



Dartmouth-Hitchcock
1 Medical Center Drive
Lebanon, NH 03756-0001
Phone (603) 650-5634
Fax (603) 650-7440
Dartmouth-hitchcock.org

May 12th, 2017

Re: Dartmouth-Hitchcock Obligated Group – Report for the Quarter Ended March 31st, 2017

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 nine months ended March 31st, 2017, 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,

A handwritten signature in black ink, appearing to read "Dan Jantzen", written over a white background.

Daniel P. Jantzen
Chief Financial Officer

DPJ/ALO
Enclosures

cc: Tina E. Naimie

DARTMOUTH-HITCHCOCK OBLIGATED GROUP

QUARTERLY REPORT FOR

The Quarter Ended March 31, 2017

Unaudited

Dartmouth-Hitchcock Obligated Group
Quarterly Report
March 31, 2017
Unaudited

Table of Contents

	<u>Page</u>
Dartmouth-Hitchcock Obligated Group Financial Information and Utilization Statistics	
Consolidated Balance Sheets	1
Consolidated Statements of Operations and Changes in Unrestricted Net Assets	2
Consolidated Utilization Statistics	3
Consolidated Summary Statement of Unrestricted Liquidity	4
Consolidating Balance Sheets	5
Consolidating Statements of Operations and Changes in Unrestricted Net Assets For the Quarter Ended March 31, 2017	6
Consolidating Statements of Operations and Changes in Unrestricted Net Assets For the Nine Months Ended March 31, 2017 (Year-to-Date)	7
Consolidating Utilization Statistics	8

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 Sheet
(000's Omitted)

	March 31, 2017	June 30, 2016
	<u><i>Unaudited</i></u>	<u><i>Audited</i></u>
Assets		
Current assets		
Cash and cash equivalents	\$ 45,080	1,535
Patient accounts receivable, net	233,810	220,173
Prepaid expenses and other current assets	142,263	95,158
Total current assets	<u>421,153</u>	<u>316,866</u>
Assets limited as to use		
Internally designated by board	527,229	474,067
Held by captive insurance company	76,993	76,993
Under bond indenture agreement - held by trustee	1,522	664
Total assets limited as to use	<u>605,744</u>	<u>551,724</u>
Other investments for temporarily and permanently restricted activities	115,338	91,879
Property, plant and equipment, net	573,221	454,894
Other assets	89,119	68,752
Total assets	<u><u>\$ 1,804,575</u></u>	<u><u>1,484,115</u></u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	\$ 17,722	15,638
Current portion of liability for other postretirement plan benefits	3,176	3,176
Line of credit	55,000	35,000
Accounts payable and accrued expenses	113,183	87,373
Accrued compensation and related benefits	99,372	86,997
Estimated third-party settlements	29,987	21,434
Total current liabilities	<u>318,440</u>	<u>249,618</u>
Long-term debt, excluding current portion	602,694	553,229
Insurance deposits and related liabilities	56,887	56,887
Interest rate swaps	20,044	24,148
Liability for pension and other postretirement plan benefits, excluding current portion	270,253	246,816
Other liabilities	82,341	54,218
Total liabilities	<u>1,350,659</u>	<u>1,184,916</u>
Net assets		
Unrestricted	346,238	217,033
Temporarily restricted	66,665	51,173
Permanently restricted	41,013	30,993
Total net assets	<u>453,916</u>	<u>299,199</u>
Total liabilities and net assets	<u><u>\$ 1,804,575</u></u>	<u><u>1,484,115</u></u>

Dartmouth-Hitchcock Obligated Group
Consolidated Statement of Operations and Changes
in Unrestricted Net assets
For the Period Ended March 31, 2017
(000's Omitted)
Unaudited

	<u>Qtr-to-Date</u>	<u>Year-to-Date</u>
Unrestricted revenue and other support		
Net patient service revenue	\$ 422,854	1,269,266
Contracted revenue	22,138	65,131
Other operating revenue	29,683	81,179
Net assets released from restrictions	2,180	6,361
Total unrestricted revenue and other support	<u>476,855</u>	<u>1,421,937</u>
Operating expenses		
Salaries, contracted services and related employee benefits	297,316	884,997
Materials, supplies and other	129,792	405,888
Medicaid enhancement tax	15,175	47,023
Depreciation and amortization	20,524	61,767
Interest	4,856	14,550
Total operating expenses before Restructuring costs	<u>467,663</u>	<u>1,414,225</u>
Operating margin before Restructuring costs	9,192	7,712
Restructuring costs (Note 1)	-	17,657
Operating margin (loss)	<u>9,192</u>	<u>(9,945)</u>
Nonoperating gains	<u>22,423</u>	<u>35,446</u>
Excess of revenues over expenses	31,615	25,501
Net assets released from restrictions for capital acquisition	3,791	8,914
Change in funded status of pension and other postretirement benefits	-	(321)
Net assets transferred from affiliate	(3,248)	(13,058)
Increase due to addition of new members	-	99,705
Unrealized gain on interest rate swaps	1,172	8,464
Increase in unrestricted net assets	<u>\$ 33,330</u>	<u>129,205</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 nine months ended March 31, 2017, D-H posted an operating margin of \$10,145,000, 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 Nine Months Ended March 31, 2017
and the Fiscal Year Ended June 30, 2016**

