



BUTLER HEALTH SYSTEM

BUTLER, PENNSYLVANIA

Continuing Disclosure Report

For the Six Months Ended December 31, 2022

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INTRODUCTION

ABOUT BUTLER HEALTH SYSTEM

Effective January 1, 2023, Butler Health System and Excela Health affiliated to become a singular health system serving western Pennsylvania. The new System was created through the formation of a new Parent corporation that will be responsible for the governance of both Butler Health System and Excela Health. The Board of Trustees of the new Parent consists of six members of the former Butler Health System board as well as six members of the former Excela Health board. Ken DeFurio, the longstanding President and CEO of Butler Health System has been named President and Chief Executive Officer of the new System and is an ex officio member of the Board with vote. John Sphon, Excela Health's former President and Chief executive Officer is a member of the Board and remains as a Senior Advisor, with retirement planned for April 2023.

Both the Butler Health System Obligated Group as well as the Excela Health Obligated Group remain intact, and the associated Master Trust Indentures, Continuing Disclosure Agreements, and financial reporting requirements will also remain. The contents of this document reflect the operating results and financial position of Butler Health System consolidated and the Butler Health System Obligated Group and do not contain the results of Excela Health. Excela Health will continue to make separate financial disclosures in accordance with its Continuing Disclosure Agreement obligations.

Butler Health System (System, or "BHS") located in Butler and Clarion, Pennsylvania, is a not-for profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section (a) of the Code. The System's primary operations are conducted within Butler Memorial Hospital (BMH) and Clarion Hospital (CH). Both BMH and CH operate as acute care hospitals and provide inpatient, outpatient, and emergency care services to residents of Butler and Clarion and surrounding communities.

BMH owns 49 percent of certain urgent care locations operating as BHS FastERcare PLLC. Additionally, BHS FastERcare Laboratory Services provides related lab services for these urgent care facilities.

The System operates the Butler Memorial Hospital Foundation (BMH Foundation), which provide fundraising activities in support of the System.

The System owns 100 percent of Butler Medical Providers (BMP) and Health Services of Clarion (HSC), which operate as not-for-profit corporations as described in Section 501(c)(3) of the Code. BMP and HSC are exempt from income taxes on related income pursuant to Section 501(a) of the Code. BMP and HSC provide primary care and specialty care physician services.

The System also owns 100 percent of Primary Care Associates (PCA), who employs primary care physicians, and 100 percent of Nixsar Corporation (Nixsar), who provides realty management services.



INTRODUCTION

ABOUT BUTLER HEALTH SYSTEM

The System owns 100 percent of Clarion Development Corporation (CDC) which owns and operates retail pharmacies and provides physician billing services.

Butler Ambulatory Surgery Center, LLC (the “Surgery Center”) is a joint venture that operates an ambulatory surgery center. The System maintains a 51 percent ownership share in the Surgery Center.

The Obligated Group consists of Butler Memorial Hospital, Butler Medical Providers, BHS FastERcare, Nixsar, BHS Provider Hospital Organization, and Butler Health System (parent).

Butler Health System (BHS) puts the emphasis on quality healthcare provided at an affordable price for residents of Butler, Clarion, and surrounding areas. We seek to ensure excellence throughout the patient experience and to maintain outstanding clinical outcomes. Our goal is to provide each and every patient with exceptional care.

Butler Health System is privileged to be a healing presence in the communities we serve. We exist to make a positive difference in the lives of people by providing compassionate, high-quality care and comfort and inspiring health and wellbeing.



