



**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
DIVISION OF ADMINISTRATION**

P.O. BOX 1806
CONCORD, NH 03302-1806
603-271-5610 FAX: 603-271-5639
TDD Access: 1-800-735-2964

**William L. Wrenn
Commissioner**

**Doreen Wittenberg
Director**

April 18, 2016

Her Excellency, Governor Margaret Wood Hassan
and the Honorable Executive Council
State House
Concord, New Hampshire 03301

REQUESTED ACTION

Authorize the New Hampshire Department of Corrections to exercise a contract renewal option, Amendment # 1, with Androscoggin Valley Hospital, Inc. (VC # 177220), 59 Page Hill Road, Berlin, NH 03750 to increase the contract amount by \$1,198,000.00 from \$1,198,000.00 to \$2,396,000.00 for the provision of provide Inpatient & Outpatient Hospital/Medical Services for the Northern New Hampshire area for the NH Department of Corrections from July 1, 2016 through June 30, 2018 effective upon Governor and Executive Council approval. The original contract, Agreement 2014-55 was approved by Governor and Executive Council on June 18, 2014, Item # 55. 100% General Funds

Funds for this contract are available in account, Medical-Dental, as follows with the authority to adjust encumbrances in each of the State fiscal years through the Budget Office, if needed and justified. Funds for SFY 2018 are contingent upon the availability and continued appropriation of funds.

Original Contract, Agreement: Androscoggin Valley Hospital

Account	Description	SFY 2015-2016	SFY 2017	SFY 2018	Total
02-46-46-465010-8234-101-500729	Medical - Dental	1,198,000.00	-	-	1,198,000.00

Amendment Agreement # 1

Account	Description	SFY 2015-2016	SFY 2017	SFY 2018	Total
02-46-46-465010-8234-101-500729	Medical - Dental	-	599,000.00	599,000.00	1,198,000.00
Total Contract Amount		\$ 1,198,000.00	\$ 599,000.00	\$ 599,000.00	\$ 2,396,000.00

EXPLANATION

This contract is for the provision of Inpatient & Outpatient Hospital/Medical Services for inmates of the Northern New Hampshire area consisting of the Northern NH Correctional Facility (NCF), Berlin, NH.

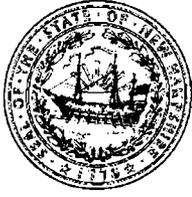
The New Hampshire Department of Corrections utilizes hospital services for short-term medical treatment for inmates having an acute illness or injury that is beyond the scope of primary care services provided by the current

medical staff within the prison facility. The hospital contract includes inpatient surgery, medical services and outpatient procedures such as ambulatory surgery, diagnostic and emergency services.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "William L. Wrenn", written over a horizontal line.

William L. Wrenn
Commissioner



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AMENDMENT AGREEMENT # 1

This amendment is between the State of New Hampshire, acting by and through the STATE OF NEW HAMPSHIRE, DEPARTMENT OF CORRECTIONS ("State" or "Department"), and ANDROSCOGGIN VALLEY HOSPITAL, INC. ("Contractor"), a New Hampshire Non-Profit Corporation with a place of business at 59 Page Hill Road, Berlin, NH 03570.

WHEREAS, the State and Contractor entered into an agreement with an effective date of June 18, 2014 for Inpatient & Outpatient Hospital/Medical Services, Agreement 2014-55 ("Agreement").

WHEREAS, the State and Contractor have agreed to make changes to the Completion Date, Price Limitation and Scope of Services of the Agreement; and

WHEREAS, the parties agree to increase the price limitation; and

WHEREAS, pursuant to Section 18 of the Agreement, the Agreement may be amended only by an instrument in writing signed by the parties and after approval of such amendment by the N.H. Governor and Executive Council.

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and conditions contained in the Agreement and set forth herein, the parties hereto agree as follows:

1. Form P-37, General Provisions, Block 1.7, Completion Date, to read: "June 30, 2018";
2. Form P-37, General Provisions, Block 1.8, Price Limitation, to read: "\$2,396,000.00" a total increase of \$1,198,000.00;
3. To amend the Scope of Services, Exhibit A, Section 16, Paragraph 16.6., page 26 of 32, by inserting: "Contractor must comply with the Prison Rape Elimination Act (PREA) of 2003 (Federal Law 42 U.S.C.15601 et. seq.), with all applicable Federal PREA standards, and with all State policies and standards related to PREA for preventing, detecting, monitoring, investigating, and eradicating any form of sexual abuse within facilities/programs/offices owned, operated, or contracted. Contractor acknowledges that, in addition to self-monitoring requirements, the State will conduct compliance monitoring of PREA standards which may require an outside independent audit."; and
4. That all other provisions of the Agreement shall remain in full force and effect.

THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.
SIGNATURE PAGE FOLLOWS.

SIGNATURE PAGE TO AMENDMENT AGREEMENT # 1 TO: Inpatient & Outpatient Hospital/Medical Services Agreement 2014-55.

STATE OF NEW HAMPSHIRE DEPARTMENT OF CORRECTIONS

By: William L. Wren
Name: William L. Wren
Title: Commissioner
Date: 4/20/16

ANDROSCOGGIN VALLEY HOSPITAL, INC.
By: Russell G. Keene
Name: Russell G. Keene
Title: Chief Executive Officer
Date: February 26, 2016

STATE OF New Hampshire

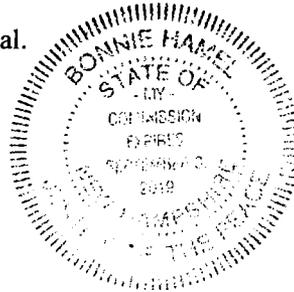
COUNTY OF Coos

On this 26th day of February 2016, before me, Bonnie Hamel, the undersigned officer, personally appeared Russell G. Keene, known to me (or satisfactorily proven) to be the person

whose name is signed above and acknowledged that he/she executed this document in the capacity indicated above.

In witness thereof, I hereto set my hand and official seal.

Bonnie Hamel
Notary Public/Justice of the Peace



My Commission Expires: September 3, 2019

J. Cusack
Approval by N.H. Attorney General
(Form, Substance and Execution)

4/21/16
Date

Approved by the N.H. Governor and Executive Council

Date

State of New Hampshire

Department of State

CERTIFICATE

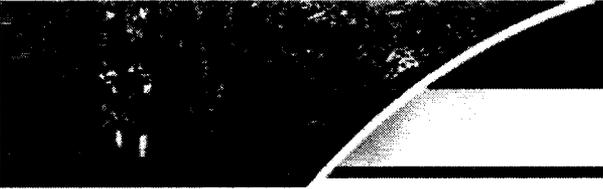
I, William M. Gardner, Secretary of State of the State of New Hampshire, do hereby certify that ANDROSCOGGIN VALLEY HOSPITAL, INC. is a New Hampshire corporation duly incorporated under the laws of the State of New Hampshire on November 28, 1969. I further certify that all fees and annual reports required by the Secretary of State's office have been received and that articles of dissolution have not been filed.



In TESTIMONY WHEREOF, I hereto set my hand and cause to be affixed the Seal of the State of New Hampshire, this 12th day of February, A.D. 2016

A handwritten signature in cursive script, appearing to read "William M. Gardner".

William M. Gardner
Secretary of State



NEW HAMPSHIRE Corporation Division

Search

By Business Name
 By Business ID
 By Registered Agent
 Annual Report
 File Online
 Guidelines
 Name Availability
 Name Appeal Process

Filed Documents

Date: 3/23/2016
 (Annual Report History, View Images, etc.)

Business Name History

Name	Name Type
ANDROSCOGGIN VALLEY HOSPITAL, INC.	Legal

Non-Profit Corporation - Domestic - Information

Business ID:	61184
Status:	Good Standing
Entity Creation Date:	11/28/1969
Principal Office Address:	59 PAGE HILL ROAD BERLIN NH 03570
Principal Mailing Address:	No Address
Expiration Date:	Perpetual
Last Annual Report Filed Date:	4/17/2015 11:21:57 AM
Last Annual Report Filed:	2015

Registered Agent

Agent Name:	
Office Address:	No Address
Mailing Address:	No Address

Important Note: The status reflected for each entity on this website only refers to the status of the entity's filing requirements with this office. It does not necessarily reflect the disciplinary status of the entity with any state agency. Requests for disciplinary information should be directed to agencies with licensing or other regulatory authority over the entity.

NEW HAMPSHIRE
Corporation Division

Search

Date: 4/14/2016

- By Business Name
- By Business ID
- By Registered Agent
- Annual Report
- File Online
- Guidelines
- Name Availability
- Name Appeal Process

Current Name: ANDROSCOGGIN VALLEY HOSPITAL, INC.

Image	Date	Document
 	11/28/1969	Creation Filing
	1/13/1976	Annual Fee
 	10/14/1976	Amend/Restate
 	4/19/1989	Amend/Restate
 	3/1/1990	Annual Report
 	4/3/1995	Annual Report
 	6/16/1999	Amend/Restate
 	5/16/2000	Annual Report
 	11/3/2005	Annual Report
 	5/19/2008	Amend/Restate
 	10/18/2010	Annual Report
	4/17/2015	Annual Report
 	3/31/2016	Amend/Restate

 **View the images on-line!! Netscape users, use the  button.**

Certificate of Authority # 1

(Corporation of LLC- Non-specific, open-ended)

Corporate Resolution

I, Rev Dr. Alta L. Chase, hereby certify that I am duly elected Clerk/Secretary of
(Name)

Androscoggin Valley Hospital, Inc. I hereby certify the following is a true copy of a
(Name of Corporation or LLC)

vote taken at a meeting of the Board of Directors/shareholders, duly called and held on February
(Month)

26, 20 16 at which a quorum of the Directors/shareholders were present and voting.
(Day) (Year)

VOTED: That Russell G. Keene Chief Executive Officer (may list
(Name) (Title)

more than one person) is duly authorized to enter in contracts or agreement on behalf of

Androscoggin Valley Hospital, Inc. with the State of New Hampshire
(Name of Corporation or LLC)

and any of its agencies or departments and further is authorized to execute any documents which may in his/her judgment be desirable or necessary to effect the purpose of this vote.

I hereby certify that said vote has not been amended or repealed and remains in full force and effect as of the date of the contract to which this certificate is attached. I further certify that it is understood that the State of New Hampshire will rely on this certificate as evidence that the person(s) listed above currently occupy the position(s) indicated and that they have full authority to bind the corporation. To the extent that there are any limits on the authority of any listed individual to bind the corporation in contracts with the State of New Hampshire, all such limitations are expressly stated herein.

DATED: 2/26/2016

ATTEST: Alta L. Chase
(Name and Title)

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

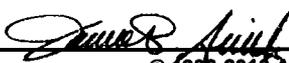
PRODUCER William Gallagher Associates 470 Atlantic Avenue Boston, MA 02210	CONTACT NAME:	
	PHONE (A/C, No, Ext):	FAX (A/C, No):
E-MAIL ADDRESS:		
INSURER(S) AFFORDING COVERAGE		NAIC #
INSURER A: Endurance American Specialty In	10641	
INSURED Androscoggin Valley Hospital NorthCare, Inc. 59 Page Hill Road Berlin, NH 03570	INSURER B:	
	INSURER C:	
	INSURER D:	
	INSURER E:	
	INSURER F:	

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL SUBR INSR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	GENERAL LIABILITY <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC		HCP10007805300	09/29/2015	09/29/2016	EACH OCCURRENCE \$1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$50,000 MED EXP (Any one person) \$5,000 PERSONAL & ADV INJURY \$1,000,000 GENERAL AGGREGATE \$3,000,000 PRODUCTS - COMP/OP AGG \$3,000,000 Retention \$10,000
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS					COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
A	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED <input checked="" type="checkbox"/> RETENTION \$10000		HCP10007805600	09/29/2015	09/29/2016	EACH OCCURRENCE \$10,000,000 AGGREGATE \$10,000,000 \$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N <input type="checkbox"/> N/A				<input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTH-ER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
A	Hospital Professional & Physicians Liab		HCP10007805300	09/29/2015	09/29/2016	\$1,000,000 \$3,000,000 Retention \$10,000 Claims Made Coverage

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER NH Department of Corrections 105 Pleasant Street Concord, NH 03302	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE 
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STATE OF NEW HAMPSHIRE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF OPERATIONS SUPPORT
HEALTH FACILITIES ADMINISTRATION
129 PLEASANT STREET, CONCORD, NH 03301
ANNUAL LICENSE CERTIFICATE

Under provisions of New Hampshire Revised Statutes Annotated Chapter RSA 151, this annual license certificate is issued to:

Name: ANDROSCOGGIN VALLEY HOSPITAL

Located at: 59 PAGE HILL RD
BERLIN NH 03570

To Operate: Hospital

This annual license certificate is effective under the conditions and for the period stated below:

License#: This document has been redacted

Effective Date: 04/01/2016

Expiration Date: 03/31/2017

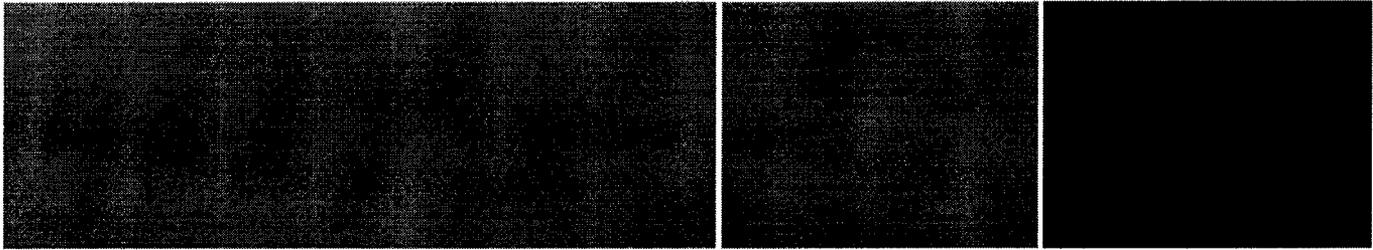
Administrator: RUSSELL KEENE

Medical Director: KEITH M SHUTE MD

Number of Beds: 25

A handwritten signature in black ink, appearing to read "Mary P. Castellan".

Senior Division Director



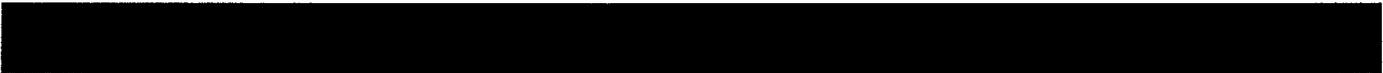
Androscoggin Valley
HOSPITAL

FINANCIAL STATEMENTS

December 31, 2015 and 2014

With Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Androscoggin Valley Hospital, Inc.

We have audited the accompanying financial statements of Androscoggin Valley Hospital, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of Androscoggin Valley Hospital, Inc. as of December 31, 2015 and 2014, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Portland, Maine
REPORT DATE

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Balance Sheets

December 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 2,627,622	\$ 3,622,272
Patient accounts receivable, less estimated uncollectibles and contractual allowances (2015 - \$7,328,980; 2014 - \$6,920,429)	7,563,464	6,000,346
Other accounts receivable	1,873,270	1,849,177
Supplies	601,341	340,088
Prepaid expenses and other current assets	<u>1,058,863</u>	<u>1,081,380</u>
Total current assets	13,724,560	12,893,263
Assets limited as to use	22,110,634	22,351,432
Property and equipment, net	15,343,402	15,823,401
Other assets		
Advances to affiliates	754,897	754,897
Deferred compensation investments	<u>3,550,289</u>	<u>3,492,912</u>
Total other assets	<u>4,305,186</u>	<u>4,247,809</u>
Total assets	<u>\$ 55,483,782</u>	<u>\$ 55,315,905</u>

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The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
Current liabilities		
Current portion of long-term debt	\$ 1,027,862	\$ 1,284,234
Accounts payable and accrued expenses	3,508,416	2,930,385
Accrued salaries and related amounts	2,468,167	2,331,050
Estimated third-party payor settlements	<u>2,893,433</u>	<u>2,288,155</u>
Total current liabilities	9,897,878	8,833,824
Estimated third-party payor settlements	6,383,000	6,707,578
Long-term debt, excluding current portion	9,787,181	10,818,535
Pension liability	11,730,377	11,568,002
Deferred compensation	<u>3,550,289</u>	<u>3,492,912</u>
Total liabilities	41,348,725	41,420,851
Unrestricted net assets	<u>14,135,057</u>	<u>13,895,054</u>
Total liabilities and net assets	<u>\$ 55,483,782</u>	<u>\$ 55,315,905</u>

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ANDROSCOGGIN VALLEY HOSPITAL, INC.

Statements of Operations and Changes in Net Assets

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted revenues and gains		
Patient service revenue (net of contractual allowances and discounts)	\$ 53,664,311	\$ 52,102,250
Less provision for bad debts	<u>2,051,915</u>	<u>2,504,772</u>
Net patient service revenue	51,612,396	49,597,478
Other revenues	<u>3,364,009</u>	<u>3,632,868</u>
Total unrestricted revenues and gains	<u>54,976,405</u>	<u>53,230,346</u>
Expenses		
Salaries, wages, and fringe benefits	28,526,227	28,420,850
Supplies and other expenses	19,572,432	17,560,639
Medicaid enhancement tax	2,061,711	2,800,091
Insurance	361,018	569,495
Depreciation and amortization	2,436,383	2,237,304
Interest expense	<u>384,229</u>	<u>429,234</u>
Total expenses	<u>53,342,000</u>	<u>52,017,613</u>
Operating income before periodic pension expense	1,634,405	1,212,733
Net periodic pension expense	<u>1,623,365</u>	<u>710,570</u>
Operating income	<u>11,040</u>	<u>502,163</u>
Nonoperating gains (losses)		
Investment income	514,843	226,856
Contributions and program support, net	(10,116)	26,716
Community benefit grant	<u>(652,652)</u>	<u>(655,000)</u>
Nonoperating losses, net	<u>(147,925)</u>	<u>(401,428)</u>
(Deficiency) excess of revenues and gains over expenses and losses	(136,885)	100,735
Net unrealized (losses) gains on investments	(1,084,102)	54,226
Change in net assets to recognize funded status of pension plan	<u>1,460,990</u>	<u>(4,618,411)</u>
Increase (decrease) in unrestricted net assets	240,003	(4,463,450)
Unrestricted net assets, beginning of year	<u>13,895,054</u>	<u>18,358,504</u>
Unrestricted net assets, end of year	\$ <u>14,135,057</u>	\$ <u>13,895,054</u>

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The accompanying notes are an integral part of these financial statements.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 240,003	\$ (4,463,450)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	2,436,383	2,237,304
Loss on disposal of property and equipment	7,922	7,010
Net realized and unrealized losses (gains) on investments	519,712	(290,247)
Provision for bad debts	2,051,915	2,504,772
Change in net assets to recognize funded status of pension plan	(1,460,990)	4,618,411
(Increase) decrease in		
Patient accounts receivable	(3,615,033)	(1,374,582)
Other accounts receivable	(24,093)	(1,348,271)
Supplies	(261,253)	20,470
Prepaid expenses and other current assets	22,517	1,547,127
Increase (decrease) in		
Accounts payable and accrued expenses	578,031	(327,313)
Accrued salaries and related amounts	137,117	(41,962)
Estimated third-party payor settlements	280,700	(1,134,389)
Pension liability	1,623,365	(489,430)
Net cash provided by operating activities	<u>2,536,296</u>	<u>1,465,450</u>
Cash flows from investing activities		
Proceeds from sale of investments	5,778,942	3,181,925
Purchases of investments	(6,057,856)	(4,077,617)
Purchases of property and equipment	(1,951,766)	(2,871,996)
Decrease in advances to affiliate	-	435,090
Net cash used by investing activities	<u>(2,230,680)</u>	<u>(3,332,598)</u>
Cash flows from financing activities		
Payments on long-term debt	<u>(1,300,266)</u>	<u>(1,347,584)</u>
Net cash used by financing activities	<u>(1,300,266)</u>	<u>(1,347,584)</u>
Net decrease in cash and cash equivalents	(994,650)	(3,214,732)
Cash and cash equivalents, beginning of year	<u>3,622,272</u>	<u>6,837,004</u>
Cash and cash equivalents, end of year	\$ <u>2,627,622</u>	\$ <u>3,622,272</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ <u>384,229</u>	\$ <u>429,234</u>

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The accompanying notes are an integral part of these financial statements.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Nature of Business

Androscoggin Valley Hospital, Inc. (Hospital) is a non-profit critical access hospital which provides inpatient, outpatient, emergency care, ambulatory care, and specialty care services to residents of Berlin, New Hampshire and the surrounding communities. The Hospital is controlled by NorthCare (NCR), a non-profit entity organized under New Hampshire law to serve as a holding company. NCR is the sole member of the Hospital. Related parties, Mountain Health Services, Inc. (MHS) and Androscoggin Valley Hospital Foundation (AVHF), are also controlled by NCR. MHS has become an inactive entity.

The Hospital, along with Upper Connecticut Valley Hospital (UCVH) and Weeks Medical Center (Weeks), has formed Northern New Hampshire Healthcare Management, LLC (NNHHM). NNHHM is a New Hampshire limited liability company located in Berlin, New Hampshire with the purpose to promote effective, efficient and rational expenditure of resources in order to preserve and enhance future access to critical, primary, and preventive health care services within the respective communities served in Northern New Hampshire. Collaborative initiatives may include management agreements, joint ventures, purchasing arrangement and innovative healthcare delivery platforms. Membership interests will be allocated equally. During 2013, home health services of the Hospital and UCVH were transferred to and performed by Weeks. Effective January 1, 2014, home health services were transferred to the operating company affiliated with NNHHM.

