123
Settlements	284,506	-
Net periodic benefit cost with settlements	\$ 2,084,289	\$ 2,218,123

The Hospital recognized a settlement loss during the year of \$284,506 which relates to the \$932,095 of settlement payments made from one of the plans during 2018. The loss represents a proportion of previously unrecognized loss included in unrestricted net assets.

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:

	2018	2017
Prior service credit	\$ (71,482)	\$ (63,953)
Actuarial loss	1,945,973	2,389,196
Total	\$ 1,874,491	\$ 2,325,243

During 2018 and 2017, an actuarial loss of \$1,401,199 and an actuarial gain of \$2,701,803, 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 \$5,560,000 to the Plan in 2019.

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	\$ (71,953)
Net loss	2,017,383
Total	\$ 1,945,430

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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:

	2018	2017
Change in pension assets and liabilities	\$ (1,067,566)	\$ 5,027,046

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

	2018	2017
Discount rate	4.87%	4.77%
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:

	2018	2017
Discount rate	4.87%	4.58%
Expected return on plan assets	7.75%	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, 2018 and 2017, as well as the range of long-term target allocations are presented below:

Asset Category	Target Allocation	2018	2017
Equities	48%-68%	47%	45%
Debt securities	27%-47%	40%	42%
Other	0%-10%	13%	13%

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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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 4, on a recurring basis as of June 30, 2018.

	Level 1	Level 2	Level 3	Total
Mutual funds - domestic equities	\$ 26,032,522	\$ -	\$ -	\$ 26,032,522
Mutual funds - foreign equity	21,416,244	-	-	21,416,244
Mutual funds - fixed income	40,529,490	-	-	40,529,490
	<u>\$ 87,978,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>87,978,256</u>
Collective trust fund (a)				13,632,221
				<u>\$ 101,610,477</u>

(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 4, 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
	<u>\$ 85,963,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>85,963,076</u>
Collective trust fund (a)				12,557,184
				<u>\$ 98,520,260</u>

(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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 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, 2018 and 2017, respectively.

June 30, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
<u>Collective trust fund</u>				
SEI Core Property Collective Investment Trust	\$ 13,632,221	\$ -	Quarterly	95 Days

  

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

The benefit payments which reflect expected future services as of June 30, 2018, as appropriate, are expected to be paid as follows:

2019	\$ 6,682,015
2020	6,389,662
2021	6,795,432
2022	7,205,127
2023	8,101,809
Years 2024 - 2028	40,449,138

BMH and BMP maintain 403(b) defined contribution plans for qualified employees who meet certain age requirements. Each employee's interest is vested as specified in the plan. The employees participating in the BMH plan are eligible to receive nondiscretionary matching contributions equal to 25% of eligible compensation that the employee contributes to the plan, not to exceed 6% of eligible compensation. The BMP plan does not offer employer contributions. Expense is recognized as it is earned by the employee. Expenses associated with these plans was \$735,485 and \$474,202 for the years ended June 30, 2018 and 2017, respectively.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 10. INVESTMENTS IN AND LOANS TO AFFILIATES

Investments in and loans to affiliates include the System's investments in entities in which the System has a financial interest. The System applies the equity method of accounting for investments in which significant influence over operating and financial policies of the investee exists even though the System has equal to or less than 50% ownership. Investments recorded on the equity method are adjusted for the System'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:

	2018	2017
Butler Cancer Associates, Inc.	\$ 4,690,820	\$ 4,326,891
Chartwell Pennsylvania, LP	2,522,271	2,522,271
CHART	2,063,540	2,063,540
Concordia Visiting Nurses	1,145,523	1,014,764
Benbrook Medical Holdings, LLC	495,659	974,109
MedCare Equipment Company, LLC	922,547	922,547
UPMC Musculoskeletal Joint Venture, Inc.	184,533	723,479
CLHHC/HVHS/Good Samaritan Hospice of Pittsburgh	551,582	446,945
BHS/HVHS Multispecialty Group, Inc.	(230,072)	288,856
VieCare - Butler, LLC	254,850	254,850
UPMC OB/GYN	68,409	208,600
Benbrook Medical Holdings II, LLC	139,653	126,232
IRMC/BHS Multispecialty Physician Group, Inc.	25,601	124,656
Butler Physicians Realty, LLC	62,192	74,257
South Butler Medical Holdings LP	58,848	52,685
Benbrook 107, LLC	1,468	1,344
South Butler Medical Holdings Management Company, LLC	761	689
Bridges Health Partners PHSO	309,604	-
Total	<u>\$ 13,267,789</u>	<u>\$ 14,126,715</u>

