

February 14, 2017

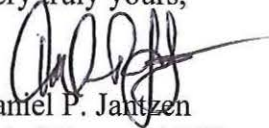
Re: Dartmouth-Hitchcock Obligated Group – Report for the Quarter Ended December 31, 2016

Dear Investor and/or Interested Party:

In accordance with Section 5.11 of the various Loan Agreements and the various Continuing Disclosure Agreements relating to the members of the Dartmouth-Hitchcock Obligated Group: Dartmouth-Hitchcock Clinic, Mary Hitchcock Memorial Hospital, Cheshire Medical Center, New London Hospital and Mt. Ascutney Hospital and Health Center this is to advise the interim financial statements including utilization statistics and payor mix information for the six months ended December 31, 2016, are now available to you through the DAC website.

If you have any questions or would like further detail, please do not hesitate to call Bruce Adams (603-653-1152) or me (603-650-5634).

Very truly yours,



Daniel P. Jantzen  
Chief Financial Officer

DPJ/ao  
Enclosures

cc: Bruce A. Adams  
Janet M. West

**DARTMOUTH-HITCHCOCK OBLIGATED GROUP**

**QUARTERLY REPORT FOR**

**For the Quarter Ended December 31, 2016**

*Unaudited*

**Dartmouth-Hitchcock Obligated Group**  
**Quarterly Report**  
**December 31, 2016**  
*Unaudited*

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Effective July 1, 2016, Cheshire Medical Center (Cheshire), New London Hospital (NLH) and Mt. Ascutney Hospital and Health Center (MAHHC) became members of the Dartmouth-Hitchcock Obligated Group. Prior year information is for Dartmouth-Hitchcock (D-H) (Mary Hitchcock Memorial Hospital and Dartmouth-Hitchcock Clinic) only.

**Dartmouth-Hitchcock Obligated Group**  
**Consolidated Balance Sheets**  
(000's Omitted)

	<u>December 31, 2016</u> <i>Unaudited</i>	<u>June 30, 2016</u> <i>Audited</i>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 70,818	1,535
Patient accounts receivable, net	232,611	220,173
Prepaid expenses and other current assets	123,405	95,158
Total current assets	426,834	316,866
<b>Assets limited as to use</b>		
Internally designated by board	504,233	474,066
Held by captive insurance company	76,993	76,993
Under bond indenture agreement - held by trustee	2,834	664
Total assets limited as to use	584,060	551,724
Other investments for temporarily and permanently restricted activities	112,930	91,879
Property, plant and equipment, net	581,484	454,894
Other assets	83,401	68,752
Total assets	\$ 1,788,709	1,484,115
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 17,633	15,638
Current portion of liability for other postretirement plan benefits	3,176	3,176
Line of credit	75,000	35,000
Accounts payable and accrued expenses	104,251	87,373
Accrued compensation and related benefits	111,384	86,997
Estimated third-party settlements	24,602	21,434
Total current liabilities	336,046	249,618
Long-term debt, excluding current portion	602,975	553,229
Insurance deposits and related liabilities	56,887	56,887
Interest rate swaps	21,800	24,148
Liability for pension and other postretirement plan benefits, excluding current portion	274,150	246,816
Other liabilities	76,416	54,218
Total liabilities	1,368,274	1,184,916
<b>Net assets</b>		
Unrestricted	312,908	217,033
Temporarily restricted	66,609	51,173
Permanently restricted	40,918	30,993
Total net assets	420,435	299,199
Total liabilities and net assets	\$ 1,788,709	1,484,115

**Dartmouth-Hitchcock Obligated Group**  
**Consolidated Statement of Operations and Changes**  
**in Unrestricted Net Assets**  
**December 31, 2016**  
**(000's Omitted)**  
*Unaudited*