On June 30, 2015 the Hospital along with three other hospitals in the North Country, Littleton Regional Hospital, UCVH, and Weeks, signed an Affiliation Agreement. The Boards of each of the hospitals approved the affiliation documents which consist of an Affiliation Agreement, Management Services Agreement, and proposed Bylaw changes. The application to the New Hampshire Attorney General's office and Charitable Trust Unit was approved in December 2015. The hospitals expect to proceed to closing and formation of the new parent organization, North Country Healthcare, in 2016. North Country Healthcare is being established to coordinate activities of the four hospitals and home health operating company. The Affiliation Agreement and related documents provide that North Country Healthcare will become the new parent of the Hospital, and NCR, MHS and AVHF will become subsidiaries of the Hospital.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments which have a maturity of three months or less when purchased and exclude amounts limited as to use by Board designation.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Data for each major payor source is regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. For receivables relating to self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts in the period of service based on past experience, which indicates that many patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2015, the Hospital decreased its estimate from \$2,018,796 to \$1,627,009 in the allowance for doubtful accounts relating to self-pay patients and during 2014 the Hospital decreased its estimate from \$2,151,353 to \$2,018,796. During 2015 and 2014, self-pay write-offs were \$1,793,853 and \$2,634,083, respectively. These changes resulted from trends experienced in the collection of amounts from self-pay patients.

Investments and Investment Income

Investments are reported as assets limited as to use and deferred compensation investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenues and gains over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and temporary unrealized losses on investments are excluded from this measure.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets and statements of operations and changes in net assets.

Assets Limited as to Use

Assets limited as to use include designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and which it may at its discretion subsequently use for other purposes.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Supplies

Supplies are carried at the lower of cost (determined by the first-in, first-out method) or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if contributed, at fair market value determined at the date of donation, less accumulated depreciation. The Hospital's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets. The provision for depreciation has been computed using the straight-line method at rates which are intended to amortize the cost of assets over their estimated useful lives.

Bond Issuance Costs

The costs incurred to obtain long-term financing are being amortized by the straight-line method over the repayment period of the related debt. The costs are included in long-term debt in the balance sheet.

Employee Fringe Benefits

The Hospital has an "earned time" plan which provides benefits to employees for paid leave hours. Under this plan, each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays, or illnesses. Hours earned, but not used, are vested with the employee. The Hospital accrues a liability for such paid leave as it is earned. The earned time plan does not cover the physicians.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital pays a health care provider tax of 5.5% on certain net patient service revenue, which is reported as Medicaid enhancement tax in the statement of operations and changes in net assets.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The cost of charity care provided was approximately \$401,000 in 2015 and \$1,220,000 in 2014. The cost is estimated by applying the ratio of total cost to total charges to the charges associated with providing such care. The decrease in charity care cost is attributed to patients obtaining health insurance through health insurance exchanges and changes in eligibility requirements.

Operating Income

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported in operating income. Gain or (loss) on disposal of property and equipment and investment income used to fund interest expense and other operating expenses are also included in operating income. Peripheral or incidental transactions are reported as nonoperating gains (losses), which primarily include certain investment income (loss), contributions and program support, and community benefit grants.

Excess (Deficiency) of Revenues and Gains Over Expenses and Losses

The statements of operations and changes in net assets include excess (deficiency) of revenues and gains over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include unrealized gains and temporary unrealized losses on investments other than trading securities, and the change in net assets to recognize the funded status of the pension plan.

Income Taxes

The Hospital is a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes.

Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 48,369,521	\$ 45,873,519
General and administrative	<u>6,595,844</u>	<u>6,854,664</u>
	<u>\$ 54,965,365</u>	<u>\$ 52,728,183</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Recently Adopted Accounting Pronouncement

Effective in 2015, the Hospital retrospectively adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate NAV per Share (or its Equivalent)* (ASU 2015-07). Among other things, ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at net asset value (NAV) as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the balance sheet. The adoption resulted only in changes to the Hospital's investment disclosures. As a result of the adoption, the December 31, 2014 fair value hierarchy table was restated to reflect the removal of NAV-measured investments aggregating \$1,846,906 in Level 2 and \$2,071,138 in Level 3 assets, and \$941,444 of investments held by the defined benefit pension plan previously disclosed as Level 3.

Reclassifications

Long-term estimated third-party payor settlements have been reclassified to noncurrent liabilities in the 2014 financial statements to conform with the current year's presentation. Resolution of outstanding issues related to disproportionate share payment audits and Medicare provider tax expense allowability is not expected by December 31, 2016.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. generally accepted accounting principles, management has considered transactions or events occurring through REPORT DATE, which was the date the financial statements were issued.

Pension Plan Settlement and Debt Issuance Placeholder

2. Assets Limited as to Use

The composition of assets limited as to use as of December 31 was as follows:

	<u>2015</u>	<u>2014</u>
Cash and short-term investments	\$ 3,882,720	\$ 3,834,186
U.S. Treasury securities and other government-sponsored enterprises	259,445	262,965
Corporate bonds	4,133,171	4,294,404
Exchange traded funds	3,707,543	3,644,694
Marketable equity securities	-	1,583,105
Mutual funds	6,281,804	4,814,034
Alternative investments	<u>3,845,951</u>	<u>3,918,044</u>
	<u>\$ 22,110,634</u>	<u>\$ 22,351,432</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

The following table sets forth a summary of the fair value of the Hospital's alternative investments at December 31, 2015 and 2014, using a reported net asset value per share:

<u>Investment</u>	<u>2015</u>	<u>2014</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Other Redemption Restrictions</u>
The Ivory Offshore Flagship Fund	\$ 1,759,371	\$ 1,846,906	Quarterly	45 days	If the Hospital withdraws all of its investment balance in the Fund, there is a 5% withhold until the Fund completes its annual audit, at which time the remaining 5% is distributed to the Hospital
The Ironwood Institutional Fund	<u>2,086,580</u>	<u>2,071,138</u>	Semi-annual	95 days	In the event the Hospital withdraws all of its investment balance in the Fund, there is a 5% withhold until the Fund completes its annual audit, at which time the remaining 5% is distributed to the Hospital
	<u>\$ 3,845,951</u>	<u>\$ 3,918,044</u>			

There are no capital commitments outstanding at December 31, 2015.

Investment income and gains (losses) for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Income (loss)		
Interest and dividend income	\$ 385,461	\$ 502,704
Realized gains on sales of securities	564,390	236,021
Management fees	<u>(72,898)</u>	<u>(83,005)</u>
	<u>\$ 876,953</u>	<u>\$ 655,720</u>
Other changes in unrestricted net assets		
Change in net unrealized (losses) gains	<u>\$ (1,084,102)</u>	<u>\$ 54,226</u>

Income on investments is reported as follows:

	<u>2015</u>	<u>2014</u>
Other revenues	\$ 362,110	\$ 428,864
Nonoperating gains	<u>514,843</u>	<u>226,856</u>
	<u>\$ 876,953</u>	<u>\$ 655,720</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Total gross unrealized losses, all of which were sustained for less than twelve months, were approximately \$173,000 on investments held at December 31, 2015. In the opinion of management, no individual unrealized loss as of December 31, 2015 represents an other-than-temporary impairment. The Hospital has both the intent and the ability to hold these securities for the time necessary to recover their cost.

3. Property and Equipment

The major categories of property and equipment, at cost, are as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 77,592	\$ 77,592
Land improvements	1,294,799	1,266,299
Buildings and fixtures	21,976,376	21,911,437
Fixed equipment	7,699,758	7,643,653
Major moveable equipment	<u>16,558,216</u>	<u>15,315,659</u>
	47,606,741	46,214,640
Less accumulated depreciation	<u>32,618,026</u>	<u>30,949,717</u>
	14,988,715	15,264,923
Construction in progress	<u>354,687</u>	<u>558,478</u>
	<u>\$15,343,402</u>	<u>\$ 15,823,401</u>

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4. Long-Term Debt

Long-term debt consists of the following as of December 31:

	<u>2015</u>	<u>2014</u>
New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue Bonds, Androscoggin Valley Hospital Issue, Series 2012 (including \$77,318 and \$89,858 of unamortized bond issuance costs in 2015 and 2014, respectively). Term bonds, \$2,000,000 and \$12,500,000 maturing on April 1, 2019 and 2027, respectively, payable in equal monthly installments of \$26,428 and \$88,530, including interest at 2.951% and 3.312%, respectively.	\$ 10,815,043	\$ 11,814,509
Loan payable in monthly installments of \$31,354, including interest, paid in full in 2015.	<u>-</u>	<u>288,260</u>
	10,815,043	12,102,769
Less current portion	<u>1,027,862</u>	<u>1,284,234</u>
Long-term debt, excluding current portion	<u>\$ 9,787,181</u>	<u>\$ 10,818,535</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

The NHHEFA Revenue Bonds (Androscoggin Valley Hospital Issue, Series 2012) in the amount of \$14,500,000 were issued in March 2012 for the purpose of refinancing existing indebtedness and terminating the Hospital's interest rate swap contract. The Revenue Bonds consist of two term bonds in the amounts of \$2,000,000 and \$12,500,000. The terms of the bonds are seven years and ten years (with a five-year renewal option), respectively. A negative-negative pledge agreement was provided as security.

The Series 2012 Revenue Bond Agreement contains various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at December 31, 2015.

Scheduled principal repayments on long-term debt are as follows:

Year ending December 31.

2016 (included in current liabilities)	\$ 1,027,862
2017	1,062,829
2018	1,097,944
2019	881,018
2020	843,069
Thereafter	<u>5,902,321</u>
	<u>\$ 10,815,043</u>

5. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital was granted Critical Access Hospital (CAH) status. Under CAH, the Hospital is reimbursed 101% of allowable costs for its inpatient, outpatient, and swing-bed services provided to Medicare beneficiaries.

The Hospital is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2011.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through December 31, 2011.

Anthem Blue Cross

Inpatient and outpatient services rendered to Anthem Blue Cross subscribers are reimbursed at submitted charges less a negotiated discount. Radiology and laboratory services are being reimbursed based on a fee schedule. The amounts paid to the Hospital are not subject to any retroactive adjustments.

Revenues from Medicare and Medicaid programs accounted for approximately 53% and 15%, respectively, of the Hospital's patient revenue for the year ended 2015, and 51% and 14%, respectively, of the Hospital's patient revenue for the year ended 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In 2015 and 2014, net patient service revenue increased by approximately \$1,798,000 and \$576,000, respectively, due to favorable settlements and changes in prior year estimated third party settlements.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal years ended December 31, 2015 and 2014 totaled \$53,664,311 and \$52,102,250, respectively, of which \$52,203,913 and \$48,375,229, respectively, were revenues from third-party payors and \$1,460,398 and \$3,727,021, respectively, were revenues from self-pay patients.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Gross patient service revenue, contractual allowances, and other allowances consisted of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Patient services		
Inpatient	\$ 20,193,900	\$ 19,246,447
Outpatient	53,539,923	52,927,150
Physician services	11,522,402	11,243,219
Home health	<u>-</u>	<u>3,667</u>
Gross patient service revenue	85,256,225	83,420,483
Less Medicare and Medicaid allowances	21,650,510	20,047,569
Less other contractual allowances	9,311,978	9,339,843
Less charity care allowances	<u>629,426</u>	<u>1,930,821</u>
Patient service revenue (net of contractual allowances and discounts)	53,664,311	52,102,250
Less provision for bad debts	<u>2,051,915</u>	<u>2,504,772</u>
Net patient service revenue	<u>\$ 51,612,396</u>	<u>\$ 49,597,478</u>

Under the State of New Hampshire's Medicaid program, the Hospital recognizes disproportionate share payment revenue which amounted to \$2,997,268 and \$3,300,091 for 2015 and 2014, respectively, and is recorded in net patient service revenue. Because the methodologies used to determine disproportionate share payments remain unsettled, the Hospital has reserved for a portion of these amounts.

6. Pension Plan and Other Deferred Compensation

The Hospital has a non-contributory defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during employment. The Hospital's funding policy is to contribute the amount recommended by the Hospital's actuary to fulfill Employee Retirement Income Security Act requirements. Contributions are intended to provide not only for benefits attributed to service to date, but also those expected to be earned in the future. Effective December 31, 2006, the Hospital froze the defined benefit pension plan and established a defined contribution plan for all eligible employees. As of December 31, 2014, the Hospital Board of Directors voted to terminate the defined benefit pension plan. Actual settlement of the plan occurred in XXXX 2016 (see Note 1, Subsequent Events). Changes in the funded status of the plan and any previously unrecognized actuarial losses would be reflected in the excess (deficiency) of revenues and gains over expenses and losses in the statement of operations and changes in net assets upon settlement.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

The following table sets forth the funded status of the defined benefit plan and amounts recognized in the Hospital's financial statements as of and for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 26,358,580	\$ 21,582,269
Interest cost	995,755	1,003,370
Actuarial (gain) loss	(876,329)	4,583,388
Benefits paid	<u>(1,807,849)</u>	<u>(810,447)</u>
Benefit obligation at end of year	\$ <u>24,670,157</u>	\$ <u>26,358,580</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 14,790,578	\$ 14,143,248
Actual (loss) return on plan assets	(42,949)	319,020
Employer contribution	-	1,200,000
Benefits paid	(1,807,849)	(810,447)
Administrative expenses	<u>-</u>	<u>(61,243)</u>
Fair value of plan assets at end of year	\$ <u>12,939,780</u>	\$ <u>14,790,578</u>
Funded status		
Benefit obligation	\$ (24,670,157)	\$ (26,358,580)
Fair value of plan assets	<u>12,939,780</u>	<u>14,790,578</u>
	\$ <u>(11,730,377)</u>	\$ <u>(11,568,002)</u>
Components of net periodic benefit cost		
Interest cost	\$ 995,755	\$ 1,003,370
Expected return on plan assets	(573,144)	(1,038,516)
Amortization of unrecognized net actuarial loss	<u>1,200,754</u>	<u>745,716</u>
Net periodic benefit cost	\$ <u>1,623,365</u>	\$ <u>710,570</u>
Accumulated benefit obligation	\$ <u>(24,670,157)</u>	\$ <u>(26,358,580)</u>

Amounts recognized in the statement of operations, but excluded from the excess (deficiency) of revenues and gains over expenses and losses, are as follows:

	<u>2015</u>	<u>2014</u>
Net gain (loss)	\$ 260,236	\$ (5,364,127)
Reclassification to net periodic benefit cost	<u>1,200,754</u>	<u>745,716</u>
	\$ <u>1,460,990</u>	\$ <u>(4,618,411)</u>

Included in unrestricted net assets at December 31, 2015 and 2014 are unrecognized actuarial losses of \$12,380,557 and \$13,841,547, respectively, which have not been recognized in net periodic pension cost. The amount expected to be recognized in 2016 is the full amount of the losses or \$1,069,422 if the pension plan does not settle in 2016.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Assumptions

The assumptions used in the measurement of the Hospital's benefit obligation are shown in the following table:

	<u>2015</u>	<u>2014</u>
Weighted average assumptions at December 31:		
Discount rate		
For determining net periodic benefit cost	3.82 %	4.71 %
For determining benefit obligation	3.82	3.82
Expected return on plan assets	4.00	7.50

To achieve the expected long-term rate of return on plan assets assumption, the Hospital developed a plan investment policy to maximize the safety of the funds, provide adequate liquidity, and maximize return on funds invested. Assets may be allocated in accordance with the plan investment policy as follows:

Equity investments, limited to companies listed on the major stock exchanges	0-65%
Fixed income investments, including cash equivalents with maturity dates under one year, short-term and intermediate funds, and specified insurance contracts	35-100%

Based on a current year actuarial schedule, the Hospital sets a percentage of the total assets to be invested in highly-liquid, short-term investments for that year. The decrease in the expected return assumption from 7.5% to 4.0% reflects the shift in investments from equities to annuity contracts.

Plan Assets

The Plan's primary investment objective is to ensure that contributions, assets, and returns from investments shall be sufficient to meet the Plan's obligations, without undue exposure to risk. Plan management directs its investment managers to maintain well-diversified portfolios. Fixed income portfolios are to be diversified by maturity, quality, sector, and industry in a manner comparable to the benchmark index (Lehman Intermediate Government/Credit Index).

Investment returns are to be measured using quarterly and annual investment performance reviews. The reviews will include measurement of return and comparison of return to appropriate indices, as well as risk and diversification analyses as compared to index values.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

The Hospital's pension plan weighted-average asset allocations at December 31, 2015 and 2014, by asset category, are as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	3 %	4 %
Mutual funds	3	42
Fixed income	39	48
Annuity contracts	54	-
Alternative investments	<u>1</u>	<u>6</u>
Total	<u>100 %</u>	<u>100 %</u>

Contributions

Since the Hospital is planning to settle the defined benefit plan in 2016, an annual contribution is not expected nor required during 2016. However, the settlement of the plan would require a contribution by the Hospital estimated to be the balance of the funded status. The contribution amount is expected to be borrowed from a bank and approximately 48% of the amount would be recovered through Medicare cost-based reimbursement.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid over the next ten years:

2016	\$ 993,000
2017	1,019,000
2018	1,020,000
2019	1,042,000
2020	1,061,000
Years 2021-2025	6,573,000

Additional Benefit Plans

The Hospital established a contributory defined contribution plan available to substantially all employees. The Hospital's policy under the defined contribution plan is to fund its portion of amounts due under the plan on a current basis and to recognize expense as incurred. During 2015 and 2014, the Hospital contributed \$298,448 and \$299,541 to this plan, respectively.

The Hospital also maintains a nonqualified deferred compensation plan which was established for a select group of management or highly-compensated employees. The amounts contributed to the plan by the Hospital and employees are recognized as an asset and a corresponding liability in the financial statements.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

7. Related Party Transactions

Advances to affiliates as of December 31 consisted of:

	<u>2015</u>	<u>2014</u>
Due from NCR	\$ 526,081	\$ 526,081
Due from AVHF	196,228	196,228
Due from MHS	<u>32,588</u>	<u>32,588</u>
	<u>\$ 754,897</u>	<u>\$ 754,897</u>

8. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Medicare	33 %	30 %
Medicaid	16	22
Commercial insurance and other	24	23
Patients	10	15
Anthem Blue Cross	<u>17</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

The Hospital maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. Hospital management believes it is not exposed to any significant risk on cash and cash equivalents.

9. Commitments and Contingencies

Malpractice Loss Contingencies

The Hospital insures its medical malpractice risks on a claims-made basis under a policy which covers all employees of the Hospital. A claims-made policy provides specified coverage for claims reported during the policy term. The policy contains a provision which allows the Hospital to purchase "tail" coverage for an indefinite period of time to avoid any lapse in insurance coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of doing business. U.S. generally accepted accounting principles require the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. The Hospital has evaluated its exposure to losses arising from potential claims and determined that no such accrual is necessary as of December 31, 2015 and 2014. The Hospital intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Asset Retirement Obligation

FASB Accounting Standards Codification Topic (ASC) 410, *Asset Retirement and Environmental Obligations*, requires entities to record asset retirement obligations at fair value if they can be reasonably estimated. The State of New Hampshire requires special disposal procedures relating to building materials containing asbestos. The Hospital building contains some encapsulated asbestos, but a liability has not been recognized. This is because there are no current plans to renovate or dispose of the building that would require the removal of the asbestos; accordingly, the liability has an indeterminate settlement date and its fair value cannot be reasonably estimated.

Community Benefit Grant

The Hospital and Coos County Family Health Services (CCFHS) have entered into an agreement whereby the Hospital will provide funding in the form of a community benefit grant to CCFHS for the purpose of supporting a portion of the otherwise uncompensated costs incurred by CCFHS in providing physician services. The terms of the agreement require that the Hospital provide CCFHS with the agreed-upon community benefit grant funds on July 1 of the appropriate grant year. The amount of the community benefit grant to be awarded is determined on an annual basis in accordance with the terms of the agreement. The initial term of the community benefit grant agreement expires December 31, 2023. Grant expense of \$652,652 and \$655,000 was incurred in 2015 and 2014, respectively.

In February 2009, the community benefit grant was renegotiated to the following payment schedule, contingent upon CCFHS achieving certain annual encounter levels:

<u>On July 1</u>	<u>Not to Exceed</u>
2011 - 2022	\$ 700,000
2023	350,000

10. Meaningful Use Revenue

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" of certified EHR technology. The Medicare criteria for meaningful use will be in three stages, and eligible hospitals and professionals must attest to meeting the criteria at required time frames. The meaningful use attestation is subject to audit by the Centers of Medicare and Medicaid Services in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation, and could result in return of a portion or all of the incentive payments received by the Hospital. Management has determined that no allowance is needed against meaningful use revenues earned through December 31, 2015.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

The Medicaid program will provide incentive payments to hospitals and eligible professionals as they adopt, and implement, upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years. There will be no payment adjustments under the Medicaid EHR incentive program.

During 2015 and 2014, the Hospital recorded meaningful use revenues of \$71,666 and \$355,668, respectively, from Medicare and Medicaid EHR programs.

11. Fair Value Measurement

FASB ASC 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

Assets and liabilities measured at fair value on a recurring basis, and reconciliations to related amounts reported in the balance sheet, are summarized below.