	March 31, 2017 <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)*	561	417
Total Discharges - excludes newborn**	24,622	26,194
Total Patient Days - includes ICN**	117,954	127,416
Occupancy (as a percentage of staffed beds)	76.7%	83.7%
Average Length of Stay (days)	4.8	4.9
Surgical Cases	22,472	21,478
Emergency Room Visits	49,847	30,929
Total Appointments	1,263,955	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	43%	40%
Blue Cross	18%	20%
Commercial Insurance	21%	19%
Medicaid	13%	15%
Other	4%	6%
	100%	100%

Dartmouth-Hitchcock Obligated Group
Consolidated Summary Statement of Unrestricted Liquidity
March 31, 2017
(000's Omitted)
Unaudited

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

Excess of revenues over expenses	\$	25,501
Change in unrealized effectiveness on hedge		(334)
Less: net unrealized gains on investments		(23,423)
Add: loss on advance refunding		381
Excluded from expenses:		
Depreciation and amortization		61,942
Interest expense on long-term indebtedness - operating expense		14,550
Interest expense on long-term indebtedness - non-operating revenue		2,352
Interest expense related to swap agreements		(2,382)

Aggregate Income Available for Debt Service	\$	78,587
Annual Debt Service (three quarters)	\$	25,482
Coverage of Annual Debt Service (x)		3.08

Days Cash on Hand *(Covenant > 75)*

	Qtr-to-Date	Year-to-Date
Cash and cash equivalents per MTI	\$ 41,365	41,365
Less: short term borrowing/line of credit	(55,000)	(55,000)
Assets whose use is limited by Board Designation	527,229	527,229
Total Unrestricted Cash	\$ 513,594	513,594
Days Cash on Hand	103	103

Dartmouth-Hitchcock Obligated Group
Consolidating Balance Sheet
For the Period Ended March 31, 2017
(000's Omitted)

Assets	D-H	Cheshire	NLH	MAHHC	Elim	D-HOG
Current assets						
Cash and cash equivalents	\$ 16,771	15,545	8,159	4,605	-	45,080
Patient accounts receivable, net	203,421	16,456	8,666	5,267	-	233,810
Prepaid expenses and other current assets	150,559	4,760	4,379	1,305	(18,740)	142,263
Total current assets	370,751	36,761	21,204	11,177	(18,740)	421,153
Assets limited as to use						
Internally designated by board	490,634	16,716	11,449	8,430	-	527,229
Held by captive insurance company	76,993	-	-	-	-	76,993
Under bond indenture agreement - held by trustee	677	845	-	-	-	1,522
	568,304	17,561	11,449	8,430	-	605,744
Other investments for temporarily and permanently restricted activities						
	99,479	5,225	2,843	7,791	-	115,338
Property, plant and equipment, net	446,812	66,602	42,783	17,024	-	573,221
Other assets	89,951	2,839	5,555	2,594	(11,820)	89,119
Total assets	\$ 1,575,297	128,988	83,834	47,016	(30,560)	1,804,575
Liabilities and Net Assets						
Current liabilities						
Current portion of long-term debt	\$ 16,137	753	752	80	-	17,722
Current portion of liability for other postretirement plan benefits	3,176	-	-	-	-	3,176
Line of credit	55,000	-	-	850	(850)	55,000
Accounts payable and accrued expenses	105,839	18,652	4,582	2,850	(18,740)	113,183
Accrued compensation and related benefits	88,838	4,864	2,804	2,866	-	99,372
Estimated third-party settlements	21,192	-	7,919	876	-	29,987
Total current liabilities	290,182	24,269	16,057	7,522	(19,590)	318,440
Long-term debt, excluding current portion	549,235	26,494	26,806	11,129	(10,970)	602,694
Insurance deposits and related liabilities	56,887	-	-	-	-	56,887
Interest rate swaps	16,782	-	3,262	-	-	20,044
Liability for pension and other postretirement plan benefits, excluding current portion	263,432	-	-	6,821	-	270,253
Other liabilities	63,857	17,363	1,121	-	-	82,341
Total liabilities	1,240,375	68,126	47,246	25,472	(30,560)	1,350,659
Net assets						
Unrestricted	244,105	55,637	32,059	14,437	-	346,238
Temporarily restricted	59,796	5,225	387	1,257	-	66,665
Permanently restricted	31,021	-	4,142	5,850	-	41,013
Total net assets	334,922	60,862	36,588	21,544	-	453,916
Total liabilities and net assets	\$ 1,575,297	128,988	83,834	47,016	(30,560)	1,804,575