	<u>Qtr - to - Date</u>	<u>Year - to - Date</u>
<b>Unrestricted revenues and other support</b>		
Net patient service revenue	\$ 424,875	846,412
Contracted revenue	20,651	42,993
Other operating revenue	28,437	51,496
Net assets released from restrictions	2,462	4,181
<b>Total unrestricted revenues and other support</b>	<u>476,425</u>	<u>945,082</u>
<b>Operating expenses</b>		
Salaries, contracted services and related employee benefits	298,633	587,681
Materials, supplies and other	138,690	276,096
Medicaid Enhancement Tax	15,774	31,848
Depreciation and amortization	20,541	41,243
Interest	4,855	9,694
<b>Operating expenses before Restructuring costs</b>	<u>478,493</u>	<u>946,562</u>
<b>Operating loss before Restructuring costs</b>	(2,068)	(1,480)
<b>Restructuring costs (Note 1)</b>	<u>17,657</u>	<u>17,657</u>
<b>Operating loss</b>	(19,725)	(19,137)
<b>Nonoperating (loss) gains</b>	<u>(4,354)</u>	<u>13,023</u>
<b>Deficiency of revenues over expenses</b>	(24,079)	(6,114)
<b>Net assets released from restrictions for capital acquisition</b>	3,822	5,123
<b>Change in funded status of pension and other postretirement benefits</b>	-	(321)
<b>Net assets transferred to affiliate</b>	(5,496)	(9,810)
<b>Increase due to addition of new members</b>	-	99,705
<b>Unrealized gain on interest rate swaps</b>	<u>6,003</u>	<u>7,292</u>
<b>(Decrease) increase in unrestricted net assets</b>	<u>\$ (19,750)</u>	<u>95,875</u>

Note (1) D-H developed and began implementing a financial Performance Improvement Plan in July of 2016 in response to its negative operating margin incurred in fiscal year 2016. The Plan was designed to produce an operating margin for fiscal year 2017 that is break-even or better, before investment income. The overall goal of the Improvement Plan is to create sustainable long-term improvement in operating results. For the six months ended December 31, 2016, D-H posted an operating margin of \$305,000, before the impact of the Restructuring Costs (see D-H operating margin before restructuring costs, page 7); these results are tracking well with year-to-date expectations. The year-to-date positive operating margin was due in large part to continued growth in patient services as compared to the prior year, including surgical cases, inpatient discharges, case mix index, patient appointments and cost management initiatives.

**Dartmouth-Hitchcock Obligated Group  
Consolidated Utilization Statistics  
For the Six Months Ended December 31, 2016  
and the Fiscal Year Ended June 30, 2016**

	December 31, 2016 <i>Unaudited</i>	June 30, 2016 <i>Audited</i>
Licensed Beds, excluding all bassinets (as of this date)	625	396
Staffed Beds, including ICN bassinets (as of this date)*	557	417
Total Discharges - excludes newborn**	16,373	26,194
Total Patient Days - includes ICN**	78,151	127,416
Occupancy (as a percentage of staffed beds)	76.3%	83.7%
Average Length of Stay (days)	4.8	4.9
Surgical Cases	14,928	21,478
Emergency Room Visits	33,816	30,929
Total Appointments	836,571	1,334,411

\* Staffed beds includes ICN bassinets whereas licensed beds do not

\*\* Includes Acute Care, Rehab, Swing, Sub-Acute and ICF

**Sources of Revenue:**

The following table categorizes payors into five groups and their respective percentages of gross patient service revenue.

Payor		
Medicare	42%	40%
Blue Cross	19%	20%
Commercial Insurance	21%	19%
Medicaid	13%	15%
Other	5%	6%
	100%	100%

**Dartmouth-Hitchcock Obligated Group**  
**Consolidated Summary Statement of Unrestricted Liquidity**  
**December 31, 2016**  
(000's Omitted)  
*Unaudited*

**Annual Debt Service Coverage Ratio** *(Covenant >1.10x)*

Deficiency of revenues over expenses	\$	(6,114)
Add: unrealized ineffectiveness on hedge		251
Less: net unrealized gains on investments		(7,504)
Add: Loss on advance refunding		381
Excluded from expenses:		
Depreciation and amortization		41,360
Interest expense on long-term indebtedness - operating expense		9,694
Interest expense on long-term indebtedness - non-operating revenue		1,573
Interest expense related to swap agreements		(1,609)
		(1,609)
Aggregate Income Available for Debt Service	\$	38,032
Annual Debt Service <i>(two quarters)</i>	\$	16,787
Coverage of Annual Debt Service (x)	\$	2.27

**Days Cash on Hand** *(Covenant > 75)*

	Qtr - to - Date	Year - to - Date
Cash and cash equivalents per MTI	\$ 70,475	70,475
Less: short term borrowing/line of credit	(75,000)	(75,000)
Assets whose use is limited by Board Designation	504,233	504,233
Total Unrestricted Cash	\$ 499,708	499,708
Days Cash on Hand	97	100