	Total	Fair Value Measurements at December 31, 2015, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 3,882,720	\$ 3,882,720	\$ -	\$ -
U.S. Treasury securities and other government-sponsored enterprises	259,445	259,445	-	-
Corporate bonds	4,133,171	-	4,133,171	-
Exchange traded funds	3,707,543	3,707,543	-	-
Mutual funds:				
Value funds	365,210	365,210	-	-
Balanced funds	870,495	870,495	-	-
Bond funds	1,787,948	1,787,948	-	-
Growth funds	1,672,181	1,672,181	-	-
Fixed income funds	542,339	542,339	-	-
International funds	1,043,631	1,043,631	-	-
Total mutual funds	<u>6,281,804</u>	<u>6,281,804</u>	-	-
Total assets limited as to use reported at fair value	18,264,683	\$ <u>14,131,512</u>	\$ <u>4,133,171</u>	\$ -
Investments measured at net asset value	<u>3,845,951</u>			
Total assets limited as to use	\$ <u>22,110,634</u>			
Investments to fund deferred compensation				
Mutual funds				
Balanced funds	\$ <u>3,550,289</u>	\$ <u>3,550,289</u>	\$ -	\$ -
Total mutual funds	\$ <u>3,550,289</u>	\$ <u>3,550,289</u>	\$ -	\$ -

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

	<u>Total</u>	Fair Value Measurements at December 31, 2015, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments - held by defined benefit pension plan (Note 6):				
Cash and cash equivalents	\$ 429,374	\$ 429,374	\$ -	\$ -
U.S. Treasury securities and other government- sponsored enterprises	4,549,089	4,549,089	-	-
Corporate bonds	510,823	-	510,823	-
Mutual funds:				
Bond funds	<u>409,897</u>	<u>409,897</u>	-	-
Total measured at fair value	5,899,183	\$ <u>5,388,360</u>	\$ <u>510,823</u>	\$ -
Investments measured at net asset value	48,290			
Annuity contracts measured at contract value	<u>6,992,307</u>	-	-	-
Total	\$ <u>12,939,780</u>			

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ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

	<u>Total</u>	Fair Value		
		<u>Measurements at December 31, 2014, Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 3,834,186	\$ 3,834,186	\$ -	\$ -
U.S. Treasury securities and other government- sponsored enterprises	262,965	262,965	-	-
Corporate bonds	4,294,404	-	4,294,404	-
Exchange traded funds	3,644,694	3,644,694	-	-
Marketable equity securities:				
Consumer discretionary	78,093	78,093	-	-
Consumer staples	135,049	135,049	-	-
Energy	120,155	120,155	-	-
Financials	256,169	256,169	-	-
Healthcare	106,833	106,833	-	-
Industrials	84,585	84,585	-	-
Information technology	143,890	143,890	-	-
Materials	23,133	23,133	-	-
Miscellaneous equity	448,837	448,837	-	-
Telecommunication services	124,510	124,510	-	-
Utilities	61,851	61,851	-	-
Total marketable equity securities	<u>1,583,105</u>	<u>1,583,105</u>	-	-
Mutual funds:				
Balanced funds	545,175	545,175	-	-
Bond funds	733,720	733,720	-	-
Growth funds	2,043,122	2,043,122	-	-
International funds	1,492,017	1,492,017	-	-
Total mutual funds	<u>4,814,034</u>	<u>4,814,034</u>	-	-
Total assets limited as to use measured at fair value	18,433,388	<u>\$ 14,138,984</u>	<u>\$ 4,294,404</u>	<u>\$ -</u>
Investments measured at net asset value	<u>3,918,044</u>			
Total assets limited as to use	<u>\$ 22,351,432</u>			
Investments to fund deferred compensation				
Mutual funds				
Value funds	\$ 1,210,513	\$ 1,210,513	\$ -	\$ -
Growth funds	941,779	941,779	-	-
Fixed income funds	992,495	992,495	-	-
International funds	348,125	348,125	-	-
Total mutual funds	<u>\$ 3,492,912</u>	<u>\$ 3,492,912</u>	<u>\$ -</u>	<u>\$ -</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2015 and 2014

	<u>Total</u>	Fair Value		
		<u>Measurements at December 31, 2014, Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments - held by defined benefit pension plan (Note 6):				
Cash and cash equivalents	\$ 569,175	\$ 569,175	\$ -	\$ -
U.S. Treasury securities and other government- sponsored enterprises	3,848,980	3,848,980	-	-
Corporate bonds	3,214,896	-	3,214,896	-
Mutual funds:				
Balanced funds	707,913	707,913	-	-
Bond funds	4,282,657	4,282,657	-	-
Insurance bond funds	607,226	607,226	-	-
Value fund	618,287	618,287	-	-
Total mutual funds	<u>6,216,083</u>	<u>6,216,083</u>	-	-
Total measured at fair value	13,849,134	<u>\$ 10,634,238</u>	<u>\$ 3,214,896</u>	<u>\$ -</u>
Investments measured at net asset value	<u>941,444</u>			
Total	<u>\$ 14,790,578</u>			

The fair value for Level 2 assets is primarily based on quoted market prices of comparable securities, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

PERSONAL AND CONFIDENTIAL

REPORT DATE

Mr. Michael Peterson, President
Androscoggin Valley Hospital, Inc.
59 Page Hill Road
Berlin, NH 03570-3542

Dear Mike:

We are enclosing twenty (20) copies each of the financial statements for Androscoggin Valley Hospital, Inc. and NorthCare as of December 31, 2015 and 2014.

If you require additional copies, please let us know. Thanks for everyone's work on the audit.

Sincerely,

Connie J. Ouellette

Enclosures

DRAFT

RM



STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
DIVISION OF ADMINISTRATION

William L. Wrenn
Commissioner

Bob Mullen
Director

P.O. BOX 1806
CONCORD, NH 03302-1806
603-271-5610 FAX: 603-271-5639
TDD Access: 1-800-735-2964

G & C

May 21, 2014

Pending _____

Her Excellency, Governor Margaret Wood Hassan
and the Honorable Executive Council
State House
Concord, New Hampshire 03301

Approved JUNE 18, 2014

Item # #55

REQUESTED ACTION

Authorize the New Hampshire Department of Corrections to enter into a contract with Androscoggin Valley Hospital, Inc. (VC # 177220), 59 Page Hill Road, Berlin, NH 03750 in the amount of \$1,198,000.00 to provide Inpatient & Outpatient Hospital/Medical Services for the Northern New Hampshire area for the NH Department of Corrections from July 1, 2014 through June 30, 2016 effective upon Governor and Executive Council approval with the option to renew for one (1) additional period of up to two (2) year(s). 100% General Funds

Funds for this contract are available in account, Medical-Dental, as follows with the authority to adjust encumbrances in each of the State fiscal years through the Budget Office, if needed and justified. Funds for SFY 2016 are contingent upon the availability and continued appropriation of funds.

Androscoggin Valley Hospital, Inc.			
Account	Description	SFY 2015	SFY 2016
02-46-46-465010-8234-101-500729	Medical and Dental	599,000.00	599,000.00
Total Contract Amount:			\$ 1,198,000.00

EXPLANATION

This contract is for the provision of Inpatient & Outpatient Hospital/Medical Services for inmates of the Northern New Hampshire area consisting of the Northern NH Correctional Facility (NCF), Berlin, NH.

The New Hampshire Department of Corrections utilizes hospital services for short-term medical treatment for inmates having an acute illness or injury that is beyond the scope of primary care services provided by the current medical staff within the prison facility. The hospital contract includes inpatient surgery, medical services and outpatient procedures such as ambulatory surgery, diagnostic and emergency services.

The RFP was posted on the New Hampshire Department of Corrections website: <http://www.nh.gov.nhdoc/business/rfp.html> for seven (7) consecutive weeks and notified five (5) potential vendors of the RFP posting. As a result of the issuance of the RFP, one (1) potential vendor responded by submitting their proposal for the Northern New Hampshire area.

This RFP was scored utilizing a consensus methodology by a four (4) person evaluation committee for the purposes of preserving the privacy of the evaluators. The evaluation committee consisted of New Hampshire Department of Corrections employees: Helen Hanks, MM, Division Director, Medical/Forensic Services; Ransey Hill, Division Deputy Director, Medical/Forensic Services; Joyce Leeka, Operations Administrator, Medical/Forensic Services and Jennifer Lind, Contract/Grant Administrator, Administration.

Respectfully Submitted,



William L. Wrenn
Commissioner



**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
DIVISION OF ADMINISTRATION**

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**William L. Wrenn
Commissioner**

**Bob Mullen
Director**

**Inpatient and Outpatient Hospital/Medical Services
RFP Bid Evaluation and Summary
NHDOC 14-10-GFMED**

Proposal Receipt and Review:

- Proposals will be reviewed to initially determine if minimum submission requirements have been met. The review will verify that the proposal was received before the date and time specified, with the correct number of copies, the presence of all required signatures, and that the proposal is sufficiently responsive to the needs outlined in the RFP to permit a complete evaluation. Failure to meet minimum submission requirements will result in the proposal being rejected and not included in the evaluation process.
- The Department will select a group of personnel to act as an evaluation team. Upon receipt, the proposal information will be disclosed to the evaluation committee members only. The proposal will not be publicly opened.
- The Department reserves the right to waive any irregularities, minor deficiencies and informalities that it considers not material to the proposal.
- The Department may cancel the procurement and make no award, if that is determined to be in the State's best interest.

Proposal Evaluation Criteria:

- Proposals will be evaluated based upon the proven ability of the respondent to satisfy the requirements of this request in the most cost-effective manner. Specific criteria are:
 - a. Total Estimated Cost – 720 points
 - b. Claims Processing – 30 points
 - d. Physician Services – 150 points
 - e. Other Services at Discounted Rate – 50 points
 - f. Ability to Provide Services/Financial Stability – 40 points
 - g. No Other Costs by Vendor – 10 points
- Awards will be made to the responsive Vendor(s) whose proposals are deemed to be the most advantageous to the State, taking into consideration all evaluation factors in section 33 of NHDOC 14-10-GFMED RFP.
 - a. The contract will be awarded to the Bidder submitting the lowest total cost to the State based upon the New Hampshire Department of Corrections estimated volume as long as the Vendor's Claims Processing, Physician Services, Other Services at Discounted Rate, Ability to Provide Services/Financial Stability and No Other Costs by Vendor are acceptable to the Department.

Evaluation Team Members:

- a. Helen Hanks, Division Director, Medical/Forensic Services, NH Department of Corrections
- b. Ransey Hill, Division Deputy Director, Medical/Forensic Services, NH Department of Corrections
- c. Joyce Leeka, Operations Administrator, Medical/Forensic Services, NH Department of Corrections
- d. Jennifer Lind, Contract/Grant Administrator, Administration, NH Department of Corrections

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**STATE OF NEW HAMPSHIRE
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DIVISION OF ADMINISTRATION**

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Commissioner**

**Bob Mullen
Director**

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**Inpatient and Outpatient Hospital/Medical Services
RFP Scoring Matrix
NHDOC 14-10-GFMED**

Northern Area

Respondents:

- Androscoggin Valley Hospital, Inc.
59 Page Hill Road, Berlin, NH 03570

Scoring Matrix Criteria:

- Proposals were evaluated based on the proven ability of the respondents to satisfy the provisions set forth in the Scope of Services in the most cost-effective manner.
 1. Total Estimated Cost – 720 points
 2. Claims Processing – 30 points
 3. Physician Services – 150 points
 4. Other Services at Discounted Rate – 50 points
 5. Ability to Provide Services/Financial Stability – 40 points
 6. No Other Costs by Vendor – 10 points

<i>Evaluation Criteria</i>	<i>RFP Weight Point Value</i>	<i>Androscoggin Valley Hospital, Inc.</i>
Total Estimated Cost	720	720
Claims Processing	30	20
Physician Services	150	150
Other Services at Discounted Rate	50	50
Ability to Provide Services/Financial Stability	40	40
No Other Costs by Vendor	10	10
Total	1000	990

Northern Area Contract Award:

- Androscoggin Valley Hospital, Inc. 59 Page Hill Road, Berlin, NH 03570

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William L. Wrenn
Commissioner
Bob Mullen
Director

**Inpatient and Outpatient Hospital/Medical Services
RFP Evaluation Committee Member Qualifications
NHDOC 14-10-GFMED**

Helen Hanks, MM, Division Director, Medical/Forensic Services:

Mrs. Hanks has served as the Director of the Medical & Forensic Services Division since 2011. Mrs. Hanks has made her career specific to the area of mental health and health care delivery since 1998 working with community mental health centers and Managed Behavioral Care organizations prior to her employment at the NH Department of Corrections. She has broad and specific knowledge of the correctional mental health system and behavioral health system, Laaman consent decree and Holliday Court Order, and the special needs of seriously mentally ill patients and inmates confined in the SPU, RTU and prison environments. Mrs. Hanks has a Bachelor of Science in Psychology from Plymouth State College with a Pre-Law minor and a Master of Management in Healthcare from Brandeis University.

Ransey R. Hill, Division Deputy Director, Medical/Forensic Services:

Mr. Hill recently joined the Medical & Forensic Services Division, to continue his career in the area of medical and social services. Between October 2008 and March 2014, Mr. Hill supported the NH Department of Corrections in the role of IT Manager III. Prior to this position, Mr. Hill has thirteen years of experience with the NH Department of Health and Human Services (DHHS) where he served as project administrator/director for key DHHS initiatives such as Electronic Benefits Transfers (EBT), and Community Passport, a nursing facility to community transition program for the Bureaus of Elderly and Adult Services, Behavioral Health and Developmental Services. He has a general knowledge of the correctional mental health system and behavioral health system, Laaman consent decree and Holliday Court Order, and the special needs of seriously mentally ill patients and inmates confined in the SPU, RTU and prison environments. Mr. Hill has a Bachelor of Science in Business Administration from NH Universities System's College for Life Long Learning (CLL).

Joyce Leeka, RHIA, Medical Operations Administrator, Medical/Forensic Services:

Ms. Leeka has served as the HIM Administrator since 1989. Ms. Leeka currently researches and drafts RFP's for the division with guidance from her supervisors. She has broad and specific knowledge of the correctional mental health system, Laaman and Holliday consent decrees, and the special needs of seriously mentally ill patients and inmates confined in the SPU, RTU and prison environments.

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Jennifer Lind, MBA, CMA, Contract/Grant Administrator, Administration:

Ms. Lind has served as the Contract/Grant Administrator since 2010. Ms. Lind is responsible for the development of the Department's request for proposals (RFPs), contracts and grants management. Ms. Lind's current responsibilities include all aspects of the RFP delivery from project management, data collection, drafting and cross function collaboration; procurement functions and management of the Department's medical, programmatic and maintenance contracts and provides managerial oversight to the Grant Division for the Department. Prior to Ms. Lind's promotion to the Contract/Grant Administrator, she held the Program Specialist IV, Contract Specialist position and the Grant Program Coordinator position of the Department. Prior to her employment with the Department, Ms. Lind held the position of Assistant Grants Administrator at the Community College System of New Hampshire for ten years. Ms. Lind received her Bachelor's of Science in Accounting from Franklin Pierce College and a Master's of Management with a Healthcare Administration concentration from New England College. Ms. Lind has supplemented her education from prior experience in the pre-hospital care setting and has maintained her Certified Medical Assistant license since 1998.



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William L. Wrenn
Commissioner

Bob Mullen
Director

Inpatient and Outpatient Hospital/Medical Services
Bidders List
NHDOC RFP 14-10-GFMED

Androscoggin Valley Hospital
Russell Keene
CEO
59 Page Road
Berlin, NH 03570
(o) 603-752-5601
(e) Russell.keene@avnhn.org
(w) <http://www.avnhn.org>

Dartmouth-Hitchcock Medical Center
Lynn Guillette
Director of Value-Based Reimbursement Models,
Finance
One Medical Center Drive
Lebanon, NH 03756
(o) 603-653-1255
(e) lynn.m.guillette@hitchcock.org
(w) <http://www.dartmouth-hitchcock.org>

Catholic Medical Center
Thomas Coate,
Director of Managed Care
100 McGregor Street
Manchester, NH 03102
(o) 603-663-6383
(e) tcoate@cmc-nh.org
(w) <https://www.catholicmedicalcenter.org>

Elliot Hospital
Eva Martel
Director of Managed Care
One Elliot Way
Manchester, NH 03103
(o) 603-663-6181
(e) emartel@elliot-hs.org
(w) <http://elliithospital.org/website>

Concord Hospital
Scott Sloane
VP Finance
250 Pleasant Street
Concord, NH 03301
(o) 603-230-6059
(e) ssloane@crhc.org
(w) <http://www.concordhospital.org>

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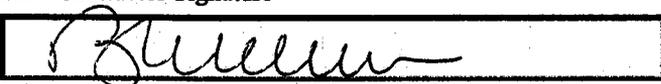
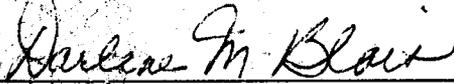
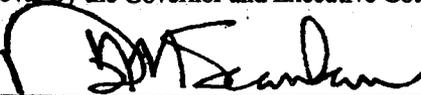


Subject: Hospital Services NHD0C 14-10-GFMED FORM NUMBER P-37 (version 1/09)

AGREEMENT
The State of New Hampshire and the Contractor hereby mutually agree as follows:

GENERAL PROVISIONS

1. IDENTIFICATION.

1.1 State Agency Name <u>Department of Corrections</u>		1.2 State Agency Address <u>105 Pleasant Street, Concord NH 03301</u>	
1.3 Contractor Name <u>Androscoggin Valley Hospital</u>		1.4 Contractor Address <u>59 Page Hill Road, Berlin NH 03570</u>	
1.5 Contractor Phone Number <u>1-603-326-5601</u>	1.6 Account Number <u>02-46-46-465010-8234 -101-500729</u>	1.7 Completion Date <u>March 26, 2014</u> <u>June 30, 2016</u>	1.8 Price <u>Fixed</u> <u>\$1,198,000.00</u>
1.9 Contracting Officer for State Agency <u>William L. Wrenn, Commissioner</u>		1.10 State Agency Telephone Number <u>1-603-271-5603</u>	
1.11 Contractor Signature 		1.12 Name and Title of Contractor Signatory <u>Russell G. Keene, Chief Executive Officer</u>	
1.13 Acknowledgement: State of <u>NH</u> , County of <u>Coos</u> On <u>March 26, 2014</u> , before the undersigned officer, personally appeared the person identified in block 1.12, or satisfactorily proven to be the person whose name is signed in block 1.11, and acknowledged that s/he executed this document in the capacity indicated in block 1.12.			
1.13.1 Signature of Notary Public or Justice of the Peace  [Seal]		DARLENE M. BLAIS, Notary Public My Commission Expires August 24, 2016	
1.13.2 Name and Title of Notary or Justice of the Peace <u>Darlene M. Blais, Notary Public</u>			
1.14 State Agency Signature 		1.15 Name and Title of State Agency Signatory <u>William L. Wrenn, Commissioner</u>	
1.16 Approval by the N.H. Department of Administration, Division of Personnel (if applicable) By: _____ Director, On: _____			
1.17 Approval by the Attorney General (Form, Substance and Execution) By: <u>M. K. Brown</u> On: <u>5/27/14</u>			
1.18 Approval by the Governor and Executive Council By:  DEPUTY SECRETARY OF STATE JUN 18 2014			

2. EMPLOYMENT OF CONTRACTOR/SERVICES TO BE PERFORMED. The State of New Hampshire, acting through the agency identified in block 1.1 ("State"), engages contractor identified in block 1.3 ("Contractor") to perform, and the Contractor shall perform, the work or sale of goods, or both, identified and more particularly described in the attached EXHIBIT A which is incorporated herein by reference ("Services").

3. EFFECTIVE DATE/COMPLETION OF SERVICES.

3.1 Notwithstanding any provision of this Agreement to the contrary, and subject to the approval of the Governor and Executive Council of the State of New Hampshire, this Agreement, and all obligations of the parties hereunder, shall not become effective until the date the Governor and Executive Council approve this Agreement ("Effective Date").

3.2 If the Contractor commences the Services prior to the Effective Date, all Services performed by the Contractor prior to the Effective Date shall be performed at the sole risk of the Contractor, and in the event that this Agreement does not become effective, the State shall have no liability to the Contractor, including without limitation, any obligation to pay the Contractor for any costs incurred or Services performed. Contractor must complete all Services by the Completion Date specified in block 1.7.

4. CONDITIONAL NATURE OF AGREEMENT.

Notwithstanding any provision of this Agreement to the contrary, all obligations of the State hereunder, including, without limitation, the continuance of payments hereunder, are contingent upon the availability and continued appropriation of funds, and in no event shall the State be liable for any payments hereunder in excess of such available appropriated funds. In the event of a reduction or termination of appropriated funds, the State shall have the right to withhold payment until such funds become available, if ever, and shall have the right to terminate this Agreement immediately upon giving the Contractor notice of such termination. The State shall not be required to transfer funds from any other account to the Account identified in block 1.6 in the event funds in that Account are reduced or unavailable.

5. CONTRACT PRICE/PRICE LIMITATION/PAYMENT.

5.1 The contract price, method of payment, and terms of payment are identified and more particularly described in EXHIBIT B which is incorporated herein by reference.

5.2 The payment by the State of the contract price shall be the only and the complete reimbursement to the Contractor for all expenses, of whatever nature incurred by the Contractor in the performance hereof, and shall be the only and the complete compensation to the Contractor for the Services. The State shall have no liability to the Contractor other than the contract price.

5.3 The State reserves the right to offset from any amounts otherwise payable to the Contractor under this Agreement those liquidated amounts required or permitted by N.H.-RSA 80:7 through RSA 80:7-c or any other provision of law.

5.4 Notwithstanding any provision in this Agreement to the contrary, and notwithstanding unexpected circumstances, in no event shall the total of all payments authorized, or actually made hereunder, exceed the Price Limitation set forth in block 1.8.

6. COMPLIANCE BY CONTRACTOR WITH LAWS AND REGULATIONS/ EQUAL EMPLOYMENT OPPORTUNITY.

6.1 In connection with the performance of the Services, the Contractor shall comply with all statutes, laws, regulations, and orders of federal, state, county or municipal authorities which impose any obligation or duty upon the Contractor, including, but not limited to, civil rights and equal opportunity laws. In addition, the Contractor shall comply with all applicable copyright laws.

6.2 During the term of this Agreement, the Contractor shall not discriminate against employees or applicants for employment because of race, color, religion, creed, age, sex, handicap, sexual orientation, or national origin and will take affirmative action to prevent such discrimination.

6.3 If this Agreement is funded in any part by monies of the United States, the Contractor shall comply with all the provisions of Executive Order No. 11246 ("Equal Employment Opportunity"), as supplemented by the regulations of the United States Department of Labor (41 C.F.R. Part 60), and with any rules, regulations and guidelines as the State of New Hampshire or the United States issue to implement these regulations. The Contractor further agrees to permit the State or United States access to any of the Contractor's books, records and accounts for the purpose of ascertaining compliance with all rules, regulations and orders, and the covenants, terms and conditions of this Agreement.