OBLIGATED GROUP AND CONSOLIDATED BALANCE SHEETS¹

(in \$000's)²

AS OF DECEMBER 31, 2022 AND 2021

	2022		2021	
	Obligated Group	Total Consolidated	Obligated Group	Total Consolidated
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 12,292	\$ 19,786	\$ 27,661	\$ 51,482
Patient accounts receivable	36,261	46,143	45,905	54,198
Other current assets	22,335	27,122	28,357	22,275
TOTAL CURRENT ASSETS	70,888	93,051	101,923	127,955
Board -designated, funded depreciation	119,839	122,882	169,004	172,934
Held by trustee, self-insurance	1,399	1,863	1,396	1,931
Property and equipment, net	161,401	181,434	168,807	189,314
Other assets	74,041	77,194	50,849	54,181
TOTAL ASSETS	\$ 427,568	\$ 476,424	\$ 491,979	\$ 546,315
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 57,172	\$ 78,914	\$ 63,052	\$ 85,097
Current maturities of long-term debt	4,540	5,074	1,625	2,258
Other current liabilities	1,300	1,800	400	1,300
TOTAL CURRENT LIABILITIES	63,012	85,788	65,077	88,656
Long-term debt	119,365	122,039	127,103	137,888
Other long-term liabilities	19,221	12,449	7,075	1,990
TOTAL LIABILITIES	201,598	220,277	199,255	228,534
NET ASSETS:				
Without donor restrictions	224,029	254,205	291,203	316,260
With donor restrictions	1,942	1,942	1,521	1,521
TOTAL NET ASSETS	225,971	256,147	292,724	317,781
TOTAL LIABILITIES AND NET ASSETS	\$ 427,568	\$ 476,424	\$ 491,979	\$ 546,315

1 - Butler Health Master Obligated Group includes Butler Health Parent, Butler Memorial Hospital, Butler Medical Providers, Nixsar, BHS FastERcare, and BHS Provider Hospital Organization

2 - Total consolidated numbers and obligated group numbers are based on internal financial statements of Butler Health System



OBLIGATED GROUP AND CONSOLIDATED STATEMENTS OF OPERATIONS¹

(in \$000's)²

FOR THE FISCAL SECOND QUARTER ENDED
DECEMBER 31, 2022 AND 2021

	2022		2021	
	Obligated Group	Total Consolidated	Obligated Group	Total Consolidated
OPERATING REVENUES				
Patient service revenue	\$ 87,017	\$ 103,654	\$ 91,751	\$ 108,610
Other operating revenue	6,113	9,506	12,094	19,797
TOTAL OPERATING REVENUES	93,130	113,159	103,845	128,408
OPERATING EXPENSES				
Salaries and Benefits	68,299	77,278	63,768	72,205
Supplies and Services	32,236	41,661	29,870	38,396
Interest	1,369	1,409	987	970
Depreciation	5,367	5,976	4,714	5,890
Other	2,911	3,474	2,946	3,384
TOTAL OPERATING EXPENSES	110,183	129,797	102,285	120,845
INCOME/(LOSS) FROM OPERATIONS	(17,053)	(16,638)	1,560	7,563
TOTAL NON-OPERATING ACTIVITY	7,238	7,425	4,170	4,656
EXCESS/(DEFICIT) OF REVENUES OVER EXPENSES	\$ (9,815)	\$ (9,213)	\$ 5,729	\$ 12,218

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OBLIGATED GROUP AND CONSOLIDATED STATEMENTS OF OPERATIONS¹

(in \$000's)²

FOR THE SIX MONTHS ENDED DECEMBER 31, 2022 AND 2021

	2022		2021	
	Obligated Group	Total Consolidated	Obligated Group	Total Consolidated
OPERATING REVENUES				
Patient service revenue	\$ 176,495	\$ 211,002	\$ 183,503	\$ 216,713
Other operating revenue	9,621	15,701	22,597	27,396
TOTAL OPERATING REVENUES	186,117	226,703	206,099	244,109
OPERATING EXPENSES				
Salaries and Benefits	134,757	152,288	127,098	141,905
Supplies and Services	57,786	76,210	59,220	75,821
Interest	2,579	2,657	1,990	2,021
Depreciation	10,587	11,761	10,424	11,634
Other	5,840	6,836	5,647	6,552
TOTAL OPERATING EXPENSES	211,549	249,752	204,379	237,933
INCOME/(LOSS) FROM OPERATIONS	(25,432)	(23,048)	1,721	6,176
TOTAL NON-OPERATING ACTIVITY	1,381	763	4,443	4,954
EXCESS/(DEFICIT) OF REVENUES OVER EXPENSES	\$ (24,051)	\$ (22,286)	\$ 6,164	\$ 11,130

