

# **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2019 AND 2018**

*CPAs / ADVISORS*



# BUTLER HEALTH SYSTEM AND SUBSIDIARIES

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## REPORT OF INDEPENDENT AUDITORS

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Butler Health System and Subsidiaries (collectively referred to as the System), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, 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

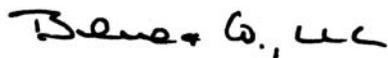
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 and 2018, and the results of their operations, their changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2018, the System adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities* and FASB ASU No. 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to these matters.



October 1, 2019  
Westerville, Ohio

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS JUNE 30, 2019 AND 2018

	2019	2018 (As Restated)
<b>Current assets</b>		
Cash and cash equivalents	\$ 62,585,468	\$ 72,787,536
Patient accounts receivable	34,859,709	33,124,629
Other receivables	9,520,465	4,612,187
Inventories	4,026,693	4,195,556
Prepaid expenses and other current assets	5,341,877	4,282,676
Total current assets	<u>116,334,212</u>	<u>119,002,584</u>
<b>Assets whose use is limited</b>		
Board-designated for future capital improvements	139,954,213	132,245,409
Under trust indenture, held by trustee	4,516,413	4,469,433
Foundation investments	1,882,332	1,790,678
Under agreement for self-insured workers' compensation	1,363,392	1,336,177
Total assets whose use is limited	<u>147,716,350</u>	<u>139,841,697</u>
<b>Investments</b>	12,256,085	12,003,402
<b>Property and equipment, net</b>	148,387,145	148,370,903
<b>Investments in and loans to affiliates</b>	13,783,820	13,267,789
<b>Pension assets</b>	1,259,068	3,663,040
<b>Other assets</b>	6,831,363	7,535,177
<b>Total assets</b>	<u>\$ 446,568,043</u>	<u>\$ 443,684,592</u>

*See accompanying notes to consolidated financial statements.*

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS (CONTINUED) JUNE 30, 2019 AND 2018

	2019	2018 (As Restated)
<b>Current liabilities</b>		
Accounts payable	\$ 2,353,241	\$ 3,896,652
Accrued expenses	21,698,401	18,727,968
Accrued salaries and payroll withholdings	5,152,493	4,508,688
Accrued vacation	6,644,087	6,145,265
Accrued interest payable	2,189,231	2,212,639
Current maturities of long-term debt	4,161,182	4,248,148
Estimated third-party payor settlements	1,267,664	1,235,918
Total current liabilities	43,466,299	40,975,278
<b>Pension liabilities</b>	760,405	-
<b>Long-term debt, net of current maturities</b>	137,972,621	142,147,824
Total liabilities	182,199,325	183,123,102
<b>Net assets</b>		
Without donor restrictions:		
Net assets without donor restrictions	260,048,456	256,290,476
Noncontrolling interest in consolidated subsidiaries	2,517,765	2,524,695
Total net assets without donor restrictions	262,566,221	258,815,171
Net assets with donor restrictions	1,802,497	1,746,319
Total net assets	264,368,718	260,561,490
<b>Total liabilities and net assets</b>	\$ 446,568,043	\$ 443,684,592

*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, 2019 AND 2018

	2019	2018 (As Restated)
<b>Operating revenue</b>		
Patient care service revenue	\$ 345,565,438	\$ 355,139,181
Less: Provision for bad debts	-	(8,446,969)
Patient care service revenue less provision for bad debt	345,565,438	346,692,212
Other operating revenue	21,265,399	21,906,399
Contributions	214,207	255,512
Net assets released from restrictions used for operations	210,388	175,395
Total operating revenue	367,255,432	369,029,518
<b>Expenses</b>		
Salaries and wages	117,181,714	111,715,552
Medical and surgical supplies	56,004,709	55,858,659
General supplies and purchased services	40,937,288	40,457,306
Employee benefits	38,090,310	37,862,404
Physicians' fees	65,325,525	63,251,703
Depreciation and amortization	16,521,439	17,051,417
Interest and amortization of debt issuance costs	5,302,131	4,942,942
Utilities and insurance	8,147,755	9,277,594
Professional fees and miscellaneous	7,793,881	8,888,509
Outside medical services	8,472,180	7,152,554
Total expenses	363,776,932	356,458,640
Operating income	3,478,500	12,570,878
<b>Other non-operating income (expense)</b>		
Investment income	6,697,706	5,179,711
Equity in earnings of affiliates	1,100,450	1,681,936
Other income (expense)	(378,264)	66,474
Total other non-operating income	7,419,892	6,928,121
Excess of revenue over expenses	\$ 10,898,392	\$ 19,498,999

*See accompanying notes to consolidated financial statements.*

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED) YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018 (As Restated)
<b>Other changes in net assets without donor restrictions</b>		
Excess of revenue over expenses	\$ 10,898,392	\$ 19,498,999
Unrealized gain on investments	1,594,126	259,997
Net assets released from restrictions used for capital expenditures	294,718	63,840
Butler Ambulatory Surgery Center, LLC shares redeemed	(652,332)	-
Butler Ambulatory Surgery Center, LLC shares issued	39,805	-
Distributions to non-controlling interest	(1,537,773)	(1,286,066)
Other pension adjustments	(6,885,886)	(1,067,566)
Change in net assets without donor restrictions before effect of non-controlling interest	3,751,050	17,469,204
Change in non-controlling interest:		
Change in amount attributed to non-controlling interest	6,930	(286,821)
Change in net assets without donor restrictions controlling interest	3,757,980	17,182,383
<b>Changes in net assets with donor restrictions</b>		
Contributions	557,398	666,124
Other	3,886	443
Net assets released from restrictions	(505,106)	(239,235)
Increase in net assets with donor restrictions	56,178	427,332
Increase in net assets	3,807,228	17,896,536
<b>Net assets at beginning of year</b>	260,561,490	242,664,954
<b>Net assets at end of year</b>	\$ 264,368,718	\$ 260,561,490