7. PERSONNEL.

7.1 The Contractor shall at its own expense provide all personnel necessary to perform the Services. The Contractor warrants that all personnel engaged in the Services shall be qualified to perform the Services, and shall be properly licensed and otherwise authorized to do so under all applicable laws.

7.2 Unless otherwise authorized in writing, during the term of this Agreement, and for a period of six (6) months after the Completion Date in block 1.7, the Contractor shall not hire, and shall not permit any subcontractor or other person, firm or corporation with whom it is engaged in a combined effort to perform the Services to hire, any person who is a State employee or official, who is materially involved in the procurement, administration or performance of this Agreement. This provision shall survive termination of this Agreement.

7.3 The Contracting Officer specified in block 1.9, or his or her successor, shall be the State's representative. In the event of any dispute concerning the interpretation of this Agreement, the Contracting Officer's decision shall be final for the State.

8. EVENT OF DEFAULT/REMEDIES.

8.1 Any one or more of the following acts or omissions of the Contractor shall constitute an event of default hereunder ("Event of Default"):

- 8.1.1 failure to perform the Services satisfactorily or on schedule;
- 8.1.2 failure to submit any report required hereunder; and/or
- 8.1.3 failure to perform any other covenant, term or condition of this Agreement.

8.2 Upon the occurrence of any Event of Default, the State may take any one, or more, or all, of the following actions:

- 8.2.1 give the Contractor a written notice specifying the Event of Default and requiring it to be remedied within, in the absence of a greater or lesser specification of time, thirty (30) days from the date of the notice; and if the Event of Default is not timely remedied, terminate this Agreement, effective two (2) days after giving the Contractor notice of termination;
- 8.2.2 give the Contractor a written notice specifying the Event of Default and suspending all payments to be made under this Agreement and ordering that the portion of the contract price which would otherwise accrue to the Contractor during the period from the date of such notice until such time as the State determines that the Contractor has cured the Event of Default shall never be paid to the Contractor;
- 8.2.3 set off against any other obligations the State may owe to the Contractor any damages the State suffers by reason of any Event of Default; and/or
- 8.2.4 treat the Agreement as breached and pursue any of its remedies at law or in equity, or both.

9. DATA/ACCESS/CONFIDENTIALITY/PRESERVATION.

9.1 As used in this Agreement, the word "data" shall mean all information and things developed or obtained during the performance of, or acquired or developed by reason of, this Agreement, including, but not limited to, all studies, reports, files, formulae, surveys, maps, charts, sound recordings, video recordings, pictorial reproductions, drawings, analyses, graphic representations, computer programs, computer printouts, notes, letters, memoranda, papers, and documents, all whether finished or unfinished.

9.2 All data and any property which has been received from the State or purchased with funds provided for that purpose under this Agreement, shall be the property of the State, and shall be returned to the State upon demand or upon termination of this Agreement for any reason.

9.3 Confidentiality of data shall be governed by N.H. RSA chapter 91-A or other existing law. Disclosure of data requires prior written approval of the State.

10. TERMINATION. In the event of an early termination of this Agreement for any reason other than the completion of the Services, the Contractor shall deliver to the Contracting Officer, not later than fifteen (15) days after the date of termination, a report ("Termination Report") describing in detail all Services performed, and the contract price earned, to and including the date of termination. The form, subject matter, content, and number of copies of the Termination

Report shall be identical to those of any Final Report described in the attached EXHIBIT A.

11. CONTRACTOR'S RELATION TO THE STATE. In the performance of this Agreement the Contractor is in all respects an independent contractor, and is neither an agent nor an employee of the State. Neither the Contractor nor any of its officers, employees, agents or members shall have authority to bind the State or receive any benefits, workers' compensation or other emoluments provided by the State to its employees.

12. ASSIGNMENT/DELEGATION/SUBCONTRACTS. The Contractor shall not assign, or otherwise transfer any interest in this Agreement without the prior written consent of the N.H. Department of Administrative Services. None of the Services shall be subcontracted by the Contractor without the prior written consent of the State.

13. INDEMNIFICATION. The Contractor shall defend, indemnify and hold harmless the State, its officers and employees, from and against any and all losses suffered by the State, its officers and employees, and any and all claims, liabilities or penalties asserted against the State, its officers and employees, by or on behalf of any person, on account of, based or resulting from, arising out of (or which may be claimed to arise out of) the acts or omissions of the Contractor. Notwithstanding the foregoing, nothing herein contained shall be deemed to constitute a waiver of the sovereign immunity of the State, which immunity is hereby reserved to the State. This covenant in paragraph 13 shall survive the termination of this Agreement.

14. INSURANCE.

14.1 The Contractor shall, at its sole expense, obtain and maintain in force, and shall require any subcontractor or assignee to obtain and maintain in force, the following insurance:

14.1.1 comprehensive general liability insurance against all claims of bodily injury, death or property damage, in amounts of not less than \$250,000 per claim and \$2,000,000 per occurrence; and

14.1.2 fire and extended coverage insurance covering all property subject to subparagraph 9.2 herein, in an amount not less than 80% of the whole replacement value of the property.

14.2 The policies described in subparagraph 14.1 herein shall be on policy forms and endorsements approved for use in the State of New Hampshire by the N.H. Department of Insurance, and issued by insurers licensed in the State of New Hampshire.

14.3 The Contractor shall furnish to the Contracting Officer identified in block 1.9, or his or her successor, a certificate(s) of insurance for all insurance required under this Agreement. Contractor shall also furnish to the Contracting Officer identified in block 1.9, or his or her successor, certificate(s) of insurance for all renewal(s) of insurance required under this Agreement no later than fifteen (15) days prior to the expiration date of each of the insurance policies. The certificate(s) of insurance and any renewals thereof shall be

Contractor Initials



Date 3.24.14

attached and are incorporated herein by reference. Each certificate(s) of insurance shall contain a clause requiring the insurer to endeavor to provide the Contracting Officer identified in block 1.9, or his or her successor, no less than ten (10) days prior written notice of cancellation or modification of the policy.

15. WORKERS' COMPENSATION.

15.1 By signing this agreement, the Contractor agrees, certifies and warrants that the Contractor is in compliance with or exempt from, the requirements of N.H. RSA chapter 281-A ("*Workers' Compensation*").

15.2 To the extent the Contractor is subject to the requirements of N.H. RSA chapter 281-A, Contractor shall maintain, and require any subcontractor or assignee to secure and maintain, payment of Workers' Compensation in connection with activities which the person proposes to undertake pursuant to this Agreement. Contractor shall furnish the Contracting Officer identified in block 1.9, or his or her successor, proof of Workers' Compensation in the manner described in N.H. RSA chapter 281-A and any applicable renewal(s) thereof, which shall be attached and are incorporated herein by reference. The State shall not be responsible for payment of any Workers' Compensation premiums or for any other claim or benefit for Contractor, or any subcontractor or employee of Contractor, which might arise under applicable State of New Hampshire Workers' Compensation laws in connection with the performance of the Services under this Agreement.

16. WAIVER OF BREACH. No failure by the State to enforce any provisions hereof after any Event of Default shall be deemed a waiver of its rights with regard to that Event of Default, or any subsequent Event of Default. No express failure to enforce any Event of Default shall be deemed a waiver of the right of the State to enforce each and all of the provisions hereof upon any further or other Event of Default on the part of the Contractor.

17. NOTICE. Any notice by a party hereto to the other party shall be deemed to have been duly delivered or given at the time of mailing by certified mail, postage prepaid, in a United States Post Office addressed to the parties at the addresses given in blocks 1.2 and 1.4, herein.

18. AMENDMENT. This Agreement may be amended, waived or discharged only by an instrument in writing signed by the parties hereto and only after approval of such amendment, waiver or discharge by the Governor and Executive Council of the State of New Hampshire.

19. CONSTRUCTION OF AGREEMENT AND TERMS.

This Agreement shall be construed in accordance with the laws of the State of New Hampshire, and is binding upon and inures to the benefit of the parties and their respective successors and assigns. The wording used in this Agreement is the wording chosen by the parties to express their mutual

intent, and no rule of construction shall be applied against or in favor of any party.

20. THIRD PARTIES. The parties hereto do not intend to benefit any third parties and this Agreement shall not be construed to confer any such benefit.

21. HEADINGS. The headings throughout the Agreement are for reference purposes only, and the words contained therein shall in no way be held to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions of this Agreement.

22. SPECIAL PROVISIONS. Additional provisions set forth in the attached EXHIBIT C are incorporated herein by reference.

23. SEVERABILITY. In the event any of the provisions of this Agreement are held by a court of competent jurisdiction to be contrary to any state or federal law, the remaining provisions of this Agreement will remain in full force and effect.

24. ENTIRE AGREEMENT. This Agreement, which may be executed in a number of counterparts, each of which shall be deemed an original, constitutes the entire Agreement and understanding between the parties, and supersedes all prior Agreements and understandings relating hereto.

Contractor Initials

Date 3.26.14

SECTION B: Scope of Services, Exhibit A

***Please refer to attached Scope of Services, Sections 1.5 through 1.10, specific to AVH.**

1. Description of Services:

The Contractor shall provide Inpatient and Outpatient Hospital/Medical Services and optional professional medical services for all services as specified in Exhibit A, Scope of Services, for each regional area proposal submission for the NH Department of Corrections to include but not limited to:

1.1. Inpatient Hospital Services:

- 1.1.1. The NH Department of Corrections is seeking proposals for inpatient services to be reimbursed on a "Diagnosis Related Group" (DRG) methodology. Specifically, the Contractor is asked to acknowledge the payment methodology and provide a DRG coefficient for evaluation. Such payment methodology will allow recognition of case mix and still provide an all inclusive rate for inpatient Hospital Services.
- 1.1.2. In developing the DRG rate, the Contractor should review the provisions of amended RSA 623-C:2 enacted as of July 1, 2013 requiring hospitals providing inpatient services to this population to accept fees not greater than one hundred ten percent (110%) of the Medicare allowable rate.
- 1.1.3. NH Department of Corrections requests the Contractor to comment on the competitiveness of the DRG coefficient provided as it relates to RSA 623-C:2, I and II, private commercial payment and other public sources of third party payment.
- 1.1.4. If the NH Department of Corrections inmate's (patient's) medical care is covered by Medicaid, pursuant to RSA 151, or the licensed health care provider, or both, shall be paid at the Medicaid rate for services provided. The NH Department of Corrections will assist in applying for this reimbursement as necessary.

1.2. Emergency Services:

- 1.2.1. Indicate the Contractor's acceptable reimbursement level for Emergency Services as a percentage discount off the hospital billed charge. At a minimum, the Contractor shall adhere to the requirements of the amended RSA 623-C:2 requiring that the hospital rate does not exceed 110% of the Medicare allowable amount for these services.
- 1.2.2. NH Department of Corrections requests the Contractor to comment on the competitiveness of the discount provided as it relates to the requirements of the amended RSA 623-C:2 effective July 1, 2013, private commercial payment and other public sources of third party payment.

1.3. Outpatient Hospital Services:

- 1.3.1. The NH Department of Corrections is seeking proposals for outpatient services to be reimbursed as a percentage of the 2014 relevant NH Medicare Fee Schedule and indicate the percentage (%) multiplier. The following NH Medicare Fee Schedules are to be used:

NH 2014 Medicare Fee Schedule	Percentage (%) Multiplier
Outpatient Laboratory	
Outpatient Radiology	
National Level II Codes (HCPCS)	

- a.) The NH Department of Corrections requests the Contractor to comment on the competitiveness of the discount provided as it relates to the requirements of the amended RSA 623-C:2 effective July 1, 2013, private commercial payment and other public sources of third party payment.

Scope of Services
Exhibit A

1.3.2. All other outpatient services not covered by the NH Medicare Fee Schedules above will be paid as a percentage of the facility charge structure. Please indicate the percentage discount off the hospital's billed charge.

a.) The NH Department of Corrections requests the Contractor to comment on the competitiveness of the discount provided as it relates to the requirements of the amended RSA 623-C:2 effective July 1, 2013, private commercial payment and other public sources of third party payment.

1.4. Rate Adjustments:

1.4.1. The NH Department of Corrections requests a two-year rate proposal and agreement because of the need to properly appropriate funds over the biennium. If the Contractor proposes an annual adjustment to the rates, please indicate what the adjustment will be, how notification will occur, and the rationale for such adjustment. If extended for two (2) years, NH Department of Corrections will agree to hospital reimbursement rates by the most recently published Boston-Brockton-Nashua, MA-NH-ME-CT Medical Consumer Price Index (BMCPI) for the remaining two (2) year period provided that such an adjustment does not violate the intent of RSA 623-C:2 when compared to the then current Medicare fee schedule.

1.4.2. *Please note:* During the term of the agreement with any selected Contractor, NH Department of Corrections will require by Agreement that the Contractor provide written notification of any charge master increases prior to the effective date of such change. The percentage of charges for these services will be offset to preserve the same level of reimbursement prior to the charge increase. In the event that the notification is not provided in advance or in accordance with the terms of the Agreement, NH Department of Corrections reserves the right to recover any overpayments at any time.

1.5. Critical Access Hospital (CAH) RFP Submission:

1.5.1. Inpatient Services:

The NH Department of Corrections recognizes CAH's are reimbursed by Medicare at a calculated cost amount for inpatient services using an interim per diem rate, updated at least once per year, which is settled to the cost amount at a later date. The Contractor will provide pricing based on the per diem rate and translate the per diem rate into a DRG rate (DRG co-efficient) as a basis for comparison and evaluation. The NH Department of Corrections reserves the right to accept either rate.

Per RSA 623-C:2 effective July 1, 2013, hospitals are required to accept fees not greater than 110% of Medicare. Contractors shall provide pricing that conforms to the statute for both a per diem and DRG methodology. The NH Department of Corrections requests the Contractor to comment on the competitiveness of the discount provided as it relates to the requirements of and the amended RSA 623-C:2, private commercial payment and other public sources of third party payment.

Observation stays will be defined as 23.59 hours or less and any hospital stay of greater value will be billed at the agreed upon per diem rate or at the 110% or less of the Medicare rate pursuant to RSA 623:C-2 whichever rate is more favorable to meeting or exceeding the statutory reimbursement expectation.

**Scope of Services
Exhibit A**

If the NH Department of Correction's inmate's (patient's) medical care is covered by Medicaid, pursuant to RSA 151, or the licensed health care provider, or both, shall be paid at the Medicaid rate for services provided. The NH Department of Corrections will assist in applying for this reimbursement as necessary.

1.5.2. Emergency Room Services:

The NH Department of Corrections recognizes CAH's are reimbursed by Medicare based on an interim rate using a "percentage of charge" methodology that is consistent with the cost of providing outpatient services. This interim rate is updated at least once a year. Contractors shall provide pricing based on a percentage of charge rate not to exceed the 110% 2014 Medicare rate. The NH Department of Corrections requests the Contractor to comment on the competitiveness of the discount provided as it relates to the requirements of and the amended RSA 623-C:2, private commercial payment and other public sources of third party payment.

1.5.3. Outpatient Services:

Same as Section 1.5.2. Contractors shall provide pricing based on a percentage of charge rate not to exceed the 110% 2014 Medicare rate. The NH Department of Corrections requests the Contractor to comment on the competitiveness of the discount provided as it relates to the requirements of RSA 623:C-2, private commercial payment and other public sources of third party payment. Outpatient services include but are not limited to clinical laboratory, radiology and pharmacy services.

1.6. Rate Adjustments:

1.6.1. The NH Department of Corrections requests a two-year rate proposal and agreement because of the need to properly appropriate funds over the biennium. If the Contractor proposes an annual adjustment to the rates, please indicate what the adjustment will be, how notification will occur, and the rationale for such adjustment. If extended for two (2) years, NH Department of Corrections will agree to hospital reimbursement rates by the most recently published Boston-Brockton-Nashua, MA-NH-ME-CT Medical Consumer Price Index (BMCPPI) for the remaining two (2) year period provided that such an adjustment does not violate the intent of RSA 623-C:2 when compared to the then current Medicare fee schedule.

1.6.2. *Please note:* During the term of the agreement with any selected Contractor, NH Department of Corrections will require by Agreement that the Contractor provide written notification of any charge master increases prior to the effective date of such change. The percentage of charges for these services will be offset to preserve the same level of reimbursement prior to the charge increase. In the event that the notification is not provided in advance or in accordance with the terms of the Agreement, NH Department of Corrections reserves the right to recover any overpayments at any time. Critical Access Hospitals shall provide on an annual basis at a minimum, the CMC Interim Rate Review letter.

1.7. Hospital Claim Processing:

1.7.1 The NH Department of Corrections lacks electronic claims system capacity. For Hospitals Services, the NH Department of Corrections will require the Contractor to invoice the discounted amount of services rendered to inmates. Claims are to be provided in the industry standard format, (CMS1500, UB-04) but should indicate the amount expected to be reimbursed. The Contractor is asked in this section to describe the method by which it will address this request, provide a sample format

Scope of Services
Exhibit A

and may be asked to speak to this issue in more detail during any finalist presentation. This section is a requirement for any qualified bidder.

- 1.7.2. *Please note:* The NH Department of Corrections reserves the right to audit any claims and/or seek clarification on any payments that result from this process at anytime. The Contractor should be able to defend its pricing methodology and properly detail any internal process controls for ensuring accurate pricing of claims (RSA 623-C:2(g)).

1.8. Physician Services:

- 1.8.1. The NH Department of Corrections seeks to include professional medical services in this RFP. In particular, it seeks to access services for employed physicians to be reimbursed at a discounted level. The Contractor should indicate its willingness to provide discounted professional services for its employed physicians and provide the following:

- Listing of the employed physicians and relevant specialty;
- Level of reimbursement expressed as a percentage of the 2014 NH Medicare physician fee schedule not to exceed 110% of Medicare; and
- NH Department of Corrections requests the Contractor to comment on the competitiveness of the discount as it relates to billed charges, commercial third party payments and other public program third party payer reimbursements (i.e. Medicaid, Veterans Administration, etc).

- 1.8.2. The NH Department of Corrections seeks to include other non-hospital based community physicians in its professional services network. Please indicate how the facility may assist the NH Department of Corrections in reaching out to other community physicians. Non-hospital based physician staff will be reimbursed at a rate not exceed 125% of the NH Medicare physician fee schedule per the amended RSA 623-C:2 effective July 1, 2013. Please comment on the expected success of this effort, ways to ensure a successful effort and other ideas that will enhance the ability of the NH Department of Corrections to access non-hospital based physician staff.

1.9. Physician Services Claims Processing:

The Contractor should validate that Physician Service claims will be provided to the NH Department of Corrections in a timely manner and consistent with the industry format (CMS1500). Claims for Physician Services will be processed by the NH Department of Corrections by applying the negotiated percentage of the 2014 NH Medicare Fee Schedule to the service, regardless of amount billed. The NH Department of Corrections requests that the Contractor invoice at 110% of Medicare rate for employed Physician Services. No payments of services rendered under this methodology will exceed the 110% Medicare amount.

1.10. Other Considerations:

- 1.10.1. The NH Department of Corrections is interested in access to other necessary services that the Contractor may be willing to provide at a discounted rate under the 125% of Medicare rate. Please indicate in this section if any other such services are available. Items of interest include but are not limited to on-campus (NH Department of Corrections facilities) rehabilitation services: Physical Therapy (PT), Occupational Therapy (OT), Speech Therapy (ST) and Respiratory Therapy (RT), Oncology, Radiation Therapy or alternative to hospital based rehabilitation services.

- 1.10.2. For inpatient rehabilitation services, Contractors shall provide pricing based on Medicare's Case Mix Groups (CMG) utilizing the payment on account factor (PAF or % of charge) for 2014. The NH Department of Corrections is seeking a rate not to exceed 110% of Medicare per RSA 623-C:2.

Promoting Public Safety through Integrity, Respect, Professionalism, Collaboration and Accountability

**Scope of Services
Exhibit A**

- 1.10.3. As an evaluation tool, transportation/security costs will be calculated and factored in to the total cost of Hospital Services. Transports shall be done with a minimum of two (2) NH Department of Corrections Correctional Officers at an average rate of 57.38 per hour and a per mile cost of \$0.56 based upon the Internal Revenue Service announcement for 2014.
- 1.10.4. The \$.056 per mile rate shall fluctuate based upon the Internal Revenue Service announcements per Calendar Year for the life of the Contract and any renewals thereof.

2. Terms of Contract:

A Contract awarded by the NH Department of Corrections as a result of this RFP is expected to be effective for the period beginning July 1, 2014 upon approval of Governor and Executive Council (G&C) whichever is later through June 30, 2016, with an option to renew for one (1) additional period of up to two (2) years, only after the approval of the Commissioner of the NH Department of Corrections and the Governor and Executive Council.