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, 2018 and 2017. This investment is recorded under the equity method of accounting.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

	2018	2017
<b>Assets</b>		
Cash	\$ 2,622,284	\$ 656,085
Accounts receivable, net	1,758,739	2,639,626
Inventory pharmacy/rebates	446,802	282,033
Prepaid expenses	22,450	22,407
Property and equipment, net	4,883,830	5,215,919
Total assets	<u>9,734,105</u>	<u>8,816,070</u>
<b>Liabilities</b>		
Accrued expenses	201,404	162,288
Amounts due to UPMC	-	-
Total liabilities	<u>201,404</u>	<u>162,288</u>
<b>Total net assets</b>	<u>9,532,701</u>	<u>8,653,782</u>
<b>Total liabilities and net assets</b>	<u>\$ 9,734,105</u>	<u>\$ 8,816,070</u>
<b>Change in net assets</b>		
Net patient service revenue	\$ 11,618,298	\$ 13,978,325
Expenses	10,890,440	12,863,787
<b>Total change in net assets</b>	<u>\$ 727,858</u>	<u>\$ 1,114,538</u>

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 for the years ended June 30, 2018 and 2017. 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 \$706,000 and \$603,000 for the years ended June 30, 2018 and 2017, 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 \$330,000 and \$480,000 for the years ended June 30, 2018 and 2017, respectively. This investment is recorded under the equity method of accounting.

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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The Hospital has a 21.83% 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 \$122,357 and \$103,038 for the years ended June 30, 2018 and 2017, 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 \$0 and \$539,070 as of June 30, 2018 and 2017, respectively.

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 \$329,030 and \$390,728 for the years ended June 30, 2018 and 2017, 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, 2018 or 2017. 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 \$210,000 and \$480,000 for the years ended June 30, 2018 and 2017, 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, 2018 or 2017. This investment is recorded under the equity method of accounting. Effective July 1, 2018, this joint venture discontinued services.

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, 2018 or 2017. This investment is recorded under the cost method of accounting.

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017**

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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, 2018 or 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 for the years ended June 30, 2018 and 2017. 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, 2018 or 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 \$23,728 and \$12,833 for the years ended June 30, 2018 and 2017, 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 \$8,873 and \$19,359 for the years ended June 30, 2018 and 2017, 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, 2018 or 2017. 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, 2018 or 2017. This investment is recorded under the equity method of accounting.

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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During the fiscal year ended June 30, 2018, BHS acquired a 25% ownership in Bridges Health Partners, a joint venture with several partners for the purpose of implementing a population health services organization to implement the operational strategies and functions to support the Clinical Integration Program. No member distributions were received during the year ended June 30, 2018. This investment is recorded under the equity method of accounting.

#### 11. 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 \$697,000 and \$839,000 as of June 30, 2018 and 2017, 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, 2018 and 2017.

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 \$1,199,000 and \$765,000 as of June 30, 2018 and 2017, respectively, and is included in accrued expenses on the accompanying consolidated balance sheets.

#### 12. MEDICAL MALPRACTICE CLAIMS COVERAGE

As of June 30, 2018, the System'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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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- 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 System 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 System may incur additional insurance costs.
- Excess coverage — The System 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 \$2,400,000 and \$1,551,000 as of June 30, 2018 and 2017, 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.