*See accompanying notes to consolidated financial statements.*

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
<b>Operating activities and nonoperating gains</b>		
Change in net assets	\$ 3,807,228	\$ 17,896,536
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	16,521,439	17,051,417
Amortization of debt issuance costs	95,456	97,393
Accretion of bond premium	(610,835)	(628,127)
Provision for bad debts	-	8,446,969
Gain on disposal of property and equipment	(94,901)	(4,707)
Equity in earnings of affiliates	(1,100,450)	(1,681,936)
Impairment on goodwill	532,820	-
Other pension adjustments	6,885,886	1,067,566
Net realized gains on investments	(6,578,269)	(5,466,774)
Change in net unrealized gain on investments	(1,594,126)	(259,997)
Donor restricted contributions and realized gains	(561,284)	(666,567)
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,735,080)	(10,238,781)
Other receivables	(4,908,278)	3,224,330
Inventories	168,863	20,818
Prepaid expenses and other current assets	(1,059,201)	44,003
Other assets	1,708,767	1,480,814
Accounts payable	(1,543,411)	861,013
Accrued expenses	4,113,060	748,510
Accrued interest payable	(23,408)	12,010
Estimated third-party payor settlements	31,746	(1,299,411)
Pension assets and liabilities	(3,721,509)	(2,915,711)
Net cash from operating activities	10,334,513	27,789,368
<b>Investing activities</b>		
Change in assets whose use is limited	(7,874,653)	(5,820,546)
Change in investments	7,919,712	5,655,425
Purchase of property and equipment	(16,537,681)	(10,389,683)
Proceeds from sale of property and equipment	94,901	4,707
Increase in investments in and loans to affiliates	584,419	2,540,862
Net cash from investing activities	(15,813,302)	(8,009,235)
<b>Financing activities</b>		
Repayment of long-term debt	(4,359,317)	(4,684,789)
Borrowings on long-term debt	612,527	-
Distributions to non-controlling interest	(1,537,773)	(1,286,066)
Proceeds from restricted contributions and realized gains	561,284	666,567
Net cash from investing activities	(4,723,279)	(5,304,288)
Change in cash and cash equivalents	(10,202,068)	14,475,845
<b>Cash and cash equivalents at beginning of year</b>	72,787,536	58,311,691
<b>Cash and cash equivalents at end of year</b>	\$ 62,585,468	\$ 72,787,536
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 4,619,248	\$ 4,205,412

*See accompanying notes to consolidated financial statements.*

# BUTLER HEALTH SYSTEM AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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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:

- Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.
- Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

# **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018**

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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, 2019 and 2018, 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 receivable under certain Pennsylvania Department of Medicaid programs, a grant receivable from Highmark Community Health, 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, 2019 AND 2018

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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 net assets with donor restrictions, 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 the board designated for capital improvement funds 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, 2019 AND 2018

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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 \$4,115,505 and \$4,648,325 has been recorded in other assets as of June 30, 2019 and 2018, respectively. 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. During 2019, the System recognized impairment loss of \$532,820 relating to changes at two physician practices. This impairment loss is included in other non-operating income (loss) on the consolidated statements of operations and changes in net assets. No impairment loss was recognized during 2018.

#### 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 \$95,456 and \$97,393 for the years ended June 30, 2019 and 2018, 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 net assets without donor restrictions 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, certain pension adjustments, distributions and equity transactions related to non-controlling interest, and net assets released from restrictions used for capital expenditures.

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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#### 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 \$1,888,196 and \$2,093,824 associated with open asserted claims as of June 30, 2019 and 2018, 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.

#### Accounts receivable

Patient accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

Patient accounts receivable can be impacted by the effectiveness of the System's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The System also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables and the impact of recent acquisitions and dispositions.

#### Patient care service revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Hospital receiving inpatient acute care services and patients receiving services in outpatient centers. The System measures the performance obligation from admission into the Hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

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

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare** - Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid** - Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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- **Other** - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended June 30, 2019 and 2018, no significant additional revenue was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

#### Financing component

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

#### Contract costs

The System has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the System otherwise would have recognized is one year or less in duration.

#### 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 \$363,777,000 and \$356,459,000 during 2019 and 2018, respectively), an estimated \$3,305,327 and \$3,805,243 arose from providing services to charity patients during 2019 and 2018, 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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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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 \$15,506,000 and \$16,267,000 for the years ended June 30, 2019 and 2018, 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 \$1,564,476 and \$349,229 for 2019 and 2018, respectively and are reported within patient care service revenue in the consolidated financial statements.

#### Donor-restricted gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 net assets without donor restrictions 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.

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# BUTLER HEALTH SYSTEM AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2018 and is subject to routine audits by taxing jurisdictions. However, as of the date the consolidated financial statements were issued, there were no audits for any tax periods in progress. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

### Reclassifications

Certain amounts in the 2018 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 1, 2019.

## 2. CHANGE IN ACCOUNTING PRINCIPLES

Effective July 1, 2018, the System adopted the FASB's Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. The System has adjusted the presentation of its 2019 consolidated financial statements herein and retrospectively restated the prior year consolidated financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources (Note 15), and disclosures related to the functional allocation of expenses were expanded (Note 14).

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

The impact of the adoption of ASU No. 2016-14 on the System's net assets are as follows:

Consolidated Balance Sheet:

	As previously stated, June 30, 2018	Adjustment	As restated, June 30, 2018
Unrestricted net assets	\$ 258,815,171	\$ (258,815,171)	\$ -
Temporarily restricted net assets	1,301,661	(1,301,661)	-
Permanently restricted net assets	444,658	(444,658)	-
Without donor restrictions	-	258,815,171	258,815,171
With donor restrictions	-	1,746,319	1,746,319
Total net assets	<u>\$ 260,561,490</u>	<u>\$ -</u>	<u>\$ 260,561,490</u>

Consolidating Statement of Operations and Changes in Net Assets:

	As previously stated, June 30, 2018	Adjustment	As restated, June 30, 2018
Changes in unrestricted net assets	\$ 17,469,204	\$ (17,469,204)	\$ -
Changes in temporarily restricted net assets	426,264	(426,264)	-
Changes in permanently restricted net assets	1,068	(1,068)	-
Changes in net assets without donor restrictions	-	17,469,204	17,469,204
Changes in net assets with donor restrictions	-	427,332	427,332
Total changes in net assets	<u>\$ 17,896,536</u>	<u>\$ -</u>	<u>\$ 17,896,536</u>

There was no significant impact to the statement of cash flows as a result of adopting this ASU.

On July 1, 2018, the System adopted the new revenue recognition accounting standard issued by the FASB and codified in the FASB ASC as topic 606 (ASC 606). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures regarding the System's revenue recognition policies and significant judgments employed in the determination of revenue.

The System applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, upon the System's adoption of ASC 606 the majority of what was previously classified as the provision for bad debts in the consolidated statement of operations and changes in net assets is now reflected as implicit price concessions (as defined in ASC 606) and therefore is included as a reduction to patient care service revenues in 2019. For periods prior to the adoption of ASC 606, the provision for bad debts was presented consistent with the previous revenue recognition standards that required such provision to be presented separately as a component of net operating revenues.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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Additionally, upon adoption of ASC 606, the allowance for doubtful accounts of approximately \$9,856,000 as of July 1, 2018 was reclassified as a component of patient accounts receivable. Other than these changes, the adoption of ASC 606 did not have a material impact on the 2019 consolidated financial statements and the System does not expect it to have a material impact on its consolidated results of operations on a prospective basis. As part of the adoption of ASC 606, the System elected two of the available practical expedients provided for in the standard. First, the System does not adjust the transaction price for any financing components as those were deemed insignificant. Additionally, the System expenses all incremental customer contract acquisition costs as incurred because such costs are not material and would be amortized over a period less than one year.

#### 3. PATIENT ACCOUNTS RECEIVABLE

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:

	2019	2018
Medicare	45%	42%
Medicaid	10%	11%
Blue cross	11%	13%
Other third-party payors	21%	20%
Patient pay	13%	14%
Total	<u>100%</u>	<u>100%</u>

#### 4. PATIENT CARE SERVICE REVENUE

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, service lines, method of reimbursement, and timing of when revenue is recognized. The following tables provide details of these factors.