Dartmouth-Hitchcock Obligated Group  
Consolidating Balance Sheets  
December 31, 2016  
(000's Omitted)  
Unaudited

Assets	D-H	Cheshire	NLH	MAHHC	ELIM	D-HOG
<b>Current Assets</b>						
Cash and cash equivalents	\$ 45,515	13,976	6,356	4,971	-	70,818
Patient accounts receivable, net	203,460	15,292	8,823	5,036	-	232,611
Prepaid expenses and other current assets	130,795	1,336	3,612	1,964	(14,302)	123,405
<b>Total current assets</b>	<b>379,770</b>	<b>30,604</b>	<b>18,791</b>	<b>11,971</b>	<b>(14,302)</b>	<b>426,834</b>
<b>Assets limited as to use</b>						
Internally designated by board	466,927	16,666	10,819	9,821	-	504,233
Held by captive insurance company	76,993	-	-	-	-	76,993
Under bond indenture agreement - held by trustee	638	2,196	-	-	-	2,834
<b>Total assets limited as to use</b>	<b>544,558</b>	<b>18,862</b>	<b>10,819</b>	<b>9,821</b>	<b>-</b>	<b>584,060</b>
<b>Other investments for temporarily and permanently restricted activities</b>						
Property, plant and equipment, net	99,920	4,425	2,843	5,742	-	112,930
Other assets	453,078	68,379	42,584	17,443	-	581,484
<b>Total assets</b>	<b>\$ 1,562,018</b>	<b>125,108</b>	<b>80,445</b>	<b>47,560</b>	<b>(26,422)</b>	<b>1,788,709</b>
<b>Liabilities and Net Assets</b>						
<b>Current Liabilities</b>						
Current portion of long-term debt	\$ 16,158	753	642	80	-	17,633
Current portion of liability for other postretirement plan benefits	3,176	-	-	-	-	3,176
Line of credit	75,000	-	-	1,150	(1,150)	75,000
Accounts payable and accrued expenses	92,712	17,147	5,307	3,387	(14,302)	104,251
Accrued compensation and related benefits	99,943	5,808	2,235	3,398	-	111,384
Estimated third-party settlements	21,176	(3,579)	5,831	1,174	-	24,602
<b>Total current liabilities</b>	<b>308,165</b>	<b>20,129</b>	<b>14,015</b>	<b>9,189</b>	<b>(15,452)</b>	<b>336,046</b>
Long-term debt, excluding current portion	550,321	27,260	25,215	11,149	(10,970)	602,975
Insurance deposits and related liabilities	56,887	-	-	-	-	56,887
Interest rate swaps	18,418	-	3,382	-	-	21,800
Liability for pension and other postretirement plan benefits, excluding current portion	267,061	-	-	7,089	-	274,150
<b>Other liabilities</b>	<b>56,945</b>	<b>18,350</b>	<b>1,121</b>	<b>-</b>	<b>-</b>	<b>76,416</b>
<b>Total liabilities</b>	<b>1,257,797</b>	<b>65,739</b>	<b>43,733</b>	<b>27,427</b>	<b>(26,422)</b>	<b>1,368,274</b>
<b>Net assets</b>						
Unrestricted	212,803	54,944	32,271	12,890	-	312,908
Temporarily restricted	60,402	4,425	337	1,445	-	66,609
Permanently restricted	31,016	-	4,104	5,798	-	40,918
<b>Total net assets</b>	<b>304,221</b>	<b>59,369</b>	<b>36,712</b>	<b>20,133</b>	<b>-</b>	<b>420,435</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,562,018</b>	<b>125,108</b>	<b>80,445</b>	<b>47,560</b>	<b>(26,422)</b>	<b>1,788,709</b>



Dartmouth-Hitchcock Obligated Group  
Consolidating Statement of Operations and Changes  
in Unrestricted Net Assets  
For the Quarter Ended December 31, 2016  
(000's Omitted)  
Unaudited