3. Service Locations:

The Contractor shall provide Inpatient and Outpatient Hospital/Medical Services and optional professional medical services for the following locations listed below. Northern Area: Northern Correctional Facility (NCF) Berlin, NH, Concord Area: NH State Prison for Men (NHSP-M), Secure Psychiatric Unit (SPU), Residential Treatment Unit, and Community Corrections (Shea Farm, North End House and CTWC), Concord, NH and Southern Area: NH State Prison for Women (NHSP-W), Goffstown, NH and Community Corrections (Calumet House) locations requiring these services are marked with an X:

Northern Area - NHDOC Northern NH Correctional Facility Location

<input checked="" type="checkbox"/>	Northern NH Correctional Facility	138 East Milan Road	Berlin, NH 03570
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Concord Area - NHDOC NH Correctional Facility Locations

<input checked="" type="checkbox"/>	NH State Prison for Men	281 North State Street	Concord, NH 03301
	SPU/RTU	281 North State Street	Concord, NH 03301
	Community Corrections	281 North State Street	Concord, NH 03301

Southern Area - NHDOC Southern NH Correctional Facility Location

<input checked="" type="checkbox"/>	NH State Prison for Women	317 Mast Road	Goffstown, NH 03045
	Community Corrections	126 Lowell Street	Manchester, NH 03104

4. Average Projected Inmate Population: *(Southern includes women housed at Strafford County due to overflow)

Service Area	Average Projected Inmate Population
Northern Area	637
Concord Area	1833
Southern Area*	213

5. Estimated Annual Inmate Transports for Calendar Year 2013: ** (Based on Offender Management data of medical transports)

Service Area	Estimated Annual Inmate Transports
Northern Area	956
Concord Area	2168
Southern Area	316

Promoting Public Safety through Integrity, Respect, Professionalism, Collaboration and Accountability

6. General Service Provisions:

- 6.1. Rules and Regulations: The Contractor agrees to comply with all rules and regulations of the NH Department of Corrections. The Contractor shall adhere to Department's confidentiality policy and procedure directives.
- 6.2. Additional Facilities: Upon agreement of both parties, additional facilities belonging to the NH Department of Corrections may be added to the contract. If it is necessary to increase the price limitation of the Contract this provision will require Governor and Executive Council approval.
- 6.3. Licenses, Credentials and Certificates: The Contractor shall ensure that NH State licensed professionals provide the services required. The Contractor and its staff shall possess the credentials, licenses and/or certificates required by law and regulations to provide the services required.
- 6.4. Change of Ownership: In the event that the Contractor should change ownership for any reason whatsoever, the NH Department of Corrections shall have the option of continuing under the Contract with the Contractor or its successors or assigns for the full remaining term of the Contract, continuing under the Contract with the Contractor or, its successors or, assigns for such period of time as determined necessary by the NH Department of Corrections, or terminating the Contract.
- 6.5. Contractor Designated Liaison: The Contractor shall designate a representative to act as a liaison between the Contractor and the Department of for the duration of the Contract and any renewals thereof. The Contractor shall, within five (5) days after the award of the Contract: submit a written identification and notification to NH Department of Corrections of the name, title, address, telephone & fax number, of its organization as a duly authorized representative to whom all correspondence, official notices and requests related to the Contractor's performance under the Contract.
 - 6.5.1. Any written notice to the Contractor shall be deemed sufficient when deposited in the U.S. mail, postage prepaid and addressed to the person designated by the Contractor under this paragraph.
 - 6.5.2. The Contractor shall have the right to change or substitute the name of the individual described above as deemed necessary provided that any such change is not effective until the Commissioner of the NH Department of Corrections actually receives notice of this change.
 - 6.5.3. Changes of the named Liaison by the Contractor must be made in writing and forwarded to NH Department of Corrections, Medical Operations Administrator, or designee, P.O. Box 1806, Concord, NH 03302.
- 6.6. Contractor Liaison's Responsibilities: The Contractor's designated liaison shall be responsible for:
 - 6.6.1. Representing the Contractor on all matters pertaining to the Contract and any renewals thereof. Such a representative shall be authorized and empowered to represent the Contractor regarding all aspects of the Contract and any renewals thereof;
 - 6.6.2. Monitoring the Contractor's compliance with the terms of the Contract and any renewals thereof;
 - 6.6.3. Receiving and responding to all inquiries and requests made by NH Department of Corrections in the time frames and format specified by NH Department of Corrections in this RFP and in the Contract and any renewals thereof; and
 - 6.6.4. Meeting with representatives of NH Department of Corrections on a periodic or as-needed basis to resolve issues which may arise.

**Scope of Services
Exhibit A**

- 6.7. **NH Department of Corrections Contract Liaison Responsibilities:** The NH Department of Corrections' Commissioner, or designee, shall act as liaison between the Contractor and NH Department of Corrections for the duration of the Contract and any renewals thereof. NH Department of Corrections reserves the right to change its representative, at its sole discretion, during the term of the Contract, and shall provide the Contractor with written notice of such change. NH Department of Corrections representative shall be responsible for:
- 6.7.1. Representing the NH Department of Corrections on all matters pertaining to the Contract. The representative shall be authorized and empowered to represent the NH Department of Corrections regarding all aspects of the Contract, subject to the approval of the Governor and Executive Council of the State of New Hampshire, where needed;
 - 6.7.2. Monitoring compliance with the terms of the Contract;
 - 6.7.3. Responding to all inquiries and requests related to the Contract made by the Contractor, under the terms and in the time frames specified by the Contract;
 - 6.7.4. Meeting with the Contractor's representative on a periodic or as-needed basis and resolving issues which arise; and
 - 6.7.5. Informing the Contractor of any discretionary action taken by NH Department of Corrections pursuant to the provisions of the Contract.
- 6.8. **Notification of Services:** The NH Department of Corrections designee, Medical Operations Administrator, or designee, shall contact the Contractor when service is needed. A list of NH Department of Corrections, Medical Service Personnel Coordinators will be provided to the Contractor upon award of a Contract(s).
- 6.9. **Reporting Requirements:** The NH Department of Corrections shall, at its sole discretion:
- 6.9.1. The Contractor shall provide, at a minimum, quarterly reports on outpatient volume by the Department's facility and inpatient volume by DRG shall be required. Descriptions of reports or sample reports should be provided as an attachment to the RFP response.
 - 6.9.2. The Contractor shall provide any and all reports as requested on an as needed basis according to a schedule and format to be determined by the NH Department of Corrections including but not limited to:
 - a.) Quarterly summary of the cost by product line by DRG for inpatient and product line by primary diagnosis for outpatient services;
 - b.) Length of stay information;
 - c.) Breakdowns of inpatient and outpatient billings by Current Procedural Terminology (CPT) and Healthcare Common Procedure Coding System (HCPCS) codes;
 - d.) Quarterly summary of Charges to Reimbursement reporting by inpatient and outpatient services;
 - e.) Quarterly summary of Inpatient Cases by Department (Cost Centers) and Outpatient Cases by Department (Cost Centers); and
 - f.) Billings are to be provided in a format consistent with Medicare and Medicaid billings on industry standard forms (CMS1500, UB-04).
 - 6.9.3. Request the Contractor to provide proof of any and all permits to perform inpatient and outpatient hospital/medical services as required by authorities having local, state and/or federal jurisdiction at any time during the life of the Contract and any renewals thereof.
 - 6.9.4. It is the intent of NH Department of Corrections to work with any Contractor to provide any reporting required that meets the NH Department of Corrections needs.

Promoting Public Safety through Integrity, Respect, Professionalism, Collaboration and Accountability

**Scope of Services
Exhibit A**

- 6.9.5. The NH Department of Corrections welcomes suggestions from prospective Contractors that would result in a more efficient administration of any Contract resulting from this RFP.
- 6.9.6. Any information requested would be specific to the NH Department of Corrections inmates only.
- 6.9.7. Reports and/or information requests shall be forwarded to NH Department of Corrections, Medical Operations Administrator, or designee, P.O. Box 1806, Concord, NH 03302.
- 6.10. **Performance Evaluation:** The NH Department of Corrections shall, at its sole discretion monitor and evaluate the Contractor's compliance with the Terms and Conditions and adherence to the Scope of Services of the Contract for the life of the Contract and any renewals thereof.
 - 6.10.1. The NH Department of Corrections Bureau of Quality Improvement, Compliance and Research Director may meet with the Contractor at a minimum of twice a year to assess the performance of the Contractor relative to the Contractor's compliance with the Contract as set forth in the approved Contract document.
 - 6.10.2. Review reports submitted by the Contractor. NH Department of Corrections shall determine the acceptability of the reports. If they are not deemed acceptable, NH Department of Corrections shall notify the Contractor and explain the deficiencies.
 - 6.10.3. Request additional reports the NH Department of Corrections deems necessary for the purposes of monitoring and evaluating the performance of the Vendor under the Contract.
 - 6.10.4. Perform periodic programmatic and financial review of the Contractor's performance or responsibilities. This may include, but limited to, on-site inspections audits conducted by the NH Department of Corrections or its agent of the Contractor's records. The audits may, at a minimum, include a review of the following:
 - a.) Claims and financial administration;
 - b.) Program operations;
 - c.) Financial reports;
 - d.) Staff qualifications;
 - e.) Clinical protocols; and
 - f.) Individual medical records.
 - 6.10.5. Give the Contractor prior notice of any on-site visit by the NH Department of Corrections or its agents to conduct an audit and further notify the Contractor of any records which the NH Department of Correction or its agent may wish to review.
 - 6.10.6. Inform the Contractor of any dissatisfaction with the Contractor's performance and include requirements for corrective action.
 - 6.10.7. The Contractor understands and agrees that the NH Department of Corrections reserves the right to amend the claims process for Hospital and Professional Services as outlined in Exhibit A. The NH Department of Corrections continues to work on alternative mechanisms to expedite the claims process and provide useful real time data to NH Department of Corrections. Any such change to the claims process will be provided with written notice in advance of the required change.
- 6.11. **Performance Measures:** The NH Department of Corrections shall, at its sole discretion:
 - 6.11.1. Inform the Contractor of any dissatisfaction with the Contractor's performance and include requirements for corrective action;

- 6.11.2. Terminate the Contract, if NH Department of Corrections determines that the Contractor is:
- a.) Not in compliance with the terms of the Contract;
 - b.) Has lost or has been notified of intention to lose their certification/licensure/permits; and
 - c.) Terminate the contract as otherwise permitted by law.

7. Other Contract Provisions:

- 7.1. Modifications to the Contract: In the event of any dissatisfaction with the Contractor's performance, the NH Department of Corrections will inform the Contractor of any dissatisfaction and will include requirements for corrective action.
- 7.1.1. The Department of Corrections has the right to terminate the Contract, if the NH Department of Corrections determines that the Contractor is:
- a.) Not in compliance with the terms of the Contract; or
 - b.) As otherwise permitted by law or as stipulated within this Contract.
- 7.2. Coordination of Efforts: The Contractor shall fully coordinate his or her activities in the performance of the Contract with those of the NH Department of Corrections. As the work of the Contractor progresses, advice and information on matters covered by the Contract shall be made available by the Contractor to NH Department of Corrections as requested by NH Department of Corrections throughout the effective period of the Contract.

8. Bankruptcy or Insolvency Proceeding Notification:

- 8.1. Upon filing for any bankruptcy or insolvency proceeding by or against the Contractor, whether voluntary or involuntary, or upon the appointment of a receiver, trustee, or assignee for the benefit of creditors, the Contractor must notify the NH Department of Corrections immediately.
- 8.2. Upon learning of the actions herein identified, the NH Department of Corrections reserves the right at its sole discretion to either cancel the Contract in whole or in part, or, re-affirm the Contract in whole or in part.

9. Embodiment of the Contract:

- 9.1. The Contract between the NH Department of Corrections and the Contractor shall consist of:
- 9.1.1. Request for Proposal (RFP) and any amendments thereto;
 - 9.1.2. Proposal submitted by the Vendor in response to the RFP; and/or
 - 9.1.3. Negotiated document (Contract) agreed to by and between the parties that is ratified by a "meeting of the minds" after careful consideration of all of the terms and conditions and that which is approved by the Governor and Executive Council of the State of New Hampshire.
- 9.2. In the event of a conflict in language between the documents referenced above, the provisions and requirements set forth and/or referenced in the negotiated document noted in 9.1.3. shall govern.
- 9.3. The NH Department of Corrections reserves the right to clarify any contractual relationship in writing with the concurrence of the Contractor, and such written clarification shall govern in case of conflict with the applicable requirements stated in the RFP or the Vendor's Proposal and/or the result of a Contract.

10. Cancellation of Contract:

- 10.1. The Department of Corrections may cancel the Contract at any time for breach of Contractual obligations by providing the Contractor with a written notice of such cancellation.

**Scope of Services
Exhibit A**

- 10.2. Should the NH Department of Corrections exercise its right to cancel the Contract for such reasons, the cancellation shall become effective on the date as specified in the notice of cancellation sent to the Contractor.
- 10.3. The NH Department of Corrections reserves the right to terminate the Contract without penalty or recourse by giving the Contractor a written notice of such termination at least sixty (60) days prior to the effective termination date.
- 10.4. The NH Department of Corrections reserves the right to cancel this Contract for the convenience of the State with no penalties by giving the Contractor sixty (60) days notice of said cancellation.

11. Contractor Transition:

NH Department of Corrections, at its discretion, in any Contract resulting from this RFP, may require the Contractor to work cooperatively with any predecessor and/or successor Vendor to assure the orderly and uninterrupted transition from one Vendor to another.

12. Audit Requirement:

Contractor agrees to comply with any recommendations arising from periodic audits on the performance of this contract, providing they do not require any unreasonable hardship, which would normally affect the value of the Contract.

13. Additional Items/Locations:

Upon agreement of both party's additional equipment and/or other facilities belonging to the NH Department of Corrections may be added to the Contract. In the same respect, equipment and/or facilities listed as part of the provision of services of the Contract may be deleted as well.

14. Information:

- 14.1. In performing its obligations under the Contract, the Contractor may gain access to information of the inmates/patients, including confidential information. The Contractor shall not use information developed or obtained during the performance of, or acquired or developed by reason of the Contract, except as is directly connected to and necessary for the Vendor's performance under the Contract.
- 14.2. The Contractor agrees to maintain the confidentiality of and to protect from unauthorized use, disclosure, publication, reproduction and all information of the inmate/patient that becomes available to the Contractor in connection with its performance under the Contract.
- 14.3. In the event of unauthorized use or disclosure of the inmates/patients information, the Contractor shall immediately notify the NH Department of Corrections.
- 14.4. All material developed or acquired by the Contractor, due to work performed under the Contract, shall become the property of the State of New Hampshire. No material or reports prepared by the Contractor shall be released to the public without the prior written consent of NH Department of Corrections.
- 14.5. All financial, statistical, personnel and/or technical data supplied by NH Department of Corrections to the Contractor are confidential. The Contractor is required to use reasonable care to protect the confidentiality of such data. Any use, sale or offering of this data in any form by the Contractor, or any individual or entity in the Contractor's charge or employ, will be considered a violation of the contract and may result in contract termination. In addition, such conduct may be reported to the State Attorney General for possible criminal prosecution.

15. Public Records: *Not applicable.

NH RSA 91-A guarantees access to public records. As such, all responses to a competitive solicitation are public records unless exempt by law. Any information submitted as part of a bid in response to this Request for Proposal or Request for Bid (RFB) or Request for Information (RFI) may be subject to public disclosure under RSA 91-A. In addition, in accordance with RSA 9-F:1, any contract entered into as a result of this RFP (RFB or RFI) will be made accessible to the public online via the website: Transparent NH <http://www.nh.gov/transparentnh/>. Accordingly, business financial information and proprietary information such as trade secrets, business and financial models and forecasts, and proprietary formulas may be exempt from public disclosure under RSA 91-A:5, IV. If a Bidder believes that any information submitted in response to a Request for Proposal, Bid or Information, should be kept confidential as financial or proprietary information, the Bidder must specifically identify that information in a letter to the State Agency. Failure to comply with this section may be grounds for the complete disclosure of all submitted material not in compliance with this section.

16. Special Notes:

- 16.1. The headings and footings of the sections of this document are for convenience only and shall not affect the interpretation of any section.
- 16.2. The NH Department of Corrections reserves the right to require use of a third party administrator during the life of the Contract and any renewals thereof.
- 16.3. Locations per contract year may be increased/decreased and or reassigned to alternate facilities during the Contract term at the discretion of the Department. Locations may be added and/or deleted after the awarding of a Contract at the discretion of the Department and upon mutual agreement of the Commissioner of the Department of Corrections and the Contractor.
- 16.4. In the event that the NH Department of Corrections wishes to add or remove facilities at which the Contractor is to provide services, it shall:
 - 16.4.1. Give the Contractor fourteen (14) days written notice of the proposed change; and
 - 16.4.2. Secure the Contractor's written agreement to the proposed changes.
- 16.5. Notwithstanding the foregoing, or any provision of this Agreement to the contrary, in no event shall changes to facilities be allowed that modify the "Completion Date" or "Price Limitation" of the Agreement.

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17. 2013 Inpatient Cases By Product Line/Cost Center – Southern Region:

Product Line/Cost Center	Cases	Product Line/Cost Center	Cases
Psychiatric Doctors	3	Cardiology	18
Rehab Med Unit	2	Cardiac Catheter Lab	5
CIU	4	EP Lab	0
Intensive Care Unit	7	EEG/EMG	2
Obstetrics	3	CT Scan	25
Operating Room	14	Radiology	39
Perfusion	0	Radiology Vascular Interventional	4
Post Anesthesia Care Unit	13	Ultrasound	21
Central Processing	38	MRI	9
IV Therapy	47	IP Diabetic Education	1
Endoscopy	6	Pharmacy	59
Emergency Room	48	Nutritional Counseling	0
Renal Dialysis	2	Anesthesiology	14
Chemistry	58	Respiratory Therapy	31
Hematology	57	Pulmonary Function	0
Microbiology	38	Occupational Therapy	6
Pathology	8	Occupational Therapy RMU	2
Lab Point of Care	25	Physical Therapy	9
Lab Specimen Processing	32	Physical Therapy RMU	2
Lab Outreach Phlebotomy	2	Speech Therapy	0
Lab Oncology	0	Speech Therapy RMU	2
Nuclear Medicine	3	CV Wellness Phase I	3
Blood Bank	8		
Subtotal Cases	418	Subtotal Cases	252
Total Outpatient Cases By Product Line/Cost Center – Southern Region: 670			

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18. 2013 Outpatient Cases By Product Line/Cost Center -- Southern Region:

Product Line/Cost Center	Cases	Product Line/Cost Center	Cases
Psychiatric Doctors	1	Cardiology	51
CIU	3	Cardiac Catheter Lab	2
Intensive Care Unit	2	EP Lab	2
Moms Place	4	EEG/EMG	1
Operating Room	22	Wound Care Center	20
Anesthesia Care Unit	35	Ct Scan	90
Central Processing	63	Radiology	107
IV Therapy	95	Breast Center	33
Endoscopy	79	Radiology Vascular Interventional	4
Emergency Room	189	Ultrasound	80
Renal Dialysis	0	MRI	48
Chemistry	27	Pharmacy	264
Hematology	124	Pharmacy Oncology	23
Microbiology	50	Nutrition Services	1
Pathology	98	Prenatal Clinic	18
Lab Point of Care	33	Anesthesiology	21
Lab Specimen Processing	51	Respiratory Therapy	34
Lab PSC Mob	15	Occupational Therapy	1
Lab Outreach Phlebotomy	3	Physical Therapy	1
Lab Oncology	21	Speech Therapy I/P	2
Nuclear Medicine	22	CV Wellness Phase I	2
Blood Bank	12	Infusion Therapy	59
Subtotal Cases	949	Subtotal Cases	864
Total Outpatient Cases By Product Line/Cost Center -- Southern Region: 1813			

19. 2013 Inpatient/Outpatient Cases By Product Line/Cost Center -- Northern Region:

Product Line/Cost Center	Cases	Product Line/Cost Center	Cases
Inpatient	18	Outpatient	
		Emergency Room	102
		Physician Services Only	21
		Laboratory	26
		Observation	1
		Operating Room	30
		X-Ray	297
Total In/Outpatient Cases By Product Line/Cost Center -- Northern Region: 477			

Promoting Public Safety through Integrity, Respect, Professionalism, Collaboration and Accountability

ATTACHMENT

Scope of Services Exhibit A

SECTION B: Scope of Services, Exhibit A

1.5 Critical Access Hospital (CAH) RFP Submission:

1.5.1 Inpatient Hospital Services:

As a Critical Access Hospital (CAH), Medicare pays Androscoggin Valley Hospital (AVH) at a calculated cost amount for inpatient services using an interim per diem rate which is settled to the cost amount at a later date. Based on the request for a DRG rate methodology, AVH has translated its Medicare per diem rate into a DRG as requested by the Department of Corrections (DOC). AVH would be willing to accept either methodology (Per Diem or DRG) according to the needs of the DOC, after which the selection will hold for the contract period. Regardless of selection, AVH does not expect the DOC to process any cost settlement.

Per RSA 623-C:2, hospitals are required to accept fees that are not greater than one hundred ten percent (110%) of the Medicare allowable rate. As a CAH, Medicare does not pay AVH based on a DRG rate. As stated above, AVH has calculated a Per Diem rate and a DRG rate that reflects our understanding of the intent of the legislation, to reimburse not higher than 110% of the applicable Medicare fee. Because of the CAH status, this calculation needed to be performed since AVH is paid by Medicare differently than a typical acute care community hospital.

Based on our understanding of RSA 623-C:2, the DOC should pay AVH 110% of our current Medicare per diem inpatient rate. As a CAH, AVH's interim Medicare payment rate normally lags behind our actual cost, therefore adding 10% (as allowed in the statute) to our interim rate only reflects our current cost and is consistent with legislative intent. Based on our Medicare rate letter dated August 15, 2013, AVH's inpatient per diem rate is currently \$2,895.06, and at 110% the amount is \$3,184.57. Our proposal is that the Department of Corrections pay us based on the \$3,184.57 per diem methodology for year one. This amount will be updated every year based on the most current Medicare interim rate letter (see Section 1.6 Rate Adjustments for more information).

If the DOC requests a DRG rate methodology, AVH has determined that the appropriate standard DRG rate (for a relative weight of 1.0000) for AVH is \$11,240.19 for year one.

In order to calculate the DRG rate, AVH based its calculation on the following:

- Using FY 2013 Hospital inpatient records and the published Medicare DRG weights we determined that the total Department of Corrections DRG relative weight was 22.7665 for 80 inpatient days.
- Dividing the 22.7665 by the 80 days results in a DRG relative weight of 0.28332 per day.
- Dividing the \$3,184.57 interim per diem rate by the DRG relative weight per day

of 0.28332 equals a standard DRG rate of \$11,240.19.

1.5.2 Emergency Room Services:

Price shall be 40% of billed charges. (This is the same as what is currently being charged to the DOC.)

1.5.3 Outpatient Services:

Outpatient Services will be charged at 49% of charge. We had previously charged 40% of charge, but we (as of January 1, 2014) reduced our outpatient charges by approximately 18%. Please see the below calculation which would indicate price neutrality.