The composition of patient care service revenue by primary payor for the years ended June 30 is as follows:

	2019	2018
Medicare	53%	53%
Medicaid	11%	11%
Blue cross	17%	18%
Other third-party payors	18%	17%
Patient pay	1%	1%
Total	<u>100%</u>	<u>100%</u>

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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Revenue from patient's deductibles and coinsurance are included in the preceding categories based on the primary payor.

The composition of patient care service revenue based on its lines of business, method of reimbursement, and timing of revenue recognition for the year ended June 30, 2019 is as follows:

	<u>2019</u>
Service Lines:	
Hospital-inpatient	\$ 104,141,305
Hospital-outpatient	158,975,355
Physician services	80,338,781
Skilled and intermediate care	2,109,998
	<u>\$ 345,565,439</u>
Method of reimbursement:	
Fee of service	\$ 196,322,136
Prospective payment	127,602,194
Percent of charges	21,641,109
	<u>\$ 345,565,439</u>
Timing of revenue and recognition:	
Healthcare services provided over time	\$ 345,565,438
	<u>\$ 345,565,438</u>

#### 5. 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>2019</u>	<u>2018</u>
Other non-operating income:		
Interest and dividend income	\$ 579,434	\$ 133,993
Realized gain on sale of investments	6578269	5466774
Investment fees	(459,997)	(421,056)
Total	<u>6,697,706</u>	<u>5,179,711</u>
Other changes in net assets without donor restrictions:		
Unrealized gain on investments	1,594,126	259,997
Total investment income	<u>\$ 8,291,832</u>	<u>\$ 5,439,708</u>

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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#### 6. 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, 2019 and 2018.

*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.

*Goodwill:* Valued based the excess cost over the fair value of the identifiable assets acquired in a business combination. The System performs an impairment test annually for each business combination and goodwill is reduced by the estimated impairment to its implied fair value.

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 2019 and 2018.

Assets measured at fair value on a recurring basis as of June 30, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Recurring fair value measurements				
Investments:				
Mutual funds - fixed income	\$ 548,172	\$ -	\$ -	\$ 548,172
Board-designated for future capital improvements:				
Mutual funds - domestic equities	21,109,130	-	-	21,109,130
Mutual funds - fixed income	73,898,863	-	-	73,898,863
Mutual funds - foreign equity	24,041,209	-	-	24,041,209
Under trust indenture, held by trustee:				
Money market mutual funds	4,516,413	-	-	4,516,413
	<u>124,113,787</u>	<u>-</u>	<u>-</u>	<u>124,113,787</u>
Cash and cash equivalents:				
Investments				11,707,913
Board-designated for future capital improvements				7,786,399
Foundation investments				1,882,332
Under agreement for self-insured workers' compensation				1,363,392
Collective trust fund (a)				13,118,612
Total assets whose use is limited and investments				<u>\$ 159,972,435</u>
<b>Nonrecurring fair value measurements</b>				
Goodwill (b)	\$ -	\$ -	\$ 912,282	\$ 912,282
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 912,282</u>	<u>\$ 912,282</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.

(b) Changes at two physician practices in 2019 led to goodwill of \$197,000 and \$336,000 being written off in 2019. The implied fair value of the goodwill associated with these practices was approximately \$912,000 as of June 30, 2019.

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

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
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>	<u>117,526,109</u>
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, 2019 AND 2018

#### 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, 2019 and 2018, respectively.

June 30, 2019	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
<u>Collective trust fund</u>				
SEI Core Property Collective Investment Trust	\$ 13,118,612	\$ -	Quarterly	95 Days
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

The following schedule summarizes the fair value of securities included in investments that have gross unrealized losses as of June 30, 2019. The individual investments have projected recoveries and the decline in value is determined by management to be temporary.

Description of securities	Less than 12 Months		12 Months or Longer		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Mutual funds	\$ 12,317,430	\$ 1,235,708	\$ 18,111,962	\$ 828,230	\$ 30,429,392	\$ 2,063,938
Total	<u>\$ 12,317,430</u>	<u>\$ 1,235,708</u>	<u>\$ 18,111,962</u>	<u>\$ 828,230</u>	<u>\$ 30,429,392</u>	<u>\$ 2,063,938</u>

The following schedule summarizes the fair value of securities included in investments that have gross unrealized losses as of June 30, 2018. The gross unrealized losses are a reflection of the fluctuations of the stock market and are considered to be temporary.

Description of securities	Less than 12 Months		12 Months or Longer		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Mutual funds	\$ 2,119,675	\$ 98,860	\$ 61,082,947	\$ 2,724,066	\$ 63,202,622	\$ 2,822,926
Total	<u>\$ 2,119,675</u>	<u>\$ 98,860</u>	<u>\$ 61,082,947</u>	<u>\$ 2,724,066</u>	<u>\$ 63,202,622</u>	<u>\$ 2,822,926</u>

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

#### 7. PROPERTY AND EQUIPMENT

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

	2019	2018
Land	\$ 4,415,181	\$ 4,415,181
Land improvements	12,959,899	12,896,721
Buildings	120,472,531	116,359,766
Equipment	249,186,733	248,966,982
Leasehold improvements	10,088,228	10,292,407
Construction in progress	6,343,497	2,534,602
Total cost	403,466,069	395,465,659
Less: accumulated depreciation	(255,078,924)	(247,094,756)
Net carrying amount	\$ 148,387,145	\$ 148,370,903

The System has committed to a number of projects to be put in service in subsequent years. Approximately \$40,000,000 has been committed to a new Electronic Health Records system. This \$40,000,000 will be paid over the next ten years. The cost of this project is expected to be partially offset by operating efficiencies gained. Approximately \$2,500,000 has been committed for continued expansion of the laboratory department, including molecular microbiology equipment and automation. The System anticipates financing these projects with currently operating cash and investments.

#### 8. LONG TERM DEBT

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

	Interest Rate	Due Date	2019	2018
Variable rate hospital revenue bonds, series 2009A	Variable rate	Through 2039	\$ 35,470,000	\$ 36,785,000
Hospital revenue bonds, series 2015A	Multiple rates	Through 2040	84,070,000	86,450,000
Delayed draw term note	Variable rate	Through 2025	15,690,906	15,855,906
Joint venture loans payable	Variable rate	Through 2021	-	200,190
Surgery Center loans payable	Fixed rates	Through 2024	574,168	-
Capital leases	Multiple rates	Through 2021	133,667	394,435
			135,938,741	139,685,531
Add bond premium, net of accumulated amortization of \$2,715,723 and \$2,104,888 at June 30, 2019 and 2018, respectively			7,150,810	7,761,645
Less: unamortized loan costs			(955,748)	(1,051,204)
Less: current portion			(4,161,182)	(4,248,148)
Long-term portion			\$ 137,972,621	\$ 142,147,824

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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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 2.54% as of June 30, 2019. 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 effective interest rate in effect for 2019 and 2018 was 3%. The payments commenced on July 1, 2015, and continue through 2039. The bonds are secured by pledged revenue and investments held by the trustee of \$4,516,413 and \$4,469,433 as of June 30, 2019 and 2018, respectively.