	D-H	Cheshire	NLH	MAHHC	ELIM	D-HOG
<b>Unrestricted revenues and other support</b>						
Net patient service revenue	\$ 348,364	50,118	14,858	11,535	-	424,875
Contracted revenue	20,651	-	-	-	-	20,651
Other operating revenue	25,341	1,224	1,136	918	(182)	28,437
Net assets released from restrictions	2,428	-	21	13	-	2,462
<b>Total unrestricted revenues and other support</b>	<u>396,784</u>	<u>51,342</u>	<u>16,015</u>	<u>12,466</u>	<u>(182)</u>	<u>476,425</u>
<b>Operating expenses</b>						
Salaries, contracted services and related employee benefits	249,866	31,546	9,540	7,554	127	298,633
Materials, supplies and other	114,709	15,871	4,720	3,909	(519)	138,690
Medicaid Enhancement Tax	12,840	1,784	738	412	-	15,774
Depreciation and amortization	16,080	2,770	1,153	538	-	20,541
Interest	4,311	281	207	56	-	4,855
<b>Operating expenses before Restructuring costs</b>	<u>397,806</u>	<u>52,252</u>	<u>16,358</u>	<u>12,469</u>	<u>(392)</u>	<u>478,493</u>
<b>Operating loss before Restructuring costs</b>	<u>(1,022)</u>	<u>(910)</u>	<u>(343)</u>	<u>(3)</u>	<u>210</u>	<u>(2,068)</u>
<b>Restructuring costs (Note 1)</b>	<u>17,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,657</u>
<b>Operating loss</b>	<u>(18,679)</u>	<u>(910)</u>	<u>(343)</u>	<u>(3)</u>	<u>210</u>	<u>(19,725)</u>
<b>Nonoperating (loss) gains</b>	<u>(2,799)</u>	<u>(256)</u>	<u>(1,343)</u>	<u>254</u>	<u>(210)</u>	<u>(4,354)</u>
<b>(Deficiency) excess of revenues over expenses</b>	<u>(21,478)</u>	<u>(1,166)</u>	<u>(1,686)</u>	<u>251</u>	<u>-</u>	<u>(24,079)</u>
<b>Net assets released from restrictions</b>						
for capital acquisition	3,604	-	9	209	-	3,822
Net assets transferred from (to) affiliate	(5,843)	300	47	-	-	(5,496)
Unrealized gain on interest rate swaps	4,853	-	1,150	-	-	6,003
<b>(Decrease) increase in unrestricted net assets</b>	<u>\$ (18,864)</u>	<u>(866)</u>	<u>(480)</u>	<u>460</u>	<u>-</u>	<u>(19,750)</u>

Note (1) D-H developed and began implementing a financial Performance Improvement Plan in July of 2016 in response to its negative operating margin incurred in fiscal year 2016. The Plan was designed to produce an operating margin for fiscal year 2017 that is break-even or better, before investment income. The overall goal of the Improvement Plan is to create sustainable long-term improvement in operating results. For the six months ended December 31, 2016, D-H posted an operating margin of \$305,000, before the impact of the Restructuring Costs (see D-H operating margin before restructuring costs, page 7); these results are tracking well with year-to-date expectations. The year-to-date positive operating margin was due in large part to continued growth in patient services as compared to the prior year, including surgical cases, inpatient discharges, case mix index, patient appointments and cost management initiatives.

Dartmouth-Hitchcock Obligated Group  
Consolidating Statement of Operations and Changes  
in Unrestricted Net Assets  
For the Six Months Ended December 31, 2016  
(000's Omitted)  
Unaudited