### 13. 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 2018 and 2017 is as follows:

	2018	2017
Health care services	\$ 299,284,081	\$ 280,501,003
General and administrative	56,908,043	49,550,608
Fundraising activities	266,516	254,971
Total	<u>\$ 356,458,640</u>	<u>\$ 330,306,582</u>

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

#### 14. 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, 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 gain 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	<u>34,805,018</u>	<u>56,126</u>	<u>34,861,144</u>
Ending balance as of June 30, 2017	<u>\$ 239,108,093</u>	<u>\$ 2,237,874</u>	<u>\$ 241,345,967</u>
Beginning balance as of July 1, 2017	\$ 239,108,093	\$ 2,237,874	\$ 241,345,967
Excess of revenues over expenses	17,926,112	1,572,887	19,498,999
Unrealized gain on investments	259,997	-	259,997
Net assets released from restrictions used for capital expenditures	63,840	-	63,840
Distributions to non-controlling interest	-	(1,286,066)	(1,286,066)
Change in pension assets and liabilities	(1,067,566)	-	(1,067,566)
Change in net assets	<u>17,182,383</u>	<u>286,821</u>	<u>17,469,204</u>
Ending balance as of June 30, 2018	<u>\$ 256,290,476</u>	<u>\$ 2,524,695</u>	<u>\$ 258,815,171</u>

#### 15. 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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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#### 16. RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard, which the System is not required to adopt until its year ending June 30, 2019, requires entities to report the service cost component in the same line item as other compensation costs arising from services rendered during the period and to report all other components of net benefit costs outside a subtotal of income from operations.

On May 28, 2014, the 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, 2019, 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.

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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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**



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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, 2018 and 2017, and have issued our report thereon dated October 3, 2018, which expressed an unmodified opinion on those consolidated financial statements, which appears on pages 1 and 2. The consolidating information on pages 38-45 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.

*Bene G., LLC*

October 3, 2018  
Westerville, Ohio

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEETS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2018 Total	June 30, 2017 Total
<b>Current assets</b>							
Cash and cash equivalents	\$ 70,644,802	\$ 1,055,301	\$ 373,281	\$ 714,152	\$ -	\$ 72,787,536	58,311,691
Patient accounts receivable, net	32,108,645	-	234,633	781,351	-	33,124,629	31,332,817
Other receivables	4,581,024	96,915	7,906	2,223	(75,881)	4,612,187	7,836,517
Inventories	3,676,470	-	65,815	453,271	-	4,195,556	4,216,374
Prepaid expenses and other current assets	4,180,199	-	28,927	73,550	-	4,282,676	4,326,679
Total current assets	115,191,140	1,152,216	710,562	2,024,547	(75,881)	119,002,584	106,024,078
<b>Assets whose use is limited</b>							
Board-designated for future capital improvements	132,245,409	-	-	-	-	132,245,409	126,937,940
Under trust indenture, held by trustee	4,469,433	-	-	-	-	4,469,433	4,442,128
Foundation investments	-	1,790,678	-	-	-	1,790,678	1,319,658
Under agreement for self-insured workers' compensation	1,336,177	-	-	-	-	1,336,177	1,321,425
Total assets whose use is limited	138,051,019	1,790,678	-	-	-	139,841,697	134,021,151
<b>Investments</b>	12,003,402	-	-	-	-	12,003,402	11,932,056
<b>Property and equipment, net</b>	146,907,623	-	868	1,462,412	-	148,370,903	155,032,637
<b>Investments in and loans to affiliates</b>	13,267,789	-	-	-	-	13,267,789	14,126,715
<b>Interest in net assets of Butler Health System Foundation</b>	1,289,515	-	-	-	(1,289,515)	-	-
<b>Pension assets</b>	3,663,040	-	-	-	-	3,663,040	1,814,895
<b>Other assets</b>	6,907,176	-	-	628,001	-	7,535,177	7,729,925
<b>Total assets</b>	\$ 437,280,704	\$ 2,942,894	\$ 711,430	\$ 4,114,960	\$ (1,365,396)	\$ 443,684,592	\$ 430,681,457