2013 Outpatient Revenue (11 months actual annualized)	\$65,736,526
2014 Predicted Outpatient Revenue	\$53,711,550
— Uses New Chargemaster	
— Assumes same volume as 2013	
2014 Outpatient Revenue as Percent of 2013 Outpatient Revenue	82%

	<u>2013</u>	<u>2014</u>
Outpatient Revenue	\$65,736,526	\$53,711,550
Reimbursement Rate for NH DOC	<u>x 0.40</u>	<u>x 0.49</u>
Net Outpatient Reimbursement	\$26,294,610	\$26,318,659

It is agreed that an observation stay will be defined as 23 hours 59 minutes or less. Any hospital stay of greater duration shall be paid at the agreed upon inpatient per diem rate.

As a result of the reduction to AVH billed charges, the above calculation is a means to be transparent to the DOC that the proposed 49% of charge reflects an equitable rate to the current discount contained in today's agreement between the parties. AVH would be happy to provide further detail if necessary; however, the DOC should realize the same aggregate discount as it sees today. Please note, that at the detail level, the impact to any particular unit of service will vary depending on that service, and the DOC could see slightly more favorable or slightly less favorable results depending on the mix of services rendered. However, we do believe this is a fair calculation and one we have been using since January 2014 with all of our payers.

1.6 Rate Adjustments:

1.6.1 AVH requests annual adjustment to the rates. As noted in Section 1.5 the per diem rate method for inpatient services will be adjusted annually of each year based on the most current AVH Medicare Interim Rate Letter, and AVH will provide a copy of the letter to

the DOC. However, if the DOC prefers to use a DRG rate as its reimbursement methodology for inpatient services, AVH requests a 2% increase each year consistent with what is typical for other major commercial payer agreements. Given the history at AVH in adjustments to our Medicare rates, it is anticipated that either arrangement will still meet the requirements of RSA 623-C:2.

In Section 1.5.2 (and also applicable to Section 1.5.3) AVH proposes that rate adjustments will be based on the annual review of the AVH chargemaster. Such changes occur on January 1 of each year. AVH proposes a similar mechanism to commercial payer agreements that allow an increase to billed charges of up to 2% each year without the DOC offsetting the percentage of charge. If the AVH Board of Directors approves a chargemaster change that exceeds 2%, a corresponding change to the discount will be provided so that DOC expenses do not exceed the 2% cap.

1.6.2 Typically AVH adjusts rates as of January 1 of each year. AVH will provide the DOC with written notice 30 days prior to any rate adjustments.

1.7 Hospital Claim Processing:

1.7.1 If the Department of Corrections elects the per diem rate for inpatient services and the proposed percentage of charge for all outpatient services, the claims payment process is very simple. Under the per diem method, regardless of the services provided to an inpatient, the DOC will reimburse AVH \$3,184.57 per day for inpatient services and for all outpatient services the amount owed by the DOC will be 49% of the billed charge.

Alternatively, if the DOC prefers to use a DRG rate methodology, the payment will not be based on the number of days, but on the total episode. The payment will be based on the DRG relative weight. AVH will invoice hospital services on an industry standard CMS UB-04 form at its billed charge rate. The claim forms shall reflect all applicable ICD-9CM, ICD-10CM (effective October 1, 2014), CPT, and HCPCS codes.

1.7.2 AVH understands and recognizes the DOC's right to audit any claims from this process. Please note that AVH will agree to any audit of the rate calculation itself and any audit of the claim including billing and coding accuracy, but does not agree to audit of medical necessity for the basis of payment. Medical necessity audits have been ongoing for years and have essentially run their course. AVH physicians do not provide services that are not medically necessary.

1.8 Physician Services:

1.8.1 A listing of employed and non-employed physicians and associated specialty is attached.

1.8.2 Reimbursement will be set at 110% of the most recent Medicare Fee Schedule, New Hampshire. AVH will agree to this rate through the two year period. However, AVH requests an adjustment equivalent to the current medical CPI for any extensions beyond the two year initial contract term.

1.8.3 AVH employs most of the physicians that will be required for services to DOC inmates. However, if an inmate requires a professional service from a non-employed physician in

the AVH community, AVH will assist the DOC in reaching out to such physician to attempt to obtain a discount for services. Any non-AVH physician shall be responsible to bill and collection from the DOC.

1.9 Physician Services Claims Processing:

AVH will invoice for professional services on an industry standard CMS 1500 form at its billed charge rate. AVH understands that the DOC will calculate the payment rate for professional services according to the terms outlined in Section 1.8.2. AVH will accept this payment as payment in full.

1.10 Other Considerations:

1.10.1 AVH can and is willing to provide other services should the DOC request, including:

- Physical Therapy/Occupational Therapy
- Cardiac Rehabilitation
- Respiratory Therapy
- Others as requested

1.10.2 AVH agrees to meet the price of 110% of 2014 Medicare Fee Schedule.

Employed Practitioners of Androscoggin Valley Hospital

Audiology

James J. O'Day, AuD

Emergency Medicine

Donald Kernan, MD

Arthur A. Ruediger, DO

Norman P. Kossayda, MD

Tanya A. Tupick, DO

Robert J. Wise, DO

General Surgery

Stephanie M. Allen Lilly, MD

Christopher U. Glenney, MD

Hospitalist

Javier Cardenas, MD

Neal D. Keeshin, MD

John McDowell, MD

Keith M. Shute, MD

Charanjit Vedi, MD

Neurology

Crizeldo G. Cariaso, MD

Cara Penney, PA-C

Ob/Gyn

Nancy L. Burleson, MD

Krzysztof A. Plociennik, MD

Stephen A. Kull, MD

Orthopaedics

Thomas W. Rock, MD

Harry C. Stearns, III, MD

Delphine G. Sullivan, MD

Richard J. Lorenz, Jr., PA-C

Otolaryngology

Richard G. Kardell, DO

Karen Lovett, CNM, CFNP

Pulmonology

Peggy M. Simon, MD

Sleep Medicine

Joseph P. DellaValla, MD

Non-Employed Practitioners of Androscoggin Valley Hospital

Anesthesiology

J. Rodger Wood, MD
Diane Demers, CRNA

Cardiology

Daniel E. van Buren, MD

Pathology

Charles I. Brown, MD

Radiology

Stanley Whitaker, MD

Urology

Morice P. Dennery, MD
Glenn W. Dunnington, MD

2. Method of Payment:

- 2.1. Invoices shall be sent to the NH Department of Corrections, Financial Services, P.O. Box 1806, Concord, NH 03302-1806.
- 2.2. The NH Department of Corrections may make adjustments to the payment amount identified on a Contractor's invoice per RSA 623-C:2. The NH Department of Corrections shall suspend payment to an invoice if an invoice is not submitted in accordance with the instructions established by the NH Department of Corrections.
- 2.3. The NH Department of Corrections Bureau of Financial Services may issue payment to the Contractor within thirty (30) days of receipt of an approved invoice. Invoices shall be itemized by facility using industry standard forms (CMS 1500 and UB-04) and contain the following identifying information:
 - 2.3.1. invoice date and number;
 - 2.3.2. facility name and associated Contractor account number (if applicable) representing facility name;
 - 2.3.3. inmate name, inmate identification (ID) number, date of birth (DOB), date of service (DOS) and all other applicable fields per the industry standard form;
 - 2.3.4. itemized service/product total charge per service/product type;
 - 2.3.5. NH Department of Corrections prefers the Contractor to provide the associated adjustments per RSA 623-C:2 on claims submitted.
- 2.4. Payment shall be made to the name and address identified in the Contract as the "Contractor" unless: (a) the Contractor has authorized a different name and mailing address in writing or; (b) authorized a different name and mailing address in an official State of New Hampshire Contractor Registration Application Form; or (c) unless a court of law specifies otherwise. The Contractor shall not invoice federal tax. The State's tax-exempt certificate number is 026000618W.
- 2.5. The Contractor's shall follow the State's Fiscal Year Calendar for budgeting purpose. Original Contract Period shall commence on July 1, 2014 and end on June 30, 2016.

3. Appropriation of Funding

- 3.1. The Contractor shall agree that funds expended, if applicable, for the purpose of the Contract must be appropriated by the General Court of the State of New Hampshire for each State fiscal year included within the Contract period. Therefore, the Contract shall automatically terminate without penalty or termination costs if such funds are not fully appropriated.
 - 3.1.1. In the event that funds are not fully appropriated for the Contract, the Contractor shall not prohibit or otherwise limit NH Department of Corrections the right to pursue and contract for alternate solutions and remedies as deemed necessary for the conduct of State government affairs.
 - 3.1.2. The requirements stated in this paragraph shall apply to any amendment/renewal or the execution of any option to extend the Contract.

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Section D: Special Provisions, Exhibit C

1. Special Provisions:

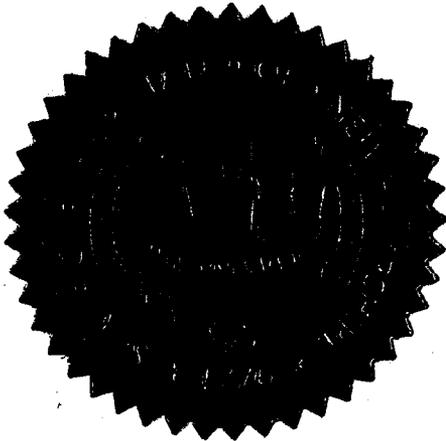
- 1.1. To amend the Insurance provision, section 14.3, of the original P-37 contract by changing the last sentence of the clause to: "Cancellation notice by the Insurer to the Certificate Holder will be delivered in accordance with the policy provisions."

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State of New Hampshire Department of State

CERTIFICATE

I, William M. Gardner, Secretary of State of the State of New Hampshire, do hereby certify that ANDROSCOGGIN VALLEY HOSPITAL, INC. is a New Hampshire nonprofit corporation formed November 28, 1969. I further certify that it is in good standing as far as this office is concerned, having filed the return(s) and paid the fees required by law.



In TESTIMONY WHEREOF, I hereto
set my hand and cause to be affixed
the Seal of the State of New Hampshire,
this 12th day of March A.D. 2014

A handwritten signature in cursive script, reading "William M. Gardner".

William M. Gardner
Secretary of State



State of New Hampshire 2010 NON PROFIT REPORT

REPORT DUE BY December 31, 2010

Filed
Date Filed: 10/18/2010
Business ID: 61184
William M. Gardner
Secretary of State

ANDROSCOGGIN VALLEY HOSPITAL, INC.

59 PAGE HILL ROAD
BERLIN, NH 03570

ADDRESS OF PRINCIPAL OFFICE:

59 PAGE HILL ROAD
BERLIN, NH 03570

REGISTERED AGENT AND OFFICE: (foreign only)

ENTITY TYPE:	NONPROFIT
BUSINESS ID:	61184
STATE OF DOMICILE:	NEW HAMPSHIRE
HEALTHCARE PROVIDER - COMMUNITY HOSPITAL	

If changing the mailing or principal office address, please check the appropriate box and fill in the necessary information.

- The new mailing address _____
- The new principal office address _____

PO Box is acceptable.

OFFICERS

NAME AND OFFICERS ADDRESS (P.O. BOX ACCEPTABLE).
(MUST LIST AT LEAST ONE OFFICER BELOW)

PRES. **Russell Keene**

STREET **59 Page Hill Road**

CITY/STATE/ZIP **Berlin NH 03570**

NAME

STREET

CITY/STATE/ZIP

NAME

STREET

CITY/STATE/ZIP

NAME

STREET

CITY/STATE/ZIP

BOARD OF DIRECTORS

NAME AND OFFICERS ADDRESS (P.O. BOX ACCEPTABLE).
(MUST LIST AT LEAST ONE DIRECTOR BELOW)

DIR. **Arthur Couture**

STREET **1803 Riverside Drive**

CITY/STATE/ZIP **Berlin NH 03570**

NAME

STREET

CITY/STATE/ZIP

NAME

STREET

CITY/STATE/ZIP

NAME

STREET

CITY/STATE/ZIP

NAMES AND ADDRESSES OF ADDITIONAL OFFICERS AND DIRECTORS ARE ATTACHED

To be signed by president or other officer.

I, the undersigned, do hereby certify that the statements on this report are true to the best of my information, knowledge and belief.

Sign here: **John Morris**

Please print name and title of signer: **John Morris** / **AUTHORIZED PARTY**
NAME TITLE

FEE DUE: \$25.00

E-MAIL ADDRESS (OPTIONAL):



6118420100250

WHEN THIS FORM IS ACCEPTED BY THE SECRETARY OF STATE, BY LAW IT WILL BECOME A PUBLIC DOCUMENT AND ALL INFORMATION PROVIDED IS SUBJECT TO PUBLIC DISCLOSURE
REQUIRED INFORMATION MUST BE COMPLETE OR THE REGISTRATION REPORT WILL BE REJECTED

MAKE CHECK PAYABLE TO SECRETARY OF STATE

RETURN COMPLETED REPORT AND PAYMENT TO:

New Hampshire Department of State, Annual Reports, P.O. Box 9529, Manchester, NH 03108-9529

CERTIFICATE OF AUTHORITY/VOTE
(Corporation with Notary Seal)

I, Donna Goodrich, do hereby certify that:
(Name of Clerk of the Corporation, can not be the one who signed the contract)

1. I am a duly elected Clerk of Androscoggin Valley Hospital.
(The Corporation)
2. The following are true copies fo two resolutions adopted at a meeting of the Board of Directors of the Corporation duly held on March 20, 2014.
(Date given authority)

RESOLVED: That this Corporation enter into a contract with the State of New Hampshire, acting through its Department of Corrections, Division of Administration, for the provision of Inpatient and Outpatient Hospital Medical Services.

RESOLVED: That the Chief Executive Officer
(Title of one who signed the contract)

Is hereby authorized on behalf of this Corporation to enter into the said contract with the State and to execute any and all documents, agreements and other instruments, and any amendments, revisions, or modifications thereto, as he/she may deem necessary, desirable or appropriate.

3. The foregoing resolutions have not been amended or revoked, and remain in full force and effect as of March 26, 2014.
(Date Contract Signed)
 4. Russell G. Keene (is/are) the duly elected Chief Executive Officer
(Name of Contract Signatory) (Title of Contract Signatory)
- of the Corporation.


(Signature fo the Clerk of the Corporation)
Donna Goodrich

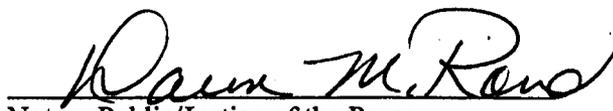
STATE OF NH

COUNTY OF Cows

The foregoing instrument was acknowledged before me this 20 day of May

20 14, by Donna R. Goodrich.
(Name of person signing above, Clerk of the Corporation)

(NOTARY SEAL)


Notary Public/Justice of the Peace

Commission Expires: _____

DAWN M. RAND, Notary Public
My Commission Expires March 7, 2017

Client#: 5838

ANDROSCO

ACORD™

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
3/07/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement.

PRODUCER: William Gallagher Associates, 470 Atlantic Avenue, Boston, MA 02210. CONTACT NAME, PHONE, FAX, E-MAIL ADDRESS. INSURER(S) AFFORDING COVERAGE: INSURER A: Endurance American Specialty In, NAIC # 10641. INSURED: Androscoggin Valley Hospital, NorthCare, Inc., 59 Page Hill Road, Berlin, NH 03570.

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES.

Table with columns: INSR LTR, TYPE OF INSURANCE, ADDL SUBR INSR WVD, POLICY NUMBER, POLICY EFF (MM/DD/YYYY), POLICY EXP (MM/DD/YYYY), LIMITS. Rows include General Liability, Automobile Liability, Umbrella Liability, Workers Compensation, and Hospital Professional & Physicians Liab.

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER CANCELLATION

CERTIFICATE HOLDER: NH Department of Corrections, 105 Pleasant Street, Concord, NH 03302. CANCELLATION: SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE: [Signature]

© 1988-2010 ACORD CORPORATION. All rights reserved.

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

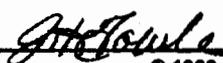
PRODUCER Davis Towle Morrill & Everett 115 Airport Road P O Box 1260 Concord, NH 03302-1260	CONTACT NAME: PHONE (A/C, No, Ext): 603 225-6611		FAX (A/C, No): 603-225-7935
	E-MAIL ADDRESS:		
INSURED Androscoggin Valley Hospital, Inc. 59 Page Hill Road Berlin, NH 03570-3531	INSURER(S) AFFORDING COVERAGE		NAIC #
	INSURER A : MEMIC Indemnity Company		
	INSURER B :		
	INSURER C :		
	INSURER D :		
	INSURER E :		

COVERAGES **CERTIFICATE NUMBER:** **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDLSUBR INSR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
	GENERAL LIABILITY <input type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC					EACH OCCURRENCE \$ DAMAGE TO RENTED PREMISES (Ea occurrence) \$ MED EXP (Any one person) \$ PERSONAL & ADV INJURY \$ GENERAL AGGREGATE \$ PRODUCTS - COMP/OP AGG \$	
	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS					COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$	
	UMBRELLA LIAB <input type="checkbox"/> OCCUR EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED RETENTION \$					EACH OCCURRENCE \$ AGGREGATE \$	
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	Y/N N	3102800493	10/01/2013	10/01/2014	WC STATUTORY LIMITS OTH-ER E.L. EACH ACCIDENT \$500,000 E.L. DISEASE - EA EMPLOYEE \$500,000 E.L. DISEASE - POLICY LIMIT \$500,000	

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

CERTIFICATE HOLDER State of New Hampshire Dept of Corrections P.O. Box 1806 Concord, NH 03302	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE 
--	--

**New Hampshire Department of Corrections
Division of Administration
Contract/Grant Unit**

Comprehensive General Liability Insurance Acknowledgement Form

The New Hampshire Office of the Attorney General requires that the Request for Proposal (RFP) package inform all proposal submitters of the State of New Hampshire's general liability insurance requirements. The limits of liability required are dependent upon your corporation's legal formation, and the annual total amount of contract work with the State of New Hampshire.

Please select only ONE of the checkboxes below that best describes your corporation's legal formation and annual total amount of contract work with the State of New Hampshire:

Insurance Requirement for (1) - 501(c) (3) contractors whose annual gross amount of contract work with the State does not exceed \$500,000, per RSA 21-I:13, XIV, (Supp. 2006): The general liability insurance requirements of standard state contracts for contractors that qualify for nonprofit status under section 501(c)(3) of the Internal Revenue Code and whose annual gross amount of contract work with the state does not exceed \$500,000, is comprehensive general liability insurance in amounts of not less than \$1,000,000 per claim or occurrence and \$2,000,000 in the aggregate. *These amounts may NOT be modified.*

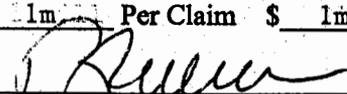
- The contractor certifies that it IS a 501(c) (3) contractor whose annual total amount of contract work with the State of New Hampshire does not exceed \$500,000.

Insurance Requirement for (2) - All other contractors who do not qualify for RSA 21-I:13, XIV, (Supp. 2006), Agreement P-37 General Provisions, 14.1 and 14.1.1. Insurance and Bond, shall apply: The Contractor shall, at its sole expense, obtain and maintain in force, and shall require any subcontractor or assignee to obtain and maintain in force, both for the benefits of the State, the following insurance: comprehensive general liability insurance against all claims of bodily injury, death or property damage, in amounts of not less than \$250,000 per claim and \$2,000,000 per incident or occurrence. *These amounts MAY be modified if the State of NH determines contract activities are a risk of lower liability.*

- (2) The contractor certifies it does NOT qualify for insurance requirements under RSA 21-I:13, XIV (Supp. 2006).

Please indicate your current comprehensive general liability coverage limits below, sign, date and return with your proposal package.

\$ 1m Per Claim \$ 1m Per Incident/Occurrence \$ 3m General Aggregate


Signature & Title Chief Executive Officer

March 26, 2014
Date

This acknowledgement must be returned with your proposal.

NH DEPARTMENT OF CORRECTIONS
HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT
BUSINESS ASSOCIATE AGREEMENT

The Contractor identified in Section 1.3 of the General Provisions of the Agreement agrees to comply with the Health Insurance Portability and Accountability Act, Public Law 104-191 and with the Standards for Privacy and Security of Individually Identifiable Health Information, 45 CFR Parts 160 and 164. As defined herein, "Business Associate" shall mean the Contractor and subcontractors and agents of the Contractor that receive, use or have access to protected health information under this Agreement and "Covered Entity" shall mean the State of New Hampshire, Department of Health and Human Services.

(1) Definitions

- a. "Designated Record Set" shall have the same meaning as the term "designated record set" in 45 CFR Section 164.501.
- b. "Data Aggregation" shall have the same meaning as the term "data aggregation" in 45 CFR Section 164.501.
- c. "Health Care Operations" shall have the same meaning as the term "health care operations" in 45 CFR Section 164.501.
- d. "HIPAA" means the Health Insurance Portability and Accountability Act of 1996, Public Law 104-191.
- e. "Individual" shall have the same meaning as the term "individual" in 45 CFR Section 164.501 and shall include a person who qualifies as a personal representative in accordance with 45 CFR Section 164.501(g).
- f. "Privacy Rule" shall mean the Standards for Privacy of Individually Identifiable Health Information at 45 CFR Parts 160 and 164, promulgated under HIPAA by the United States Department of Health and Human Services.
- g. "Protected Health Information" shall have the same meaning as the term "protected health information" in 45 CFR Section 164.501, limited to the information created or received by Business Associate from or on behalf of Covered Entity.
- h. "Required by Law" shall have the same meaning as the term "required by law" in 45 CFR Section 164.501.
- i. "Secretary" shall mean the Secretary of the Department of Health and Human Services or his/her designee.
- j. "Security Rule" shall mean the Security Standards for the Protection of Electronic Protected Health Information at 45 CFR Part 164, Subpart C, and amendments thereto.
- k. **Other Definitions** - All terms not otherwise defined herein shall have the meaning established under 45 C.F.R. Parts 160, 162 and 164, as amended from time to time.