	D-H	Cheshire	NLH	MAHHC	ELIM	D-HOG
<b>Unrestricted revenues and other support</b>						
Net patient service revenue	\$ 695,193	99,190	29,406	22,642	(19)	846,412
Contracted revenue	42,993	-	-	-	-	42,993
Other operating revenue	46,152	1,901	1,998	1,819	(374)	51,496
Net assets released from restrictions	4,110	-	36	35	-	4,181
<b>Total unrestricted revenues and other support</b>	<b>788,448</b>	<b>101,091</b>	<b>31,440</b>	<b>24,496</b>	<b>(393)</b>	<b>945,082</b>
<b>Operating expenses</b>						
Salaries, contracted services and related employee benefits	493,971	61,188	18,692	15,106	(1,276)	587,681
Materials, supplies and other	227,258	31,785	9,457	7,117	479	276,096
Medicaid Enhancement Tax	25,980	3,569	1,475	824	-	31,848
Depreciation and amortization	32,364	5,540	2,248	1,091	-	41,243
Interest	8,570	563	421	140	-	9,694
<b>Operating expenses before Restructuring costs</b>	<b>788,143</b>	<b>102,645</b>	<b>32,293</b>	<b>24,278</b>	<b>(797)</b>	<b>946,562</b>
<b>Operating margin (loss) before Restructuring costs</b>	<b>305</b>	<b>(1,554)</b>	<b>(853)</b>	<b>218</b>	<b>404</b>	<b>(1,480)</b>
<b>Restructuring costs (Note 1)</b>	<b>17,657</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,657</b>
<b>Operating (loss) margin</b>	<b>(17,352)</b>	<b>(1,554)</b>	<b>(853)</b>	<b>218</b>	<b>404</b>	<b>(19,137)</b>
<b>Nonoperating gains (loss)</b>	<b>13,056</b>	<b>454</b>	<b>(638)</b>	<b>555</b>	<b>(404)</b>	<b>13,023</b>
<b>(Deficiency) excess of revenues over expenses</b>	<b>(4,296)</b>	<b>(1,100)</b>	<b>(1,491)</b>	<b>773</b>	<b>-</b>	<b>(6,114)</b>
<b>Net assets released from restrictions for capital acquisition</b>	<b>4,919</b>	<b>-</b>	<b>9</b>	<b>195</b>	<b>-</b>	<b>5,123</b>
<b>Change in funded status of pension and other postretirement benefits</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(321)</b>	<b>-</b>	<b>(321)</b>
<b>Net assets transferred (to) from affiliate</b>	<b>(10,834)</b>	<b>600</b>	<b>95</b>	<b>329</b>	<b>-</b>	<b>(9,810)</b>
<b>Increase due to addition of new members</b>	<b>-</b>	<b>55,444</b>	<b>11,867</b>	<b>32,394</b>	<b>-</b>	<b>99,705</b>
<b>Unrealized gain on interest rate swaps</b>	<b>5,981</b>	<b>-</b>	<b>1,264</b>	<b>47</b>	<b>-</b>	<b>7,292</b>
<b>(Decrease) increase in unrestricted net assets</b>	<b>\$ (4,230)</b>	<b>54,944</b>	<b>11,744</b>	<b>33,417</b>	<b>-</b>	<b>95,875</b>

Note (1) D-H developed and began implementing a financial Performance Improvement Plan in July of 2016 in response to its negative operating margin incurred in fiscal year 2016. The Plan was designed to produce an operating margin for fiscal year 2017 that is break-even or better, before investment income. The overall goal of the Improvement Plan is to create sustainable long-term improvement in operating results. For the six months ended December 31, 2016, D-H posted an operating margin of \$305,000, before the impact of the Restructuring Costs; these results are tracking well with year-to-date expectations. The year-to-date positive operating margin was due in large part to continued growth in patient services as compared to the prior year, including surgical cases, inpatient discharges, case mix index, patient appointments and cost management initiatives.

**Dartmouth-Hitchcock Obligated Group  
Utilization Statistics  
For the Six Months Ended December 31, 2016**

	<u>D-H</u>	<u>Cheshire</u>	<u>NLH</u>	<u>MAHHC</u>	<u>D-HOG</u>
Licensed Beds, excluding all bassinets (as of this date)	396	169	25	35	625
Staffed Beds, including ICN bassinets (as of this date)*	422	81	19	35	557
Total Discharges - excludes newborn**	13,129	2,179	570	495	16,373
Total Patient Days - includes ICN**	62,313	9,093	1,816	4,929	78,151
Occupancy (as a percentage of staffed beds)	80.3%	61.0%	51.9%	76.5%	76.3%
Average Length of Stay (days)	4.7	4.2	3.2	10.0	4.8
Surgical Cases	10,911	2,249	875	893	14,928
Emergency Room Visits	16,113	11,632	3,733	2,338	33,816
Total Appointments	555,904	220,115	35,489	25,063	836,571

\* Staffed beds includes ICN bassinets whereas licensed beds do not

\*\* Includes Acute Care, Rehab, Swing, Sub-Acute and ICF

**Sources of Revenue:**

The following table categorizes payors into five groups and their respective percentages of gross patient service revenue.

<u>Payor</u>					
Medicare	41%	49%	53%	53%	42%
Blue Cross	20%	13%	17%	20%	19%
Commercial Insurance	21%	24%	21%	16%	21%
Medicaid	14%	10%	6%	10%	13%
Other	5%	4%	3%	1%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>