See Report of Independent Auditors on Supplementary Information on page 37.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEETS JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2018 Total	June 30, 2017 Total
<b>Current Liabilities</b>							
Accounts payable	\$ 3,727,529	\$ -	\$ -	\$ 202,373	\$ (33,250)	\$ 3,896,652	3,035,639
Accrued expenses	18,297,496	14,716	402,937	55,450	(42,631)	18,727,968	18,543,890
Accrued salaries and payroll withholdings	4,380,228	-	62,247	66,213	-	4,508,688	4,134,536
Accrued vacation	6,044,039	-	38,966	62,260	-	6,145,265	5,954,985
Accrued interest payable	2,212,639	-	-	-	-	2,212,639	2,200,629
Current maturities of long-term debt	4,150,661	-	-	97,487	-	4,248,148	4,864,998
Estimated third-party payor settlements	1,235,918	-	-	-	-	1,235,918	2,535,329
Total current liabilities	<u>40,048,510</u>	<u>14,716</u>	<u>504,150</u>	<u>483,783</u>	<u>(75,881)</u>	<u>40,975,278</u>	<u>41,270,006</u>
<b>Long-term debt, net of current maturities</b>	<u>142,007,076</u>	<u>-</u>	<u>-</u>	<u>140,748</u>	<u>-</u>	<u>142,147,824</u>	<u>146,746,497</u>
Total liabilities	<u>182,055,586</u>	<u>14,716</u>	<u>504,150</u>	<u>624,531</u>	<u>(75,881)</u>	<u>183,123,102</u>	<u>188,016,503</u>
<b>Net Assets</b>							
Unrestricted	253,484,799	1,194,005	207,280	1,404,392	-	256,290,476	239,108,093
Noncontrolling interest in consolidated subsidiaries	438,658	-	-	2,086,037	-	2,524,695	2,237,874
Temporarily restricted	1,301,661	1,289,515	-	-	(1,289,515)	1,301,661	875,397
Permanently restricted	-	444,658	-	-	-	444,658	443,590
Total net assets	<u>255,225,118</u>	<u>2,928,178</u>	<u>207,280</u>	<u>3,490,429</u>	<u>(1,289,515)</u>	<u>260,561,490</u>	<u>242,664,954</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 437,280,704</u></u>	<u><u>\$ 2,942,894</u></u>	<u><u>\$ 711,430</u></u>	<u><u>\$ 4,114,960</u></u>	<u><u>\$ (1,365,396)</u></u>	<u><u>\$ 443,684,592</u></u>	<u><u>\$ 430,681,457</u></u>

See Report of Independent Auditors on Supplementary Information on page 37.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2018 Total	June 30, 2017 Total
<b>Changes in unrestricted net assets</b>							
Net patient service revenue	\$ 342,149,100	\$ -	\$ 4,595,899	\$ 8,394,182	\$ -	\$ 355,139,181	\$ 341,832,457
Less: Provision for bad debts	(8,246,637)	-	(81,805)	(118,527)	-	(8,446,969)	(9,294,425)
Net patient service revenue less provision for bad debts	333,902,463	-	4,514,094	8,275,655	-	346,692,212	332,538,032
Other operating revenue	21,503,287	-	688,289	19,181	(304,358)	21,906,399	19,131,486
Contributions	-	255,512	-	-	-	255,512	498,548
Net assets released from restrictions used for operations	175,395	-	-	-	-	175,395	428,916
Total unrestricted revenue	355,581,145	255,512	5,202,383	8,294,836	(304,358)	369,029,518	352,596,982
<b>Expenses</b>							
Salaries and wages	109,080,386	142,099	888,025	1,570,042	35,000	111,715,552	105,898,162
Medical and surgical supplies	53,696,875	-	395,220	1,766,564	-	55,858,659	53,766,239
General supplies and purchased services	38,530,748	84,941	331,333	1,849,642	(339,358)	40,457,306	39,780,757
Employee benefits	37,010,106	31,904	544,022	276,372	-	37,862,404	33,723,528
Physicians' fees	60,223,214	-	3,028,489	-	-	63,251,703	56,590,937
Depreciation and amortization	16,722,123	-	6,210	323,084	-	17,051,417	15,984,702
Interest and amortization of debt issuance costs	4,941,655	-	-	1,287	-	4,942,942	4,633,614
Utilities and insurance	9,123,283	521	71,647	82,143	-	9,277,594	7,220,462
Professional fees and miscellaneous	8,651,041	7,051	84,867	145,550	-	8,888,509	6,257,698
Outside medical services	7,082,066	-	70,488	-	-	7,152,554	6,450,483
Total expenses	345,061,497	266,516	5,420,301	6,014,684	(304,358)	356,458,640	330,306,582
Operating income (loss)	10,519,648	(11,004)	(217,918)	2,280,152	-	12,570,878	22,290,400
<b>Other non-operating income (expense)</b>							
Investment income	5,178,274	1,435	1	1	-	5,179,711	3,264,207
Equity in earnings of affiliates	1,681,936	-	-	-	-	1,681,936	1,134,832
Other income (expense)	66,474	-	-	-	-	66,474	(517,097)
Total other non-operating income	6,926,684	1,435	1	1	-	6,928,121	3,881,942
Excess (deficiency) of revenue over expenses	\$ 17,446,332	\$ (9,569)	\$ (217,917)	\$ 2,280,153	\$ -	\$ 19,498,999	\$ 26,172,342