Dartmouth-Hitchcock Obligated Group
Consolidating Statement of Operations and Changes in Net Assets
For the Quarter Ended March 31, 2017
(000's Omitted)

	D-H	Cheshire	NLH	MAHHC	Elim	D-HOG
Unrestricted revenue and other support						
Net patient service revenue	\$ 344,983	51,935	14,244	11,692	-	422,854
Contracted revenue	22,138	-	-	-	-	22,138
Other operating revenue	27,866	455	967	770	(375)	29,683
Net assets released from restrictions	2,153	-	12	15	-	2,180
Total unrestricted revenue and other support	397,140	52,390	15,223	12,477	(375)	476,855
Operating expenses						
Salaries, contracted services and related employee benefits	237,006	32,162	9,287	7,348	11,513	297,316
Materials, supplies and other	117,646	15,275	4,899	4,072	(12,100)	129,792
Medicaid enhancement tax	12,240	1,784	738	413	-	15,175
Depreciation and amortization	16,080	2,770	1,150	524	-	20,524
Interest	4,324	282	195	55	-	4,856
Total operating expenses before Restructuring costs	387,296	52,273	16,269	12,412	(587)	467,663
Operating margin (loss)	9,844	117	(1,046)	65	212	9,192
Nonoperating gains	21,261	276	665	433	(212)	22,423
Excess (deficiency) of revenue over expenses	31,105	393	(381)	498	-	31,615
Unrestricted net assets						
Net assets released from restrictions for capital acquisition	3,402	-	-	389	-	3,791
Net assets transferred (from) to affiliate	(4,253)	300	47	658	-	(3,248)
Unrealized gain on interest rate swaps	1,050	-	122	-	-	1,172
Increase (decrease) in unrestricted net assets	31,304	693	(212)	1,545	-	33,330

Dartmouth-Hitchcock Obligated Group
Consolidating Statement of Operations and Changes in Net Assets
For the Nine Months Ended March 31, 2017
(000's Omitted)

	D-H	Cheshire	NLH	MAHHC	Elim	D-HOG
Unrestricted revenue and other support						
Net patient service revenue	\$ 1,040,176	151,125	43,650	34,334	(19)	1,269,266
Contracted revenue	65,131	-	-	-	-	65,131
Other operating revenue	74,017	2,356	2,965	2,589	(748)	81,179
Net assets released from restrictions	6,263	-	49	49	-	6,361
Total unrestricted revenue and other support	1,185,587	153,481	46,664	36,972	(767)	1,421,937
Operating expenses						
Salaries, contracted services and related employee benefits	730,978	93,350	27,980	22,452	10,237	884,997
Materials, supplies and other	344,904	47,060	14,356	11,188	(11,620)	405,888
Medicaid enhancement tax	38,221	5,353	2,213	1,236	-	47,023
Depreciation and amortization	48,445	8,309	3,399	1,614	-	61,767
Interest	12,894	845	616	195	-	14,550
Total operating expenses before Restructuring costs	1,175,442	154,917	48,564	36,685	(1,383)	1,414,225
Operating margin (loss) before Restructuring costs	10,145	(1,436)	(1,900)	287	616	7,712
Restructuring costs (Note 1)	17,657	-	-	-	-	17,657
Operating (loss) margin	(7,512)	(1,436)	(1,900)	287	616	(9,945)
Nonoperating gains	34,318	730	28	986	(616)	35,446
Excess (deficiency) of revenue over expenses	26,806	(706)	(1,872)	1,273	-	25,501
Unrestricted net assets						
Net assets released from restrictions for capital acquisition	8,321	-	9	584	-	8,914
Change in funded status of pension and other postretirement benefits	-	-	-	(321)	-	(321)
Net assets transferred (from) to affiliate	(15,087)	900	143	986	-	(13,058)
Increase due to addition of new members	-	55,444	32,394	11,867	-	99,705
Unrealized gain on interest rate swaps	7,032	-	1,385	47	-	8,464
Increase in unrestricted net assets	27,072	55,638	32,059	14,436	-	129,205

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 nine months ended March 31, 2017, D-H posted an operating margin of \$10,145,000, 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
Utilization Statistics
For the Nine Months Ended March 31, 2017**

	<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	85	19	35	561
Total Discharges - excludes newborn**	19,650	3,359	864	749	24,622
Total Patient Days - includes ICN**	93,427	14,249	2,702	7,576	117,954
Occupancy (as a percentage of staffed beds)	80.8%	61.2%	51.9%	79.0%	76.7%
Average Length of Stay (days)	4.8	4.2	3.1	10.1	4.8
Surgical Cases	16,528	3,475	1,257	1,212	22,472
Emergency Room Visits	23,625	17,395	5,352	3,475	49,847
Total Appointments	843,673	329,745	53,406	37,131	1,263,955

* 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%	50%	53%	53%	43%
Blue Cross	19%	12%	17%	19%	18%
Commercial Insurance	21%	25%	21%	16%	21%
Medicaid	14%	10%	6%	11%	13%
Other	4%	4%	3%	1%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>