## **BUTLER HEALTH SYSTEM AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018**

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#### 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, 2019, 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 3.48% as of June 30, 2019. The bonds are secured by cash and investments held with Branch Banking and Trust Company, the Lender, as of June 30, 2019 and 2018 the balances in these accounts were approximately \$28,000,000 and \$35,000,000, respectively.

#### 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 was paid in full during 2019.

#### Surgery Center Loans Payable

In December 2018, the Surgery Center entered into two loans for \$259,101 and one loan for \$94,324 in order to finance shareholder redemptions. Payments on the two loans for \$259,101 commenced on January 31, 2019, and are due in monthly principal payments of \$4,318 for 60 months. Payments on the loan for \$94,324 commenced on January 31, 2019, and are due in monthly principal of \$1,572 for 60 months. The notes have a fixed interest rates 4.25%. These loans are secured by substantially all assets of the Surgery Center. The Surgery Center assets were approximately \$4,000,000 and \$4,100,000 as of June 30, 2019 and 2018, respectively.

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, 2019 and 2018.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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#### Capital Leases

As of June 30, 2019, the System has two outstanding capital lease agreements. These capital lease obligations are payable in monthly installments ranging from \$1,509 to \$4,630. The leases do not have an interest rate and management determined that imputed interest expense would be insignificant. The leases are secured by the equipment leased.

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

	2019	2018
Equipment	\$ 334,011	\$ 2,280,034
Less: accumulated depreciation	203,896	1,811,090
	<u>\$ 130,115</u>	<u>\$ 468,944</u>

Combined aggregate maturities of long-term debt and capital leases for five years subsequent to June 30, 2019, are as follows:

	Long-term debt	Capital leases
2020	4,087,506	73,676
2021	4,212,505	59,991
2022	4,352,505	-
2023	4,507,501	-
2024	4,644,151	-
Thereafter	114,000,906	-
Total	<u>\$ 135,805,074</u>	133,667
Less amounts representing interest		-
		<u>\$ 133,667</u>

#### 9. OPERATING LEASES

The System has various non-cancelable operating lease agreements expiring through fiscal 2021. Expense associated with these operating lease agreements amounted to \$231,629 and \$237,165 for the years ended June 30, 2019 and 2018, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year:

2020	\$ 160,912
2021	53,160
	<u>\$ 214,072</u>

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

#### 10. PENSION PLANS

##### Pension Plan

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

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

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 97,947,437	\$ 96,705,365
Service cost	3,240,858	3,193,211
Interest cost	4,609,267	4,452,761
Actuarial losses	6,015,787	1,037,528
Benefits paid	(7,377,579)	(6,509,333)
Settlements	(141,359)	(932,095)
Benefit obligation at end of year	104,294,411	97,947,437
Change in plan assets:		
Fair value of plan assets at beginning of year	101,610,477	98,520,260
Actual return on plan assets	5,141,535	5,531,645
Contributions	5,560,000	5,000,000
Benefits paid	(7,377,579)	(6,509,333)
Settlements	(141,359)	(932,095)
Fair value of plan assets at end of year	104,793,074	101,610,477
Funded status	\$ 498,663	\$ 3,663,040
Reconciliation of funded status:		
Pension assets on the consolidated balance sheets	\$ 1,259,068	\$ 3,663,040
Pension liabilities on the consolidated balance sheets	(760,405)	-
Funded status	\$ 498,663	\$ 3,663,040
Accumulated benefit obligation	\$ 100,644,924	\$ 94,636,946

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, 2019 AND 2018

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

	2019	2018
Service cost	\$ 3,240,858	\$ 3,193,211
Interest cost	4,609,267	4,452,761
Expected return on plan assets	(7,996,736)	(7,720,680)
Amortization of prior service credit	(71,953)	(71,482)
Recognized net actuarial loss	2,017,383	1,945,973
Net periodic benefit cost	1,798,819	1,799,783
Settlements	39,672	284,506
Net periodic benefit cost with settlements	\$ 1,838,491	\$ 2,084,289

During 2019, the Hospital recognized a settlement loss of \$39,672 which relates to the \$141,359 of settlement payments made from one of the plans during 2019. During 2018, the Hospital recognized a settlement loss of \$284,506 which relates to the \$932,095 of settlement payments made from one of the plans during 2018. The losses represent a proportion of previously unrecognized loss included in net assets without donor restrictions.

The following table sets forth the reclassifications to net pension cost of amounts previously recognized as changes in net assets without donor restrictions separate from expenses but not yet included in net pension cost when they arose:

	2019	2018
Amortization of:		
Prior service credit	\$ (71,953)	\$ (71,482)
Actuarial loss	2,017,383	1,945,973
Settlements	39,672	284,506
Total	\$ 1,985,102	\$ 2,158,997

During 2019 and 2018, an actuarial loss of \$8,870,988 and \$3,226,563, respectively, were recognized as changes in net assets without donor restrictions separate from expenses; however, not included in net periodic benefit cost for the period.

The Hospital expects to make contributions of approximately \$7,360,000 to the plans in 2020.

Estimated amounts that will be amortized from other changes in net assets without donor restrictions over the next fiscal year are as follows:

	2020
Prior service credit	\$ (71,638)
Net loss	2,594,959
Total	\$ 2,523,321

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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:

	2019	2018
Change in pension assets and liabilities	\$ (6,885,886)	\$ (1,067,566)

The below represents amounts in accumulated other net assets that have not been recognized in net periodic benefit cost:

	2019	2018
Unamortized prior service credit	\$ (164,055)	\$ (236,008)
Unamortized net loss	39,165,859	32,351,926
	\$ 39,001,804	\$ 32,115,918

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

	2019	2018
Discount rate	4.48%	4.87%
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:

	2019	2018
Discount rate	4.48%	4.87%
Expected return on plan assets	7.75%	7.75%
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, 2019 and 2018, as well as the range of long-term target allocations are presented below:

Asset Category	Target Allocation	2019	2018
Equities	48%-68%	47%	47%
Debt securities	27%-47%	39%	40%
Other	0%-10%	14%	13%

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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

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

In each investment account, investment managers are responsible to monitor and react to economic indicators, such as gross domestic product, consumer price index, 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 6, on a recurring basis as of June 30, 2019.