See Report of Independent Auditors on Supplementary Information on page 37.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2018 Total	June 30, 2017 Total
<b>Unrestricted net assets (continued)</b>							
<b>Other changes in unrestricted net assets, net</b>							
Excess (deficiency) of revenue over expenses	\$ 17,446,332	\$ (9,569)	\$ (217,917)	\$ 2,280,153	\$ -	\$ 19,498,999	\$ 26,172,342
Unrealized gain on investments	259,997	-	-	-	-	259,997	4,462,269
Net assets released from restrictions used for capital expenditures	63,840	-	-	-	-	63,840	389,769
Distributions to non-controlling interest	(404,066)	-	-	(882,000)	-	(1,286,066)	(1,190,282)
Transfers (to) from affiliates	918,000	-	-	(918,000)	-	-	-
Change in pension assets and liabilities	(1,067,566)	-	-	-	-	(1,067,566)	5,027,046
Change in unrestricted net assets before effect of non-controlling interest	17,216,537	(9,569)	(217,917)	480,153	-	17,469,204	34,861,144
Less non-controlling interest:							
Less amount attributed to non-controlling interest	(51,546)	-	-	(235,275)	-	(286,821)	(56,126)
Change in unrestricted net assets non-controlling interest	(51,546)	-	-	(235,275)	-	(286,821)	(56,126)
Change in unrestricted net assets controlling interest	17,164,991	(9,569)	(217,917)	244,878	-	17,182,383	34,805,018
<b>Changes in temporarily restricted net assets</b>							
Contributions	-	666,124	-	-	-	666,124	519,256
Net realized gain (loss) on investments	-	(625)	-	-	-	(625)	203
Net assets transferred (to) from affiliates	238,342	(238,342)	-	-	-	-	-
Increase in interest in net assets of Butler Health System Foundation	427,157	-	-	-	(427,157)	-	-
Net assets released from restrictions	(239,235)	-	-	-	-	(239,235)	(818,685)
Increase (decrease) in temporarily restricted net assets	426,264	427,157	-	-	(427,157)	426,264	(299,226)
<b>Permanently restricted net asset</b>							
Net realized gain on investments	-	1,068	-	-	-	1,068	754
Increase (decrease) in net assets	17,642,801	418,656	(217,917)	480,153	(427,157)	17,896,536	34,562,672
<b>Net assets at beginning of year</b>	<u>237,582,317</u>	<u>2,509,522</u>	<u>425,197</u>	<u>3,010,276</u>	<u>(862,358)</u>	<u>242,664,954</u>	<u>208,102,282</u>
<b>Net assets at end of year</b>	<u>\$ 255,225,118</u>	<u>\$ 2,928,178</u>	<u>\$ 207,280</u>	<u>\$ 3,490,429</u>	<u>\$ (1,289,515)</u>	<u>\$ 260,561,490</u>	<u>\$ 242,664,954</u>

See Report of Independent Auditors on Supplementary Information on page 37.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING BALANCE SHEETS JUNE 30, 2018