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UTILIZATION STATISTICS

FOR THE SIX MONTHS AND QUARTER ENDED
DECEMBER 31, 2022 AND 2021

	FY23		FY22	
	2nd Quarter	Year-to-Date	2nd Quarter	Year-to-Date
SUMMARY OF DISCHARGES:				
Med/Surg	2,058	4,008	2,188	4,432
Psychiatry	129	237	277	584
Nursery	126	265	147	299
TOTAL	2,313	4,510	2,612	5,315
OPERATING STATISTICS:				
Discharges	2,313	4,510	2,612	5,315
Observation Cases	1,169	2,373	988	2,104
Discharges + Observation	3,482	6,883	3,600	7,419
Patient Days	13,235	26,287	15,967	31,313
Length of Stay	5.72	5.83	6.11	5.89
Licensed Beds (including nursery beds)	313	313	313	313
Occupancy (Percent)-all patients, with observation	50.02%	49.76%	61.71%	60.73%
Occupancy (Percent)-m/s, ob & icu, with observation	52.74%	52.14%	67.29%	64.98%
Medicare Case Mix Index	1.81	1.81	1.88	1.88
Surgical Procedures – inpatient	630	1,327	625	1,394
Surgical Procedures - outpatient -- Hospital	7,549	15,512	7,910	15,644
Surgical Procedures - outpatient -- ASC	2,592	5,107	2,550	5,080
Emergency Room Visits	9,705	19,907	9,938	20,952
Outpatient Visits	92,745	186,862	111,123	211,122



PAYER MIX STATISTICS

FOR THE SIX MONTHS ENDED DECEMBER 31,
2022 AND 3-YEAR HISTORICAL TREND

	FY23 Q2	FY22	FY21	FY20
Payor Mix (% of gross revenue)				
Medicare (%)	17.4	17.0	17.7	19.1
Medicare managed care (%)	38.8	36.9	36.2	35.5
Total Medicare (%)	56.3	53.9	53.9	54.7
Medicaid (%)	0.1	0.2	0.3	0.6
Medicaid managed care (%)	9.9	10.4	9.9	9.9
Total Medicaid (%)	10.0	10.6	10.3	10.4
Total Commercial (%)	27.2	29.0	29.4	29.0
Self-Pay (%)	1.1	1.3	1.5	1.1
Other (%)	5.5	5.2	5.0	4.8
Total (100%)	100.0	100.0	100.0	100.0



DEBT COVENANT CALCULATIONS

QUARTERLY CALCULATIONS AS OF AND FOR THE PERIOD ENDED DECEMBER 31, 2022

	MTI COVENANT Annualized	LOAN COVENANT Rolling 12 months
DAYS CASH ON HAND		
Cash and cash equivalents	\$ 12,292,105	\$ 12,292,105
Board designated investments	119,839,322	119,839,322
Total cash and cash equivalents	132,131,427	132,131,427
Cash expenditures	200,961,673	420,919,432
Days Cash on Hand	119.0	114.6
Required	>75.0	>90.0
LONG-TERM DEBT TO CAPITALIZATION		
Long-term debt		\$ 123,905,286
Net assets without donor restrictions		224,029,111
Total capitalization		347,934,397
Long Term Debt to Capitalization		35.6%
Required		<65.0
DEBT SERVICE COVERAGE		
Excess of Revenues Over Expenses		\$ (61,532,640)
Plus: Depreciation		21,400,591
Interest		4,679,701
Unrealized Gain/(Loss) on Investments		(23,964,254)
Income Available for Debt Service		(11,488,095)
Maximum Annual Debt Service		9,311,691
Debt Service Coverage		(1.23)
Required		>1.25