	Level 1	Level 2	Level 3	Total
Mutual funds - domestic equities	\$ 26,337,986	\$ -	\$ -	\$ 26,337,986
Mutual funds - foreign equity	23,348,538	-	-	23,348,538
Mutual funds - fixed income	40,461,327	-	-	40,461,327
	<u>\$ 90,147,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>90,147,851</u>
Collective trust fund (a)				<u>14,645,223</u>
				<u>\$ 104,793,074</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 6, 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)				<u>13,632,221</u>
				<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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

#### 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, 2019 and 2018, respectively.

June 30, 2019	Fair Value	Unfunded Commitments	Redemption Frequency (if eligible)	Redemption Notice Period
<u>Collective trust fund</u>				
SEI Core Property Collective Investment Trust	\$ 14,645,223	\$ -	Quarterly	95 Days
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

The benefit payments which reflect expected future services as of June 30, 2019, as appropriate, are expected to be paid as follows:

2020	\$ 7,342,830
2021	5,907,921
2022	6,010,900
2023	6,870,057
2024	7,606,188
Years 2025 - 2029	38,823,499

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 \$791,312 and \$735,485 for the years ended June 30, 2019 and 2018, respectively.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

#### 11. 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:

	2019	2018
Butler Cancer Associates, Inc.	\$ 5,325,847	\$ 4,690,820
Chartwell Pennsylvania, LP	2,522,271	2,522,271
CHART	1,793,450	1,833,468
Concordia Visiting Nurses	1,191,462	1,145,523
Benbrook Medical Holdings, LLC	-	495,659
MedCare Equipment Company, LLC	922,547	922,547
UPMC Musculoskeletal Joint Venture, Inc.	541,390	184,533
CLHHC/HVHS/Good Samaritan Hospice of Pittsburgh	651,797	551,582
VieCare - Butler, LLC	254,850	254,850
UPMC OB/GYN	-	68,409
Benbrook Medical Holdings II, LLC	60,307	139,653
IRMC/BHS Multispecialty Physician Group, Inc.	61,197	25,601
Butler Physicians Realty, LLC	44,678	62,192
South Butler Medical Holdings LP	66,094	58,848
Benbrook 107, LLC	1,205	1,468
South Butler Medical Holdings Management Company, LLC	841	761
Bridges Health Partners PHSO	345,884	309,604
Total	\$ 13,783,820	\$ 13,267,789

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, 2019 and 2018. This investment is recorded under the equity method of accounting.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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

	2019	2018
<b>Assets</b>		
Cash	\$ 2,187,922	\$ 2,622,284
Accounts receivable, net	2,698,500	1,758,739
Inventory pharmacy/rebates	439,089	446,802
Prepaid expenses	180,610	22,450
Property and equipment, net	5,313,964	4,883,830
Total assets	10,820,085	9,734,105
<b>Liabilities</b>		
Accrued expenses	168,391	201,404
Total liabilities	168,391	201,404
<b>Total net assets</b>	<b>10,651,694</b>	<b>9,532,701</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,820,085</b>	<b>\$ 9,734,105</b>
<b>Change in net assets</b>		
Net patient service revenue	\$ 17,949,863	\$ 11,618,298
Expenses	16,830,872	10,890,440
<b>Total change in net assets</b>	<b>\$ 1,118,991</b>	<b>\$ 727,858</b>

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 \$621,454 and \$420,000 for the years ended June 30, 2019 and 2018, respectively. This investment is recorded under the cost method of accounting.

The Hospital has a 4% ownership in CHART, a reciprocal risk retention group. The Hospital received dividends of \$755,168 and \$706,000 for the years ended June 30, 2019 and 2018, respectively. The investment is recorded under the cost method of accounting.

The Hospital has 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 \$630,000 and \$330,000 for the years ended June 30, 2019 and 2018, respectively. This investment is recorded under the equity method of accounting.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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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 \$646,133 and \$122,357 for the years ended June 30, 2019 and 2018, respectively. This investment is recorded under the equity method of accounting.

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 \$258,400 and \$329,030 for the years ended June 30, 2019 and 2018, respectively. This investment is recorded under the cost method of accounting.

The Hospital has 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, 2019 or 2018. This investment is recorded under the equity method of accounting.

The Hospital has 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 \$240,000 and \$210,000 for the years ended June 30, 2019 and 2018, respectively. This investment is recorded under the equity method of accounting.

As of June 30, 2018, the Hospital had 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, 2019 or 2018. This investment was recorded under the equity method of accounting. At June 30, 2019 and 2018 the equity method investment balance was \$0. 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, 2019 or 2018. This investment is recorded under the cost method of accounting.

The Hospital has 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, 2019 or 2018. 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, 2019 AND 2018**

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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 \$112,183 and 17,432 for the years ended June 30, 2019 and 2018, respectively. This investment is recorded under the equity method of accounting.

The Hospital has 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, 2019 or 2018. 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 \$17,514 and \$23,728 for the years ended June 30, 2019 and 2018, 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 \$9,679 and \$8,873 for the years ended June 30, 2019 and 2018, 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. The Hospital received member distributions of \$423 and \$0 for the years ended June 30, 2019 and 2018, respectively. 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, 2019 or 2018. This investment is recorded under the equity method of accounting.

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 years ended June 30, 2019 and 2018. This investment is recorded under the equity method of accounting.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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#### 12. SELF-INSURANCE PLANS

The System provides for workers' compensation costs through a program of self-insurance supplemented by purchased excess liability coverage. Estimated self-insurance costs are accrued based upon data provided by the third-party administrator of the program and historical claims experience. The liability for workers' compensation was approximately \$657,000 and \$697,000 as of June 30, 2019 and 2018, 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, 2019 and 2018.

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 \$1,663,000 and \$1,199,000 as of June 30, 2019 and 2018, respectively, and is included in accrued expenses on the accompanying consolidated balance sheets.

#### 13. MEDICAL MALPRACTICE CLAIMS COVERAGE

As of June 30, 2019, 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.
- 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.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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

The Hospital's estimated medical malpractice claims liability for incurred but not reported claims was approximately \$1,921,000 and \$2,400,000 as of June 30, 2019 and 2018, respectively, and is included in accrued expenses on the accompanying consolidated balance sheets. It is reasonably possible that the estimates could change materially in the near term.

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

#### 14. FUNCTIONAL EXPENSES

The System provides general healthcare services to residents within its geographical location. Expenses related to providing these services for 2019 are as follows:

	Healthcare Services	General and administrative	Fundraising
Salaries and wages	\$ 93,098,966	\$ 23,927,690	\$ 155,058
Medical and surgical supplies	53,858,985	2,145,724	-
General supplies and purchased services	33,418,056	7,423,845	95,387
Employee benefits	30,274,951	7,781,070	34,289
Physicians' fees	65,167,149	158,376	-
Depreciation and amortization	13,143,408	3,378,031	-
Interest and amortization of debt issuance costs	5,290,896	11,235	-
Utilities and insurance	5,474,788	2,672,446	521
Professional fees and miscellaneous	7,023,200	764,481	6,200
Outside medical services	8,472,180	-	-
Total	\$ 315,222,579	\$ 48,262,898	\$ 291,455

Expenses related to providing these services for 2018 are as follows:

	2018
Health care services	\$ 299,284,081
General and administrative	56,908,043
Fundraising activities	266,516
Total	\$ 356,458,640

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the System. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and salaries and benefits, which are allocated based on estimates of time and effort. Fundraising expenses relate to expenses incurred by the Foundation whose sole purpose is to fundraise for the System.

#### 15. LIQUIDITY AND AVAILABILITY OF RESOURCES

At June 30, 2018, the System has \$106,965,642 of financial assets available within one year of the consolidated balance sheet date to meet cash needs for general expenditure consisting of cash and cash equivalents of \$62,585,468, patient accounts receivable of \$34,859,709, and other receivables of \$9,520,465. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. As part of the System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. If necessary, the System's Board of Trustees could elect to release board designated net assets for use in operations.