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2018 Total
<b>Current assets</b>						
Cash and cash equivalents	\$ 1,772,365	\$ 60,320,818	\$ 7,137,461	\$ 1,414,158	\$ -	\$ 70,644,802
Patient accounts receivable, net	-	26,200,059	5,908,586	-	-	32,108,645
Other receivables	-	3,013,440	2,441,491	11,870	(885,777)	4,581,024
Inventories	-	3,618,431	58,039	-	-	3,676,470
Prepaid expenses and other current assets	-	2,897,191	1,277,326	5,682	-	4,180,199
Total current assets	1,772,365	96,049,939	16,822,903	1,431,710	(885,777)	115,191,140
<b>Assets whose use is limited</b>						
Board-designated for future capital improvements	-	132,245,409	-	-	-	132,245,409
Under trust indenture, held by trustee	-	4,469,433	-	-	-	4,469,433
Under agreement for self-insured workers' compensation	-	1,336,177	-	-	-	1,336,177
Total assets whose use is limited	-	138,051,019	-	-	-	138,051,019
<b>Investments</b>	-	12,003,402	-	-	-	12,003,402
<b>Property and equipment</b>	611,905	119,620,653	2,389,935	24,285,130	-	146,907,623
<b>Investments in and loans to affiliates</b>	309,604	12,958,185	-	-	-	13,267,789
<b>Interest in net assets of Butler Health System Foundation</b>	-	1,289,515	-	-	-	1,289,515
<b>Pension assets</b>	-	3,663,040	-	-	-	3,663,040
<b>Other assets</b>	-	1,957,944	4,949,232	-	-	6,907,176
<b>Total assets</b>	\$ 2,693,874	\$ 385,593,697	\$ 24,162,070	\$ 25,716,840	\$ (885,777)	\$ 437,280,704

See Report of Independent Auditors on Supplementary Information on page 37.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING BALANCE SHEETS JUNE 30, 2018

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2018 Total
<b>Current Liabilities</b>						
Accounts payable	\$ 4,525	\$ 3,699,932	\$ 23,072	\$ -	\$ -	\$ 3,727,529
Accrued expenses	-	12,142,015	7,023,540	17,718	(885,777)	18,297,496
Accrued salaries and payroll withholdings	-	2,325,171	2,055,057	-	-	4,380,228
Accrued vacation	-	5,072,562	971,477	-	-	6,044,039
Accrued interest payable	-	2,212,639	-	-	-	2,212,639
Current maturities of long-term debt	-	4,150,661	-	-	-	4,150,661
Estimated third-party payor settlements	-	1,235,918	-	-	-	1,235,918
Total current liabilities	4,525	30,838,898	10,073,146	17,718	(885,777)	40,048,510
<b>Long-term debt, net of current maturities</b>	-	142,007,076	-	-	-	142,007,076
Total liabilities	4,525	172,845,974	10,073,146	17,718	(885,777)	182,055,586
<b>Net Assets</b>						
Unrestricted	2,689,349	211,007,404	14,088,924	25,699,122	-	253,484,799
Noncontrolling interest in consolidated subsidiaries	-	438,658	-	-	-	438,658
Temporarily restricted	-	1,301,661	-	-	-	1,301,661
Total net assets	2,689,349	212,747,723	14,088,924	25,699,122	-	255,225,118
<b>Total liabilities and net assets</b>	\$ 2,693,874	\$ 385,593,697	\$ 24,162,070	\$ 25,716,840	\$ (885,777)	\$ 437,280,704

See Report of Independent Auditors on Supplementary Information on page 37.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2018