(2) Use and Disclosure of Protected Health Information



a. Business Associate shall not use, disclose, maintain or transmit Protected Health Information (PHI) except as reasonably necessary to provide the services outlined under Exhibit A of the Agreement. Further, the Business Associate shall not, and shall ensure that its directors, officers, employees and agents, do not use, disclose, maintain or transmit PHI in any manner that would constitute a violation of the Privacy and Security Rule.

b. Business Associate may use or disclose PHI:

- (i) for the proper management and administration of the Business Associate;
- (ii) as required by law, pursuant to the terms set forth in paragraph d. below; or
- (iii) for data aggregation purposes for the health care operations of Covered Entity.

c. To the extent Business Associate is permitted under the Agreement to disclose PHI to a third party, Business Associate must obtain, prior to making any such disclosure, (i) reasonable assurances from the third party that such PHI will be held confidentially and used or further disclosed only as required by law or for the purpose for which it was disclosed to the third party; and (ii) an agreement from such third party to immediately notify Business Associate of any breaches of the confidentiality of the PHI, to the extent it has obtained knowledge of such breach.

d. The Business Associate shall not, unless such disclosure is reasonably necessary to provide services under Exhibit A of the Agreement, disclose any PHI in response to a request for disclosure on the basis that it is required by law, without first notifying Covered Entity so that Covered Entity has an opportunity to object to the disclosure and to seek appropriate relief. If Covered Entity objects to such disclosure, the Business Associate shall refrain from disclosing the PHI until Covered Entity has exhausted all remedies.

e. If the Covered Entity notifies the Business Associate that Covered Entity has agreed to be bound by additional restrictions on the uses or disclosures or security safeguards of PHI pursuant to the Privacy and Security Rule, the Business Associate shall be bound by such additional restrictions and shall not disclose PHI in violation of such additional restrictions and shall abide by any additional security safeguards.

(3) Obligations and Activities of Business Associate

a. Business Associate shall report to the designated Privacy Officer of Covered Entity, in writing, any use or disclosure of PHI in violation of the Agreement, including any security incident involving Covered Entity data, of which it becomes aware, within two (2) business days of becoming aware of such unauthorized use or disclosure or security incident.

b. Business Associate shall use administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of protected health information, in electronic or any other form, that it creates, receives, maintains or transmits under this Agreement, in accordance with the Privacy and Security Rules, to prevent the use or disclosure of PHI other than as permitted by the Agreement.

c. Business Associate shall make available all of its internal policies and procedures, books and records relating to the use and disclosure of PHI received from, or created or received by the Business Associate on behalf of Covered Entity to the Secretary for purposes of determining Covered Entity's compliance with HIPAA and the Privacy and Security Rule.

d. Business Associate shall require all of its business associates that receive, use or have access to PHI under the Agreement, to agree in writing to adhere to the same restrictions and conditions on the use and disclosure of PHI contained herein, including the duty to return or destroy the PHI as provided under Section (3)b and (3)k herein. The Covered Entity shall be considered a direct third party beneficiary of the Contractor's business associate agreements with Contractor's intended business associates, who will be

receiving PHI pursuant to this Agreement, with rights of enforcement and indemnification from such business associates who shall be governed by standard provision #13 of this Agreement for the purpose of use and disclosure of protected health information.

e. Within five (5) business days of receipt of a written request from Covered Entity, Business Associate shall make available during normal business hours at its offices all records, books, agreements, policies and procedures relating to the use and disclosure of PHI to the Covered Entity, for purposes of enabling Covered Entity to determine Business Associate's compliance with the terms of the Agreement.

f. Within ten (10) business days of receiving a written request from Covered Entity, Business Associate shall provide access to PHI in a Designated Record Set to the Covered Entity, or as directed by Covered Entity, to an individual in order to meet the requirements under 45 CFR Section 164.524.

g. Within ten (10) business days of receiving a written request from Covered Entity for an amendment of PHI or a record about an individual contained in a Designated Record Set, the Business Associate shall make such PHI available to Covered Entity for amendment and incorporate any such amendment to enable Covered Entity to fulfill its obligations under 45 CFR Section 164.526.

h. Business Associate shall document such disclosures of PHI and information related to such disclosures as would be required for Covered Entity to respond to a request by an individual for an accounting of disclosures of PHI in accordance with 45 CFR Section 164.528.

i. Within ten (10) business days of receiving a written request from Covered Entity for a request for an accounting of disclosures of PHI, Business Associate shall make available to Covered Entity such information as Covered Entity may require to fulfill its obligations to provide an accounting of disclosures with respect to PHI in accordance with 45 CFR Section 164.528.

j. In the event any individual requests access to, amendment of, or accounting of PHI directly from the Business Associate, the Business Associate shall within two (2) business days forward such request to Covered Entity. Covered Entity shall have the responsibility of responding to forwarded requests. However, if forwarding the individual's request to Covered Entity would cause Covered Entity or the Business Associate to violate HIPAA and the Privacy and Security Rule, the Business Associate shall instead respond to the individual's request as required by such law and notify Covered Entity of such response as soon as practicable.

k. Within ten (10) business days of termination of the Agreement, for any reason, the Business Associate shall return or destroy, as specified by Covered Entity, all PHI received from, or created or received by the Business Associate in connection with the Agreement, and shall not retain any copies or back-up tapes of such PHI. If return or destruction is not feasible, or the disposition of the PHI has been otherwise agreed to in the Agreement, Business Associate shall continue to extend the protections of the Agreement, to such PHI and limit further uses and disclosures of such PHI to those purposes that make the return or destruction infeasible, for so long as Business Associate maintains such PHI. If Covered Entity, in its sole discretion, requires that the Business Associate destroy any or all PHI, the Business Associate shall certify to Covered Entity that the PHI has been destroyed.

(4) Obligations of Covered Entity

a. Covered Entity shall notify Business Associate of any changes or limitation(s) in its Notice of Privacy Practices provided to individuals in accordance with 45 CFR Section 164.520, to the extent that such change or limitation may affect Business Associate's use or disclosure of PHI.

b. Covered Entity shall promptly notify Business Associate of any changes in, or revocation of permission provided to Covered Entity by individuals whose PHI may be used or disclosed by Business Associate under this Agreement, pursuant to 45 CFR Section 164.506 or 45 CFR Section 164.508.

c. Covered entity shall promptly notify Business Associate of any restrictions on the use or disclosure of PHI that Covered Entity has agreed to in accordance with 45 CFR 164.522, to the extent that such restriction may affect Business Associate's use or disclosure of PHI.

(5) Termination for Cause

In addition to standard provision #10 of this Agreement the Covered Entity may immediately terminate the Agreement upon Covered Entity's knowledge of a breach by Business Associate of the Business Associate Agreement set forth herein as Exhibit I. The Covered Entity may either immediately terminate the Agreement or provide an opportunity for Business Associate to cure the alleged breach within a timeframe specified by Covered Entity. If Covered Entity determines that neither termination nor cure is feasible, Covered Entity shall report the violation to the Secretary.

(6) Miscellaneous

a. Definitions and Regulatory References. All terms used, but not otherwise defined herein, shall have the same meaning as those terms in the Privacy and Security Rule, as amended from time to time. A reference in the Agreement, as amended to include this Exhibit I, to a Section in the Privacy and Security Rule means the Section as in effect or as amended.

b. Amendment. Covered Entity and Business Associate agree to take such action as is necessary to amend the Agreement, from time to time as is necessary for Covered Entity to comply with the changes in the requirements of HIPAA, the Privacy and Security Rule, and applicable federal and state law.

c. Data Ownership. The Business Associate acknowledges that it has no ownership rights with respect to the PHI provided by or created on behalf of Covered Entity.

d. Interpretation. The parties agree that any ambiguity in the Agreement shall be resolved to permit Covered Entity to comply with HIPAA and the Privacy and Security Rule.

e. Segregation. If any term or condition of this Exhibit I or the application thereof to any person(s) or circumstance is held invalid, such invalidity shall not affect other terms or conditions which can be given effect without the invalid term or condition; to this end the terms and conditions of this Exhibit I are declared severable.

f. Survival. Provisions in this Exhibit I regarding the use and disclosure of PHI, return or destruction of PHI, extensions of the protections of the Agreement in section 3 k, the defense and indemnification provisions of section 3.d and standard contract provision #13, shall survive the termination of the Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT BUSINESS ASSOCIATE AGREEMENT.

NH Department of Corrections
State of New Hampshire Agency Name

William L. Wrenn
Signature of Authorized Representative

William L. Wrenn
Authorized DOC Representative Name

Commissioner
Authorized DOC Representative Title

5/22/14
Date

Androscoggin Valley Hospital
Contractor Name

Russell G. Keene
Contractor Representative Signature

Russell G. Keene
Authorized Contractor Representative Name

Chief Executive Officer
Authorized Contractor Representative Title

March 26, 2014
Date

NH DEPARTMENT OF CORRECTIONS
ADMINISTRATIVE RULES

COR 307 Items Considered Contraband. Contraband shall consist of:

- a) Any substance or item whose possession is unlawful for the person or the general public possessing it including but not limited to:
 - (1) narcotics
 - (2) controlled drugs or
 - (3) automatic or concealed weapons possessed by those not licensed to have them.
- b) Any firearm, simulated firearm, or device designed to propel or guide a projectile against a person, animal or target.
- c) Any bullets, cartridges, projectiles or similar items designed to be projected against a person, animal or target.
- d) Any explosive device, bomb, grenade, dynamite or dynamite cap or detonating device including primers, primer cord, explosive powder or similar items or simulations of these items.
- e) Any drug item, whether medically prescribed or not, in excess of a one day supply or in such quantities that a person would suffer intoxication or illness if the entire available quantity were consumed alone or in combination with other available substances.
- f) Any intoxicating beverage.
- g) Sums of money or negotiable instruments in excess of \$100.00.
- h) Lock-picking kits or tools or instruments on picking locks, making keys or obtaining surreptitious entry or exit
- i) The following types of items in the possession of an individual who is not in a vehicle, (but shall not be contraband if stored in a secured vehicle):
- j) Knives and knife-like weapons, clubs and club-like weapons,
 - (1) tobacco, alcohol, drugs including prescription drugs unless prior approval is granted in writing by the facility Warden/designee, or Director/designee,
 - (2) maps of the prison vicinity or sketches or drawings or pictorial representations of the facilities, its grounds or its vicinity,
 - (3) pornography or pictures of visitors or prospective visitors undressed,
 - (4) cell phones and radios capable of monitoring or transmitting on the police band in the possession of other than law enforcement officials,
 - (5) identification documents, licenses and credentials not in the possession of the person to whom properly issued,
 - (6) ropes, saws, grappling hooks, fishing line, masks, artificial beards or mustaches, cutting wheels or string rope or line impregnated with cutting material or similar items to facilitate escapes,
 - (7) balloons, condoms, false-bottomed containers or other containers which could facilitate transfer of contraband.

COR 307.02 Contraband on prison grounds is prohibited. The possession, transport, introduction, use, sale or storage of contraband on the prison grounds without prior approval of the commissioner of corrections or his designee is prohibited under the provision of RSA 622:24 and RSA 622:25.

COR 307.03 Searches and Inspections Authorized.

- a) Any person or property on state prison grounds shall be subject to search to discover contraband...

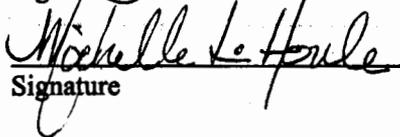
Travel onto prison grounds shall constitute implied consent to search for contraband. In such cases where implied consent exists, the visitor will be given a choice of either consenting to the search or immediately leaving the prison grounds. Nothing in this rule however, prevents non-consensual searches in situations where probable cause exists to believe that the visitor is or had attempted to introduce contraband into the prison pursuant to the law of New Hampshire concerning search, seizure and arrest.

- b) All motor vehicles parked on prison grounds shall be locked and have the keys removed. Custodial personnel shall check to insure that vehicles are locked and shall visually inspect the plain-view interior of the vehicles. Vehicles discovered unlocked shall be searched to insure that no contraband is present. Contraband discovered during searches shall be confiscated for evidence, as shall contraband discovered during plain-view inspections.
- c) All persons entering the facilities to visit with residents or staff, or to perform services at the facilities or to tour the facilities shall be subject to having their persons checked. All items and clothing carried into the institution shall be searched for contraband.

Russell G. Keene
Name

Michelle L. Houle
Witness Name


Signature


Signature

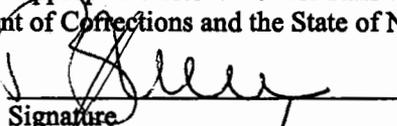
March 26, 2014
Date

March 26, 2014
Date

NH DEPARTMENT OF CORRECTIONS
RULES OF CONDUCT FOR PERSONS PROVIDING CONTRACT SERVICES

1. Engaging in any of the following activities with persons under departmental control is strictly prohibited:
 - a. Any contact, including correspondence, other than in the performance of your services for which you have been contracted.
 - b. Giving or selling of anything
 - c. Accepting or buying anything
2. Any person providing contract services who is found to be under the influence of intoxicants or drugs will be removed from facility grounds and barred from future entry to the NH Department of Corrections property.
3. Possession of any item considered to be contraband as defined in the New Hampshire code of Administrative Rules, COR 307 is a violation of the rules and the laws of the State of New Hampshire and may result in legal action under RSA 622:24 or other statutes.
4. In the event of any emergency situation, i.e., fire, disturbance, etc., you will follow the instructions of the escorting staff or report immediately to the closest available staff.
5. All rules, regulations and policies of the NH Department of Corrections are designed for the safety of the staff, visitors and residents, the security of the facility and an orderly flow of necessary movement and activities. If unsure of any policy and procedure, ask for immediate assistance from a staff member.
6. Harassment and discrimination directed toward anyone based on sex, race, creed, color, national origin or age are illegal under federal and state laws and will not be tolerated in the work place. Maintenance of a discriminatory work environment is also prohibited. Everyone has a duty to observe the law and will be subject to removal for failing to do so.
7. During the performance of your services you are responsible to the facility administrator, and by your signature below, agree to abide by all the rules, regulations, policies and procedures of the NH Department of Corrections and the State of New Hampshire.
8. In lieu of Contracted staff participating in the Corrections Academy, the Vendor through the Commissioner or his designees will establish a training/orientation facilitated by the Vendor to supplement this requirement and appropriate orient Vendor staff to the rules, regulations, policies and procedures of the Department of Corrections and the State of New Hampshire.

Russell G. Keene
Name


Signature

March 26, 2014
Date

Michelle L. Houle
Witness Name


Signature

March 26, 2014
Date

NH DEPARTMENT OF CORRECTIONS
CONFIDENTIALITY OF INFORMATION AGREEMENT

I understand and agree that all employed by the organization/agency I represent must abide by all rules, regulations and laws of the State of New Hampshire and the NH Department of Corrections that relate to the confidentiality of records and all other privileged information.

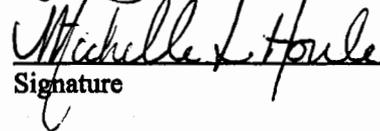
I further agree that all employed by or subcontracted through the organization I represent are not to discuss any confidential or privileged information with family, friends or any persons not professionally involved with the NH Department of Corrections. If inmates or residents of the NH Department of Corrections, or, anyone outside of the NH Department of Corrections' employ approaches any of the our organization's employees or subcontractors and requests information, the staff/employees of the organization I represent will immediately contact their supervisor, notify the NH Department of Corrections, and file an incident report or statement report with the appropriate NH Department of Corrections representative.

Any violation of the above may result in immediate termination of any and all contractual obligations.

Russell G. Keene
Name

Michelle L. Houle
Witness Name


Signature


Signature

March 26, 2014
Date

March 26, 2014
Date



**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
DIVISION OF ADMINISTRATION**

**William L. Wrenn
Commissioner**

**Bob Mullen
Director**

P.O. BOX 1806
CONCORD, NH 03302-1806
603-271-5610 FAX: 603-271-5639
TDD Access: 1-800-735-2964

**PRISON RAPE ELIMINATION ACT
ACKNOWLEDGEMENT FORM**

The Prison Rape Elimination Act (PREA) of 2003 (with Final Rule August 2012) is a federal law established to address the elimination and prevention of sexual assault and sexual harassment within correctional systems and detention facilities. This Act applies to all correctional facilities, including prisons, jails, juvenile facilities and community corrections residential facilities. PREA incidents involve the following conduct:

- Resident-on-resident sexual assault
- Resident-on-resident abusive sexual contact
- Staff sexual misconduct
- Staff sexual harassment of a resident

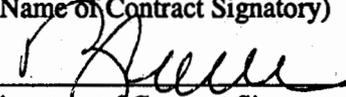
The act aimed to curb prison rape through a "zero-tolerance" policy, as well as through research and information gathering. The NH Department of Corrections has zero tolerance relating to the sexual assault/rape of offenders and recognizes these offenders as crime victims. Due to this recognition and adherence to the federal Prison Rape Elimination Act (PREA) of 2003, the NH Department of Corrections extends the "zero tolerance" to the following:

- Contractor/subcontractor misconduct
- Contractor/subcontractor harassment of a resident

As a Contractor and/or Subcontractor of the NH Department of Corrections, I acknowledge that I have been provided information on the Prison Rape Elimination Act of 2003 and have been informed that as a Contractor and/or Subcontractor of the NH Department of Corrections, sexual conduct between Contractor and/or Subcontractor and offenders is prohibited. Sexual harassment or sexual misconduct involving an offender can be a violation of NH RSA 633-A:2 and 633-A:3, Chapter 632-A: Sexual Assault and Related Offenses, and result in criminal prosecution.

As a Contractor and/or Subcontractor of the NH Department of Corrections, I understand that I shall inform all employees of the Contractor and/or Subcontractor to adhere to all policies concerning PREA, RSA 633-A:2, RSA 633-A:3 and departmental policies including NHDOC PPD 5.19 - PREA; NHDOC Administrative Rules, Conduct and Confidentiality Information regarding my conduct, reporting of incidents and treatment of those under the supervision of the NH Department of Corrections. (Ref. RSA Chapter 632-A, NHDOC PPD 5.19 and Administrative Rules, Rules of Conduct for Persons Providing Contract Services, Confidentiality of Information Agreement).

Name (print): Russell G. Keene Date: March 26, 2014
(Name of Contract Signatory)

Signature: 
(Signature of Contract Signatory)



STATE OF NEW HAMPSHIRE
 DEPARTMENT OF HEALTH AND HUMAN SERVICES
 OFFICE OF PROGRAM SUPPORT

EFFECTIVE DATE 4/1/2014

EXPIRATION: 3/31/2015

LICENSE NO: 00050 IS ISSUED TO ANDROSCOGGIN VALLEY HOSPITAL TRUSTEES
 DBA ANDROSCOGGIN VALLEY HOSPITAL

TOTAL BED
 COUNT: 25

LOCATED AT 59 PAGE HILL RD BERLIN

NH THIS FACILITY HAS COMPLIED WITH RSA 151 AND THE RULES
 PROMULGATED THEREUNDER FOR LICENSURE AS THE
 FOLLOWING:

TYPE	ADMINISTRATOR	MEDICAL DIRECTOR	LAB DIRECTOR	BED TYPE	BED
HOSPITAL	RUSSELL KEENE	KEITH M SHUTE MD		CMB	25

Comments: ANNUAL CERTIFICATE
 EFFECTIVE 1/1/05 AVH IS CERTIFIED AS A C A H. IT HAS 25 ACUTE CARE BEDS AND 10 PSYCHIATRIC BEDS.
 AVH HAS A CON FOR 92.

Waiver:

Mary P. Castelli

Senior Division Director

POST ON LOWER PORTION OF LICENSE

**AVH/NORTHCARE
BOARD OF DIRECTORS**

<u>Member Name</u>	<u>Address</u>	<u>Work Telephone Number</u>
BRUNGOT, Sean	Canatal Steel USA 174 Jolbert Street (home office) Berlin NH 03570	(540) 986-5413
CARDENAS, Javier, MD	Androscoggin Valley Hospital 59 Page Hill Road Berlin NH 03570 javier.cardenas@avhnh.org	(603) 326-5968
CHASE, Rev. Dr. Alta	441 Bog Road, RR 1, Box 558 Stratford NH 03590	- retired -
COUTURE, Arthur	Couture Construction Company 1803 Riverside Drive Berlin NH 03570 arccc@ne.rr.com	(603) 752-4522
GOODRICH, Donna Secretary	Top Furniture, Inc. 570 Main Street Gorham NH 03581 donnag@top-furniture.com	(603) 752-5212
HUNTLEY, Marion Treasurer	Independent Consultant 28 Grand View Drive Berlin NH 03570	(603) 381-8983
JACKSON, William	2 Gorham Heights Road Gorham NH 03581	- retired -
KEENE, Russell Chief Executive Officer	Androscoggin Valley Hospital 59 Page Hill Road Berlin NH 03570 russell.keene@avhnh.org	(603) 326-5601
KELLEY, Mark Chairman	White Mountain Lumber, Inc. PO Box 7 Berlin NH 03570 mark@whitemtnlumber.com	(603) 752-1071
KING, Richard Vice Chairman	Royalty Vacation Homes 20 Church Street (home office) Gorham NH 03581	(603) 466-5422
LABNON, Randall	Town & Country Inn and Resort 20 State Route 2 Shelburne/Gorham NH 03581 rlabnon@townandcountryinn.com	(603) 466-3315
LAFLAMME, Martha	White Mountains Community College 2020 Riverside Drive Berlin NH 03570 mlaflamme@ccsnh.edu	(603) 752-1113
MAKAITIS, Max	Independent Consultant 85 Overlook Drive (home office) Hales Location NH 03860	(781) 367-4449
MORENCY, Peter	Berlin Police Department 135 Green Street Berlin NH 03570 bpdchief@berlinpolice.org	(603) 752-8555
NOYES, Donald	AutoNorth Pre-Owned Super Store Route 16 Gorham NH 03581 don@autonorth.net	(603) 466-1500
PERRY, Debra (Medical Staff President)	Coos County Family Health Services 59 Page Hill Road Berlin NH 03570 dperry@ccfhs.org	(603) 752-2900
POULIN, Jay	H.E. Bergeron Engineers, Inc. 2605 White Mountain Highway, PO Box 440 North Conway NH 03860 jpoulin@hebengineers.com	(603) 356-6936
WOOD, J. Rodger, M.D.	North Woods Anesthesia Services PO Box 322 Berlin NH 03570 rodger.wood@avhnh.org	(603) 326-5806

RUSSELL G. KEENE

Home: [REDACTED]
Email: russell.keene@avhnh.org

Dynamic and Innovative Senior Healthcare Executive with proven success in combining vision, innovation, passion, emotional intelligence and business savvy. Successful at achieving value-added results in the short-term while building an infrastructure for long-term success.