#### 16. ACCOUNTING FOR NON-CONTROLLING INTEREST

The breakout of the change in net assets without donor restrictions 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, 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 without donor restrictions	<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>
Beginning balance as of July 1, 2018	\$ 256,290,476	\$ 2,524,695	\$ 258,815,171
Excess of revenues over expenses	9,367,549	1,530,843	10,898,392
Unrealized gain on investments	1,594,126	-	1,594,126
Net assets released from restrictions used for capital expenditures	294,718	-	294,718
Distributions to non-controlling interest	-	(1,537,773)	(1,537,773)
Butler Ambulatory Surgery Center, LLC shares redeemed	(652,332)	-	(652,332)
Butler Ambulatory Surgery Center, LLC shares issued	39,805	-	39,805
Change in pension assets and liabilities	(6,885,886)	-	(6,885,886)
Change in net assets without donor restrictions	<u>3,757,980</u>	<u>(6,930)</u>	<u>3,751,050</u>
Ending balance as of June 30, 2019	<u>\$ 260,048,456</u>	<u>\$ 2,517,765</u>	<u>\$ 262,566,221</u>

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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#### 17. 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.

#### 18. RECENTLY ISSUED ACCOUNTING STANDARDS

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new standard, which the System is not required to adopt until its year ending June 30, 2020, is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The primary impact on the System will be that changes in the fair value of equity investments will be recognized in excess of revenue over expenses, rather than in other changes in net assets without donor restrictions, as currently presented.

In March 2017, the FASB issued 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, 2020, 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 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, 2019 AND 2018

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

#### 19. SUBSEQUENT EVENT

In July 2019, the System's board of trustees approved a Definitive Agreement to enter into a member substitution transaction with Clarion Healthcare System, Inc. (Clarion). Under this agreement, the System expects to assume control of Clarion. The Clarion entities included in the transaction have net assets of approximately \$18,000,000 as of June 30, 2019. Under the terms of the Definitive Agreement the System has committed to capital purchases for Clarion of \$20,000,000 over the next five years. The System expects to finance these capital purchases with operating cash and investments. The transaction is expected to be finalized in January 2020.

## **SUPPLEMENTARY INFORMATION**

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, 2019 and 2018, and have issued our report thereon dated October 1, 2019, which expressed an unmodified opinion on those consolidated financial statements, which appears on pages 1 and 2. The consolidating information on pages 43-50 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.

October 1, 2019  
Westerville, Ohio

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEETS JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2019 Total	June 30, 2018 Total (As Restated)
<b>Current assets</b>							
Cash and cash equivalents	\$ 60,648,710	\$ 1,065,054	\$ 173,043	\$ 698,661	\$ -	\$ 62,585,468	72,787,536
Patient accounts receivable	33,806,959	-	257,776	794,974	-	34,859,709	33,124,629
Other receivables	9,526,008	67,855	220,199	-	(293,597)	9,520,465	4,612,187
Inventories	3,358,261	-	63,728	604,704	-	4,026,693	4,195,556
Prepaid expenses and other current assets	5,276,449	-	29,380	36,048	-	5,341,877	4,282,676
Total current assets	112,616,387	1,132,909	744,126	2,134,387	(293,597)	116,334,212	119,002,584
<b>Assets whose use is limited</b>							
Board-designated for future capital improvements	139,954,213	-	-	-	-	139,954,213	132,245,409
Under trust indenture, held by trustee	4,516,413	-	-	-	-	4,516,413	4,469,433
Foundation investments	-	1,882,332	-	-	-	1,882,332	1,790,678
Under agreement for self-insured workers' compensation	1,363,392	-	-	-	-	1,363,392	1,336,177
Total assets whose use is limited	145,834,018	1,882,332	-	-	-	147,716,350	139,841,697
<b>Investments</b>	12,256,085	-	-	-	-	12,256,085	12,003,402
<b>Property and equipment, net</b>	147,127,037	-	17,999	1,242,109	-	148,387,145	148,370,903
<b>Investments in and loans to affiliates</b>	13,783,820	-	-	-	-	13,783,820	13,267,789
<b>Interest in net assets of Butler Health System Foundation</b>	1,342,182	-	-	-	(1,342,182)	-	-
<b>Pension assets</b>	1,259,068	-	-	-	-	1,259,068	3,663,040
<b>Other assets</b>	6,203,362	-	-	628,001	-	6,831,363	7,535,177
<b>Total assets</b>	\$ 440,421,959	\$ 3,015,241	\$ 762,125	\$ 4,004,497	\$ (1,635,779)	\$ 446,568,043	\$ 443,684,592

See Report of Independent Auditors on Supplementary Information on page 42.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING BALANCE SHEETS (CONTINUED) JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2019 Total	June 30, 2018 Total (As Restated)
<b>Current liabilities</b>							
Accounts payable	\$ 2,258,525	\$ -	\$ -	\$ 141,325	\$ (46,609)	\$ 2,353,241	3,896,652
Accrued expenses	21,075,023	78,021	632,164	160,181	(246,988)	21,698,401	18,727,968
Accrued salaries and payroll withholdings	5,036,721	-	54,743	61,029	-	5,152,493	4,508,688
Accrued vacation	6,559,146	-	42,013	42,928	-	6,644,087	6,145,265
Accrued interest payable	2,189,231	-	-	-	-	2,189,231	2,212,639
Current maturities of long-term debt	3,965,000	-	-	196,182	-	4,161,182	4,248,148
Estimated third-party payor settlements	1,267,664	-	-	-	-	1,267,664	1,235,918
Total current liabilities	<u>42,351,310</u>	<u>78,021</u>	<u>728,920</u>	<u>601,645</u>	<u>(293,597)</u>	<u>43,466,299</u>	<u>40,975,278</u>
<b>Pension liabilities</b>	760,405	-	-	-	-	760,405	-
<b>Long-term debt, net of current maturities</b>	137,460,968	-	-	511,653	-	137,972,621	142,147,824
Total liabilities	<u>180,572,683</u>	<u>78,021</u>	<u>728,920</u>	<u>1,113,298</u>	<u>(293,597)</u>	<u>182,199,325</u>	<u>183,123,102</u>
<b>Net assets</b>							
Without donor restrictions:							
Net assets without donor restrictions	258,056,358	1,147,215	33,205	811,678	-	260,048,456	256,290,476
Noncontrolling interest in consolidated subsidiaries	438,244	-	-	2,079,521	-	2,517,765	2,524,695
Total net assets without donor restrictions	<u>258,494,602</u>	<u>1,147,215</u>	<u>33,205</u>	<u>2,891,199</u>	<u>-</u>	<u>262,566,221</u>	<u>258,815,171</u>
Net assets with donor restrictions	1,354,674	1,790,005	-	-	(1,342,182)	1,802,497	1,746,319
Total net assets	<u>259,849,276</u>	<u>2,937,220</u>	<u>33,205</u>	<u>2,891,199</u>	<u>(1,342,182)</u>	<u>264,368,718</u>	<u>260,561,490</u>
<b>Total liabilities and net assets</b>	<u>\$ 440,421,959</u>	<u>\$ 3,015,241</u>	<u>\$ 762,125</u>	<u>\$ 4,004,497</u>	<u>\$ (1,635,779)</u>	<u>\$ 446,568,043</u>	<u>\$ 443,684,592</u>