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2018 Total
<b>Changes in unrestricted net assets</b>						
Net patient service revenue	\$ -	\$ 283,845,196	\$ 58,330,845	\$ -	\$ (26,941)	\$ 342,149,100
Less: Provision for bad debts	-	(6,682,742)	(1,563,895)	-	-	(8,246,637)
Net patient service revenue less provision for bad debts	-	277,162,454	56,766,950	-	(26,941)	333,902,463
Other operating revenue	293,492	13,456,897	13,613,421	1,392,010	(7,252,533)	21,503,287
Net assets released from restrictions used for operations	-	93,648	81,747	-	-	175,395
Total unrestricted revenue	293,492	290,712,999	70,462,118	1,392,010	(7,279,474)	355,581,145
<b>Expenses</b>						
Salaries and wages	-	97,959,609	11,068,913	-	51,864	109,080,386
Medical and surgical supplies	-	51,850,739	1,837,983	8,153	-	53,696,875
General supplies and purchased services	97,155	33,050,671	8,142,058	648,496	(3,407,632)	38,530,748
Employee benefits	-	29,677,570	7,332,780	-	(244)	37,010,106
Physicians' fees	-	8,074,852	55,580,693	-	(3,432,331)	60,223,214
Depreciation and amortization	31,743	13,435,079	1,245,415	2,009,886	-	16,722,123
Interest and amortization of debt issuance costs	-	4,941,655	-	-	-	4,941,655
Utilities and insurance	36,603	6,347,081	2,433,654	305,945	-	9,123,283
Professional fees and miscellaneous	730,611	6,447,981	1,924,424	125,455	(577,430)	8,651,041
Outside medical services	-	4,486,258	2,611,883	-	(16,075)	7,082,066
Total expenses	896,112	256,271,495	92,177,803	3,097,935	(7,381,848)	345,061,497
Operating income (loss)	(602,620)	34,441,504	(21,715,685)	(1,705,925)	102,374	10,519,648
<b>Other non-operating income</b>						
Investment income	-	5,169,890	8,167	217	-	5,178,274
Equity in earnings of affiliates	-	1,681,936	-	-	-	1,681,936
Other income	-	168,813	35	-	(102,374)	66,474
Total other non-operating income	-	7,020,639	8,202	217	(102,374)	6,926,684
Excess (deficiency) of revenue over expenses	\$ (602,620)	\$ 41,462,143	\$ (21,707,483)	\$ (1,705,708)	\$ -	\$ 17,446,332

See Report of Independent Auditors on Supplementary Information on page 37.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2018

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2018 Total
<b>Unrestricted net assets (continued)</b>						
<b>Other changes in unrestricted net assets, net</b>						
Excess (deficiency) of revenue over expenses	\$ (602,620)	\$ 41,462,143	\$ (21,707,483)	\$ (1,705,708)	\$ -	\$ 17,446,332
Unrealized gain on investments	-	259,997	-	-	-	259,997
Net assets released from restrictions used for capital expenditures	-	63,840	-	-	-	63,840
Distributions to non-controlling interest	-	(404,066)	-	-	-	(404,066)
Transfers (to) from affiliates	918,000	(23,000,000)	23,000,000	-	-	918,000
Change in pension assets and liabilities	-	(1,067,566)	-	-	-	(1,067,566)
Change in unrestricted net assets before effect of non-controlling interest	315,380	17,314,348	1,292,517	(1,705,708)	-	17,216,537
Less non-controlling interest:						
Less amount attributed to non-controlling interest	-	(51,546)	-	-	-	(51,546)
Change in unrestricted net assets non-controlling interest	-	(51,546)	-	-	-	(51,546)
Change in unrestricted net assets controlling interest	315,380	17,262,802	1,292,517	(1,705,708)	-	17,164,991
<b>Changes in temporarily restricted net assets</b>						
Net assets transferred from affiliates	-	156,595	81,747	-	-	238,342
Increase in interest in net assets of Butler Health System Foundation	-	427,157	-	-	-	427,157
Net assets released from restrictions	-	(157,488)	(81,747)	-	-	(239,235)
Increase in temporarily restricted net assets	-	426,264	-	-	-	426,264
Increase (decrease) in net assets	315,380	17,740,612	1,292,517	(1,705,708)	-	17,642,801
<b>Net assets at beginning of year</b>	2,373,969	195,007,111	12,796,407	27,404,830	-	237,582,317
<b>Net assets at end of year</b>	\$ 2,689,349	\$ 212,747,723	\$ 14,088,924	\$ 25,699,122	\$ -	\$ 255,225,118

See Report of Independent Auditors on Supplementary Information on page 37.