See Report of Independent Auditors on Supplementary Information on page 42.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2019 Total	June 30, 2018 Total (As Restated)
<b>Operating revenue</b>							
Patient care service revenue	\$ 332,403,958	\$ -	\$ 4,548,946	\$ 8,612,534	\$ -	\$ 345,565,438	\$ 355,139,181
Less: Provision for bad debts	-	-	-	-	-	-	(8,446,969)
Patient care service revenue less provision for bad debt	332,403,958	-	4,548,946	8,612,534	-	345,565,438	346,692,212
Other operating revenue	20,799,006	-	771,033	4,773	(309,413)	21,265,399	21,906,399
Contributions	-	231,273	-	-	(17,066)	214,207	255,512
Net assets released from restrictions used for operations	210,388	-	-	-	-	210,388	175,395
Total operating revenue	353,413,352	231,273	5,319,979	8,617,307	(326,479)	367,255,432	369,029,518
<b>Expenses</b>							
Salaries and wages	114,611,247	155,058	920,956	1,459,453	35,000	117,181,714	111,715,552
Medical and surgical supplies	53,470,841	-	455,923	2,077,945	-	56,004,709	55,858,659
General supplies and purchased services	38,895,087	95,387	320,847	1,985,280	(359,313)	40,937,288	40,457,306
Employee benefits	37,231,611	34,289	568,596	255,814	-	38,090,310	37,862,404
Physicians' fees	62,231,426	-	3,094,099	-	-	65,325,525	63,251,703
Depreciation and amortization	16,215,144	-	1,040	305,255	-	16,521,439	17,051,417
Interest and amortization of debt issuance costs	5,290,896	-	-	11,235	-	5,302,131	4,942,942
Utilities and insurance	7,978,413	521	75,002	93,819	-	8,147,755	9,277,594
Professional fees and miscellaneous	7,612,619	6,200	59,835	117,393	(2,166)	7,793,881	8,888,509
Outside medical services	8,472,060	-	120	-	-	8,472,180	7,152,554
Total expenses	352,009,344	291,455	5,496,418	6,306,194	(326,479)	363,776,932	356,458,640
Operating income (loss)	1,404,008	(60,182)	(176,439)	2,311,113	-	3,478,500	12,570,878
<b>Other non-operating income (expense)</b>							
Investment income	6,679,766	13,392	2,364	2,184	-	6,697,706	5,179,711
Equity in earnings of affiliates	1,100,450	-	-	-	-	1,100,450	1,681,936
Other income (expense)	(378,264)	-	-	-	-	(378,264)	66,474
Total other non-operating income	7,401,952	13,392	2,364	2,184	-	7,419,892	6,928,121
Excess (deficiency) of revenue over expenses	\$ 8,805,960	\$ (46,790)	\$ (174,075)	\$ 2,313,297	\$ -	\$ 10,898,392	\$ 19,498,999

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED) YEAR ENDED JUNE 30, 2019 (WITH COMPARATIVE TOTALS FOR 2018)

	Obligated Group	Butler Health System Foundation	Primary Care Associates, PC	Butler Ambulatory Surgery Center, LLC	Eliminations	June 30, 2019 Total	June 30, 2018 Total (As Restated)
<b>Other changes in net assets without donor restrictions, net</b>							
Excess (deficiency) of revenue over expenses	\$ 8,805,960	\$ (46,790)	\$ (174,075)	\$ 2,313,297	\$ -	\$ 10,898,392	\$ 19,498,999
Unrealized gain on investments	1,594,126	-	-	-	-	1,594,126	259,997
Net assets released from restrictions used for capital expenditures	294,718	-	-	-	-	294,718	63,840
Butler Ambulatory Surgery Center, LLC shares redeemed	-	-	-	(652,332)	-	(652,332)	-
Butler Ambulatory Surgery Center, LLC shares issued	-	-	-	39,805	-	39,805	-
Distributions to non-controlling interest	(410,773)	-	-	(1,127,000)	-	(1,537,773)	(1,286,066)
Transfers (to) from affiliates	1,173,000	-	-	(1,173,000)	-	-	-
Other pension adjustments	(6,885,886)	-	-	-	-	(6,885,886)	(1,067,566)
Change in net assets without donor restrictions before effect of non-controlling interest	4,571,145	(46,790)	(174,075)	(599,230)	-	3,751,050	17,469,204
Change in non-controlling interest:							
Change attributed to non-controlling interest	414	-	-	6,516	-	6,930	(286,821)
Change in net assets without donor restrictions controlling interest	4,571,559	(46,790)	(174,075)	(592,714)	-	3,757,980	17,182,383
<b>Changes in net assets with donor restrictions</b>							
Contributions	-	557,398	-	-	-	557,398	666,124
Other	-	3,886	-	-	-	3,886	443
Net assets transferred (to) from affiliates	505,452	(505,452)	-	-	-	-	-
Increase in interest in net assets of Butler Health System Foundation	52,667	-	-	-	(52,667)	-	-
Net assets released from restrictions	(505,106)	-	-	-	-	(505,106)	(239,235)
Increase (decrease) in net assets with donor restrictions	53,013	55,832	-	-	(52,667)	56,178	426,264
Change in net assets	4,624,158	9,042	(174,075)	(599,230)	(52,667)	3,807,228	17,895,468
<b>Net assets at beginning of year</b>	<b>255,225,118</b>	<b>2,928,178</b>	<b>207,280</b>	<b>3,490,429</b>	<b>(1,289,515)</b>	<b>260,561,490</b>	<b>242,664,954</b>
<b>Net assets at end of year</b>	<b>\$ 259,849,276</b>	<b>\$ 2,937,220</b>	<b>\$ 33,205</b>	<b>\$ 2,891,199</b>	<b>\$ (1,342,182)</b>	<b>\$ 264,368,718</b>	<b>\$ 260,561,490</b>

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING BALANCE SHEETS JUNE 30, 2019

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2019 Total
<b>Current assets</b>						
Cash and cash equivalents	\$ 1,924,782	\$ 47,918,820	\$ 8,958,807	\$ 1,846,301	\$ -	\$ 60,648,710
Patient accounts receivable	-	27,217,242	6,589,717	-	-	33,806,959
Other receivables	-	8,573,856	1,755,670	10,405	(813,923)	9,526,008
Inventories	-	3,329,742	28,519	-	-	3,358,261
Prepaid expenses and other current assets	-	3,561,217	1,715,232	-	-	5,276,449
Total current assets	1,924,782	90,600,877	19,047,945	1,856,706	(813,923)	112,616,387
<b>Assets whose use is limited</b>						
Board-designated for future capital improvements	-	139,954,213	-	-	-	139,954,213
Under trust indenture, held by trustee	-	4,516,413	-	-	-	4,516,413
Under agreement for self-insured workers' compensation	-	1,363,392	-	-	-	1,363,392
Total assets whose use is limited	-	145,834,018	-	-	-	145,834,018
<b>Investments</b>	-	12,256,085	-	-	-	12,256,085
<b>Property and equipment</b>	577,092	122,186,117	2,003,689	22,360,139	-	147,127,037
<b>Investments in and loans to affiliates</b>	345,884	13,437,936	-	-	-	13,783,820
<b>Interest in net assets of Butler Health System Foundation</b>	-	1,342,182	-	-	-	1,342,182
<b>Pension assets</b>	-	1,259,068	-	-	-	1,259,068
<b>Other assets</b>	-	2,012,805	4,190,557	-	-	6,203,362
<b>Total assets</b>	\$ 2,847,758	\$ 388,929,088	\$ 25,242,191	\$ 24,216,845	\$ (813,923)	\$ 440,421,959

See Report of Independent Auditors on Supplementary Information on page 42.

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING BALANCE SHEETS JUNE 30, 2019

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2019 Total
<b>Current liabilities</b>						
Accounts payable	\$ 4,525	\$ 2,179,442	\$ 74,558	\$ -	\$ -	\$ 2,258,525
Accrued expenses	-	14,652,777	7,209,929	26,240	(813,923)	21,075,023
Accrued salaries and payroll withholdings	-	2,817,595	2,219,126	-	-	5,036,721
Accrued vacation	-	5,159,282	1,399,864	-	-	6,559,146
Accrued interest payable	-	2,189,231	-	-	-	2,189,231
Current maturities of long-term debt	-	3,965,000	-	-	-	3,965,000
Estimated third-party payor settlements	-	1,267,664	-	-	-	1,267,664
Total current liabilities	4,525	32,230,991	10,903,477	26,240	(813,923)	42,351,310
<b>Pension liabilities</b>	-	760,405	-	-	-	760,405
<b>Long-term debt, net of current maturities</b>	-	137,460,968	-	-	-	137,460,968
Total liabilities	4,525	170,452,364	10,903,477	26,240	(813,923)	180,572,683
<b>Net assets</b>						
Without donor restrictions:						
Net assets without donor restrictions	2,843,233	216,683,806	14,338,714	24,190,605	-	258,056,358
Noncontrolling interest in consolidated subsidiaries	-	438,244	-	-	-	438,244
Total net assets without donor restrictions	2,843,233	217,122,050	14,338,714	24,190,605	-	258,494,602
Net assets with donor restrictions	-	1,354,674	-	-	-	1,354,674
Total net assets	2,843,233	218,476,724	14,338,714	24,190,605	-	259,849,276
<b>Total liabilities and net assets</b>	\$ 2,847,758	\$ 388,929,088	\$ 25,242,191	\$ 24,216,845	\$ (813,923)	\$ 440,421,959

*See Report of Independent Auditors on Supplementary Information on page 42.*

## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2019

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2019 Total
<b>Operating revenue</b>						
Patient care service revenue	\$ -	\$ 272,755,534	\$ 59,678,571	\$ -	\$ (30,147)	\$ 332,403,958
Other operating revenue	293,491	16,844,720	9,654,739	1,378,034	(7,371,978)	20,799,006
Net assets released from restrictions used for operations	-	210,388	-	-	-	210,388
Total operating revenue	293,491	289,810,642	69,333,310	1,378,034	(7,402,125)	353,413,352
<b>Expenses</b>						
Salaries and wages	-	102,504,025	12,053,670	-	53,552	114,611,247
Medical and surgical supplies	-	51,238,254	2,225,125	7,462	-	53,470,841
General supplies and purchased services	95,621	32,890,642	8,904,376	514,605	(3,510,157)	38,895,087
Employee benefits	-	29,434,419	7,805,439	-	(8,247)	37,231,611
Physicians' fees	-	10,360,068	55,438,488	-	(3,567,130)	62,231,426
Depreciation and amortization	47,134	13,132,445	1,096,490	1,939,075	-	16,215,144
Interest and amortization of debt issuance costs	(8,371)	5,299,267	-	-	-	5,290,896
Utilities and insurance	34,868	5,037,279	2,614,729	291,537	-	7,978,413
Professional fees and miscellaneous	1,143,355	5,576,654	1,210,612	142,008	(460,010)	7,612,619
Outside medical services	-	4,756,781	3,727,786	-	(12,507)	8,472,060
Total expenses	1,312,607	260,229,834	95,076,715	2,894,687	(7,504,499)	352,009,344
Operating income (loss)	(1,019,116)	29,580,808	(25,743,405)	(1,516,653)	102,374	1,404,008
<b>Other non-operating income</b>						
Investment income	-	6,637,798	33,832	8,136	-	6,679,766
Equity in earnings of affiliates	-	1,100,450	-	-	-	1,100,450
Other income (expense)	-	264,747	(540,637)	-	(102,374)	(378,264)
Total other non-operating income	-	8,002,995	(506,805)	8,136	(102,374)	7,401,952
Excess (deficiency) of revenue over expenses	\$ (1,019,116)	\$ 37,583,803	\$ (26,250,210)	\$ (1,508,517)	\$ -	\$ 8,805,960

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## BUTLER HEALTH SYSTEM AND SUBSIDIARIES

### OBLIGATED GROUP CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2019

	Butler Health System	Butler Memorial Hospital	Butler Medical Providers	Nixsar Corporation	Eliminations	June 30, 2019 Total
<b>Net assets without donor restrictions (continued)</b>						
<b>Other changes in net assets without donor restrictions, net</b>						
Excess (deficiency) of revenue over expenses	\$ (1,019,116)	\$ 37,583,803	\$ (26,250,210)	\$ (1,508,517)	\$ -	\$ 8,805,960
Unrealized gain on investments	-	1,594,126	-	-	-	1,594,126
Net assets released from restrictions used for capital expenditures	-	294,718	-	-	-	294,718
Distributions to non-controlling interest	-	(410,773)	-	-	-	(410,773)
Transfers (to) from affiliates	1,173,000	(26,500,000)	26,500,000	-	-	1,173,000
Other pension adjustments	-	(6,885,886)	-	-	-	(6,885,886)
Change in net assets without donor restrictions before effect of non-controlling interest	153,884	5,675,988	249,790	(1,508,517)	-	4,571,145
Change in non-controlling interest:						
Change attributed to non-controlling interest	-	414	-	-	-	414
Change in net assets without donor restrictions controlling interest	153,884	5,676,402	249,790	(1,508,517)	-	4,571,559
<b>Changes in net assets with donor restrictions</b>						
Net assets transferred from affiliates	-	505,452	-	-	-	505,452
Increase in interest in net assets of Butler Health System Foundation	-	52,667	-	-	-	52,667
Net assets released from restrictions	-	(505,106)	-	-	-	(505,106)
Increase in net assets with donor restrictions	-	53,013	-	-	-	53,013
Increase (decrease) in net assets	153,884	5,729,001	249,790	(1,508,517)	-	4,624,158
<b>Net assets at beginning of year</b>	2,689,349	212,747,723	14,088,924	25,699,122	-	255,225,118
<b>Net assets at end of year</b>	\$ 2,843,233	\$ 218,476,724	\$ 14,338,714	\$ 24,190,605	\$ -	\$ 259,849,276

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