CORE COMPETENCIES

A sense of self, personal conviction and set of values that drives and guides service toward the greater good and larger purpose.

- Positive bottom lines during tenure as Chief Executive Officer. Achieved increasing revenues and enhanced productivity while community was in economic distress.
- Received an "A-" rating from Standard & Poor.
- Restructured institution and eliminated unprofitable line of business.

A visionary leader with the ability to clearly communicate a vision with courage, passion and conviction that inspires others to see the opportunities and reasons for change.

- Successfully converted to Critical Access Hospital through effective communication to gain Board, Medical Staff and Community consensus.
- Enhanced growth and financial sustainability through successful recruitment of key specialists.
- Expanded core business units through regional collaboration.
- Received license for nursing home beds to augment conversion to Critical Access Hospital. Completed during period of state moratorium on nursing home beds.

The courage, emotional intelligence and skill to listen well, support, and provide timely, open, honest and direct feedback. This results in relationships where trust and accountability for attaining specific goals and measures by individuals and teams is achieved in a positive way.

- Reconfigured Senior Management team to facilitate philosophical and ideological changes.
- Achieved significant increase in quality and patient satisfaction scores through collaborative process of Board/Medical Staff/Management.
- Altered organizational structure to facilitate improved Board/Medical Staff relationship.
- Established significant cultural changes through enhanced communication and employee involvement.
- Initiated governance processes resulting in heightened Board participation.

The ability to lead projects through to successful conclusion. Achieved through innovation, collaboration and effective working relationships, good communication and facilitation skills, transparent decision-making, and flexibility in approach.

- Developed innovative and creative strategic plans/initiatives.
- Completed facility master planning process successfully.
- Initiated philanthropic initiatives.
- Completed \$15 million bond issues resulting in net present value savings of \$1 million.

CAREER CHRONOLOGY

President and Chief Executive Officer
Androscoggin Valley Hospital

Years Employed (06/2002 - Present)
59 Page Hill Road, Berlin NH 03570

Vice President, Fiscal Services
Androscoggin Valley Hospital

Years Employed (03/1995 - 05/2002)
59 Page Hill Road, Berlin NH 03570

Chief Financial Officer
Isaacson Structural Steel, Inc.

Years Employed (1983 - 03/1995)
40 Jericho Road, Berlin NH 03570

EDUCATION

Masters of Business/Administration
Plymouth State College, Plymouth NH

Years Attended (1985 - 1988)

M.B.A., Graduated Summa Cum Laude.

Bachelor of Science in Accounting
Associates of Arts in Management
Park College, Austin TX

Years Attended (1978 - 1982)

Graduated Summa Cum Laude. Deans Honor List.

CAREER HIGHLIGHTS

Androscoggin Valley Hospital, CEO, Berlin, NH

2002-Present

- Successfully converted to Critical Access Hospital (CAH).
- Received licence for 8 nursing home beds during moratorium to augment CAH conversion.
- \$15 million bond issue.
- Effectively recruited an orthopaedic surgeon, two general surgeons, radiologist, three obstetricians, ENT, urologist, cardiologist, neurologist, and pulmonologist during last five years.
- Negotiated with the State of NH for supplemental funding of \$600,000 annually for psychiatric unit.
- Technological advance including PACS system, 16-slice CT scanner, nuclear medicine camera, 5 days MRI, and state-of-the-art operating room equipment.
- Successfully converted independent specialists to Hospital employees to ensure continuity of specialty practices in the community.
- Negotiated merger of primary care practice with local federally qualified health center resulting in additional federal grant of \$600,000 annually.
- Receive in excess of \$3 million in Medicare exception payment requests.
- Implemented outreach clinics in neighboring communities enhancing revenue and access to care.
- Created cultural change in quality management efforts resulting in greater medical staff collaboration.
- Completed Facility Master Plan.
- Implemented state-of-the-art materials management system.
- Negotiated contracts with the State of NH Department of Corrections to provide service to State Prison.
- Negotiating contract with Federal Bureau of Prisons to provide services to Federal Prison.
- Altered management of \$25 million endowment.
- Converted pension plan from Defined Benefit Plan to Defined Contribution Plan resulting in savings of \$500,000 annually.
- Collaborated with Medical Staff and primary care physicians to increase local referrals, leading to enhanced revenue.
- Negotiated acquisition of ultrasound business currently providing services to local institutions.
- Negotiated outreach contracts with Catholic Medical Center (cardiology), Coos County Family Health Services (lab), Upper Connecticut Valley Hospital, Weeks Memorial Hospital, and Coos County Nursing Home.
- Participated in the planning, development and implementation of a regional oncology center.
- Initiated significant campus enhancements including recent capital campaign.
- Re-energized Auxiliary and institutional Volunteer Program; currently have 95 volunteers.
- Successfully negotiated a \$1 million stipend from the State of NH for Obstetrics subsidy during cycle of budget cuts.
- Currently serve on numerous boards, including the New Hampshire Hospital Association.
- Selected by State of NH Department of Health and Human Services to sit on an advisory committee to review the disproportionate share program.

PERSONAL

Age: 57
Marital Status: Married for 35 years
Children: Timothy, 27 years old; Matthew, 24 years old

ANDROSCOGGIN VALLEY HOSPITAL
BERLIN, NEW HAMPSHIRE 03570

CHIEF EXECUTIVE OFFICER

September 14, 2010

Job Summary

The primary responsibility of the Chief Executive Officer is to provide the leadership and direction necessary to implement policies established by the Androscoggin Valley Hospital Inc., NorthCare Inc, NorthCare Health Services, Mountain Health Services and Androscoggin Valley Hospital Foundation Boards of Directors, and to achieve the goals and objectives of the Corporation and related entities. The Chief Executive Officer provides oversight and coordination of activities which are designed to meet the stated missions of Androscoggin Valley Hospital and its related corporations.

The Chief Executive Officer provides guidance and leadership necessary for the various Boards to formulate policies. S/He provides Boards with required reports and assures that Board Chairpersons are kept abreast of internal and external developments affecting the organization. S/He develops and/or arranges relevant educational programs for Board members and orients new Board members to their responsibilities.

The Chief Executive Officer maintains close working relationships with NorthCare subsidiary Board Chairpersons, the Androscoggin Valley Hospital Medical Staff President, and the Medical Staff Executive Committee and acts as an ex-officio member of this committee and assures that the Medical Staff is kept informed of proposed plans and programs affecting the delivery of patient care. S/He assures that the views of the Medical Staff are communicated to the Hospital Board of Directors and provides timely responses to questions and concerns of the Medical Staff. S/He participates in the review and preparation of Medical Staff Bylaws. In conjunction with the Medical Staff, s/he determines areas of community need for purposes of physician recruitment.

The Chief Executive Officer assures that high standards of inpatient and outpatient care are maintained consistent with Board and Medical Staff policy and is responsible for the implementation and maintenance of a successful hospital-wide performance improvement program. S/He promotes and maintains an environment which is in compliance with federal, state and local regulations, accrediting agencies, and as delineated in the Hospital Corporate Compliance Program.

The Chief Executive Officer is responsible for the planning, development and implementation of short and long range programs designed to meet the health care needs of the community through formal strategic planning documents related to Hospital services, Medical Staff development, facility planning, technology, and automation.

The Chief Executive Officer is responsible for community and external relations. S/He assures that Androscoggin Valley Hospital and related corporations are well represented in local and state activities and promotes the best interests of the organization to appropriate legislators and regulatory bodies. Ensures Hospital maintains relationships with appropriate parties at the State level to promote the clinical and financial needs of rural hospitals and AVH in particular. S/He assures that the activities of Androscoggin Valley Hospital are well represented in the media. S/He is responsible for the fund raising activities of the Corporation.

The Chief Executive Officer is responsible for the development of annual budgets for Androscoggin Valley Hospital and related corporations. S/He recommends short term and long range financial strategies to ensure continued solvency and fiscal viability of the organizations. S/He develops cost containment strategies, inclusive of implementation of productivity benchmarks as appropriate, and assures the delivery of health related services in the most efficient and economical manner, while providing a high level of patient care. S/He executes agreements and contracts.

The Chief Executive Officer is responsible for the creation of an organizational culture that fosters cooperation and harmonious relations between corporations, their employees and management staffs. S/He assures that personnel programs for all employees meet the needs of the individuals and the organizations. S/He recommends compensation and benefit programs that are competitive and will attract qualified and competent individuals.

S/He actively participates in departmental/Hospital wide safety programs and demonstrates an understanding of safety issues and practices in all aspects of work.

The Chief Executive Officer maintains utmost confidentiality in all aspects of work.

The Chief Executive Officer builds effective relationships within and outside the organization, demonstrates the ability to work collaboratively with others, adapts readily and appropriately to unforeseen challenges, demonstrates flexibility and adjusts to changing work demands, pursues responsibilities in a focused, positive, and enthusiastic manner, effectively communicates with Managers/Supervisors, Senior Managers, Medical Staff, co-workers, outside organizations, visitors, patients and their families, focuses on customer satisfaction through anticipation of customer needs and the development and implementation of action designed to meet those needs, demonstrates innovation and creativity in the provision of services, manages time effectively to ensure that deadlines are met and that personal priorities support organizational objectives, demonstrates an understanding of the relationship between departmental/personal responsibilities and overall organizational goals/strategies and acts accordingly, and demonstrates professionalism through the maintenance of clear professional and ethical guidelines/boundaries as well as through self-presentation (dress, language, and behavior).

Experience, Education and Requirements

Graduation from an accredited college or university, preferably with graduate work in health care administration and/or business administration. In lieu of formal graduate education, appropriate work experience may be substituted. A minimum of three years experience in broad level administrative responsibilities comparable to that of a chief executive officer or chief operating officer is required.

Physical Demands

Occasional lifting and carrying of objects up to 15 pounds. This position requires the ability to sit for prolonged periods. Seeing, hearing, speaking.

Job Relationships

Workers Supervised: Senior Vice President, Medical Affairs and Clinical Services, Vice President, Human Relations and Community Development, Vice President, Nursing Services and Vice President, Administrative Services, Director of Reimbursement and Director of General Accounting/Controller.

All Androscoggin Valley Hospital employees through appropriate Division and Department Managers/Supervisors.

Supervised By: Androscoggin Valley Hospital and NorthCare Board of Directors

Promotion From: No formal line of promotion.

Promotion To: No formal line of promotion.


Linda A. Arsenault
Director, Human Resources


Arnold P. Hanson, Jr., Chairman
Board of Directors

ANDROSCOGGIN VALLEY HOSPITAL
BERLIN, NEW HAMPSHIRE 03570

**SENIOR VICE PRESIDENT
CHIEF MEDICAL OFFICER**

November 13, 2013

Job Summary

As an integral part of the executive management team, the Senior Vice President, Chief Medical Officer (CMO), is responsible for directly contributing to the achievement of the organization's mission; the creation and maintenance of a sustainable business model; a culture committed to quality and continuous improvement.

Responsible to ensure the effectiveness of the Hospitalists, Emergency Department Physicians, Quality and Patient Safety, Occupational Health, Infection Control, and Care Management Department, inclusive of Care Management Medical Director responsibilities, ensuring the delivery of high quality medical care in a collaborative and collegial manner. Addresses issues with providers related to schedules and on call responsibilities. Ensures Hospitalist and Emergency Department practitioner coverage, ensuring budget compliance. Responsible for all locum coverage including the qualifications and acceptability of all locums. Responsibilities must be carried out in a manner which optimizes the financial integrity of the organization and the development, motivation and direction of staff.

Responsible for supporting physician engagement in the design, development, and management of care processes along the continuum of care in order to coordinate all of the patients' healthcare needs for better outcomes in quality and cost of care, all with alignment around the patient experience.

The CMO participates in policy and decision-making process, thereby assuming a multi-disciplinary perspective while addressing the specific responsibilities of the Medical Staff. Coordinates and effectively communicates to Medical Staff regarding all activities, policies, and information impacting them. In addition to serving in a medical administrative position, the CMO devotes one and one-half days per week to the delivery of patient care services. Serves as Chairperson of the Critical Access Oversight Committee and Board Quality Committee and is the Critical Access Hospital Medical Director. Participates on various committees, including Corporate Compliance, Information Management, and Facility Planning. Attends meetings of the Hospital Board of Directors and other affiliate boards as requested by the Chief Executive Officer.

Responsible for the coordination, planning, implementation and participation in Hospital-wide quality activities that monitor patient care, patient safety, administrative, and economic outcomes. In conjunction with Quality and Patient Safety Director, responsible for planning, developing, implementing, coordinating and administering the Hospital-wide quality program to achieve widespread measurable improvements in the quality of care delivered across the entire care continuum. Develops and implements innovative, cost effective strategies to improve quality of care and service. Identifies the need to develop performance improvement teams and initiates same. Routinely monitors pertinent standards and regulations. Establishes the required and desired data/indicators for the program. Oversees collection and analysis of data including, but not limited to, incident reports, medication occurrences, patient and family complaints, and customer satisfaction surveys. Develops mechanism to disseminate quality information to committees, divisions, departments, the governing body and others. Oversees care quality and coordinates peer reviews. Identifies trends in variances in quality and intervenes through provider education and quality awareness.

Continuously and strategically improves quality in a manner that allows the organization to successfully negotiate the transition from volume-based care to value-based care by, among other tactics, developing and implementing a LEAN culture model.

In conjunction with the Quality and Patient Safety Director, is responsible to conduct an annual appraisal of the quality program and recommends revisions. Responsible for providing quarterly reports to the AVH Board of Directors, relating specifically to Hospital-wide quality initiatives. Utilizes the results to improve the quality of service provided. Ensures a timely response to employee and customer inquiries. Focuses on customer satisfaction through anticipation of customer needs and the development and implementation of action designed to meet those needs.

Responsible to develop a "Just Culture" methodology to address corrective action to ensure patient safety, quality of

Senior Vice President
Chief Medical Officer
Job Description
Page 2

care, and satisfaction. The CMO is at all times the paramount advocate and guardian of patient care. Ensures compliance with the requirements of CMS and other licensing, accrediting, and regulatory agencies, as well as with all Hospital and Medical Staff policies and standards. Responsible to ensure that all requirements relating to CMS surveys have been met.

In conjunction with the Vice President, Nursing Services, is responsible to ensure that the Hospital always meets regulatory requirements as a Critical Access Hospital, including adhering to the 25-bed limit and overage length of stay for inpatients. Maintains an awareness of legal and regulatory responsibilities imposed by governmental agencies and others as they impact inpatient care and Critical Access status. Conducts a thorough assessment of programs, operations, systems and opportunities for improvement.

Responsible for overall patient care in the organization. Ensures delivery of high quality, comprehensive, accessible, and cost-effective health care to patients. Oversees and is responsible for clinical activities related to the delivery of medical services by employed, contracted and independent providers, including provision of high quality care, cost management, and utilization management. Assures that policies, procedures, and standards describe and guide the provision of medical care required by all patients served by the Hospital.

Ensures high level of patient satisfaction with care and communication provided by employed practitioners. Develops a strong working relationship with all employed and non-employed providers. Works to develop effective interaction and collaboration with nursing and other professionals. Develops and maintains a service culture that minimizes patient complaints and maximizes patient satisfaction. Responsible for resolving patient complaints about provider services and appropriateness of charges. Facilitates and implements a corrective action policy to address Medical Staff and allied health staff concerns. Assures review and follow-up on patient concerns and complaints, providing prompt and courteous customer service. Responsible for the promotion of the Hospital and its services.

Encourages use of triage algorithms, care maps, clinical pathways, disease management strategies, and evidence-based practice guidelines, as appropriate. Promotes alignment of practitioner/Hospital relationships in the service area. Assists with developing affiliations with other hospitals and integrated delivery systems as requested by the Chief Executive Officer.

Documents events that may be of value in defending or pursuing legal actions. Promotes strategies of clinical practice and documentation that minimize medicolegal risks for practitioners, ancillary staff, and Hospital.

Promotes effective communication among the Medical Staff and workforce members, ensuring accountability and alignment. In conjunction with Executive Director, Specialty Practice, ensures that providers meet the standards of care determined by the organization in the following categories: provider productivity (wRVU's); patient accessibility; measures of quality identifiers; adherence to policies, procedures, and pathways; compliance with EMR and CPOE; peer and staff collegiality; patient satisfaction; documentation and coding compliance; evidence-based standards of care; community involvement; outreach; and commitment. Serves as liaison to independent providers and primary care providers to develop strong practitioner relations with and loyalty to AVH. Oversees and provides direction to primary care in the community and AVH's role in the provision of such services.

Fosters relationships with outside concerns and enhances relationships with various business partners (i.e. Veterans Administration Clinic, Department of Corrections, and Federal Bureau of Prisons). Assists in the development, planning and implementation of any proposed affiliation and serves as point of contact for Department of Corrections and Federal Bureau of Prisons. Collaborates with Executive Director, Specialty Practice, and selected department managers to achieve such objectives.

Oversees the occupational health program to ensure the development and marketing of successful services to the Hospital and other corporate customers.

Works with Senior Director of Operations, serving as a resource for clinical integration.

On an annual basis, formally conducts performance appraisals for Hospitalists, Emergency Department Physicians, Occupational Health practitioner, Quality and Patient Safety Director, Infection Control Professional, and Care Management Staff, addressing professional development, accomplishments, and goals.

In conjunction with Executive Director, Specialty Practice, the CMO is responsible for the overall recruitment of providers, including hospitalist, Emergency Department physicians, surgeons, specialists, and temporary or locum tenens practitioners. Orients, trains, and monitors newly employed and affiliated practitioners. Leads the ongoing standardization and optimization of practices and activities in physician recruiting and physician compensation models.

As part of an integrated healthcare network, develops and implements a continuum of accountable care (e.g., Community Care Organization - CCO, Accountable Care Organization - ACO) to meet goals for patient quality, safety, access, health outcomes, and utilization. Develops a best-practice continuum of care delivery system. Works closely with Executive Director, Specialty Practice, providing clinical support in the development of various programs.

Responsible to strengthen finances to facilitate the provision of new services, alignment and integration efforts, and to develop a sustainable business model that manages Medicare PPS payments. Assists in assessing the addition of new services. Vigilantly assesses the need for service growth and expansion and makes recommendations for such accordingly based on financial and market analysis. Works with Public Relations and Marketing Director to market new programs.

Monitors volume and appropriate utilization of resources. Assesses all transfers. Vigorously pursues market share, and adopts strategy to mitigate leakage on patients who require services that can be competently provided in the North Country. Develops a long-term program to effectively reduce leakage.

Responsible for engaging AVH workforce members and leaders in the implementation of strategic plans, maximizing productivity and efficiency and consistently seeking opportunities to enhance revenue and efficiencies. Consistently seeks new and innovative ways to provide needed services at a reduced cost. Provides growth and learning opportunities for emerging leaders. Aligns skills and responsibilities so that AVH and its leaders can succeed.

Serves as physician resource on medical informatics, electronic medical records and CPOE working with Director, Information Technology, Vice President, Administrative Services and Medical Staff. Serves as a active member of various Information Technology committees.

Identifies and develops opportunities for provider development and learning opportunities and curriculum. Attends continuing education programs to enhance current level of management, professional, and medical skills.

Participates in Hospital-wide safety programs and demonstrates an understanding of safety issues and practices in all aspects of work.

Builds effective relationships within and outside the organization. Demonstrates the ability to work collaboratively with others. Adapts readily and appropriately to unforeseen challenges. Demonstrates flexibility and adjusts to changing work demands. Pursues responsibilities in a focused, positive, and enthusiastic manner. Effectively communicates with Chief Executive Officer, fellow senior managers, managers, Medical Staff, co-workers, other Hospital staff, outside organizations, visitors, patients and their families. Actively participates in committee assignments. Focuses on customer satisfaction through anticipation of customer needs and the development and implementation of action designed to meet those needs. Demonstrates innovation and creativity in the provision of services. Manages time effectively to ensure that deadlines are met and that personal priorities support organizational objectives. Demonstrates an understanding of the relationship between personal responsibilities and overall organizational goals/strategies and acts accordingly. Demonstrates professionalism through the maintenance of clear

Senior Vice President
Chief Medical Officer
Job Description
Page 4

professional and ethical guidelines/boundaries as well as through self-presentation (dress, language, and behavior).

This position involves exposure to blood, body fluids, and tissues.

Education, Training, and Experience

Must be a licensed physician. Board certification in a primary care specialty preferred. Graduate degree in medical management, business administration, health care administration, communications, psychology, or related field is desirable. At least five years of clinical practice experience preferred. Successful administrative and leadership experience in a medical group or healthcare organization. Prior success in motivating staff and bringing groups together as effective teams to ensure high quality outcomes, problem resolution, and program development. Strong decision-making and analytical skills. Ability to develop and maintain effective relationships, as well as ability to engender respect and trust, with medical and administrative staff, patients, and the public. Ability to negotiate, influence, and navigate in a politically-complex environment. Understanding of health insurance and provider payment methodologies. Ability to communicate effectively in writing and verbally. Knowledge of computer programs and applications. Knowledge of Meditech Health Information System desired.

Physical Demands

Occasional lifting and carrying of objects up to 15 pounds. This position requires the ability to sit and stand for prolonged periods. Working with a computer is required. Walking, seeing, hearing and speaking.

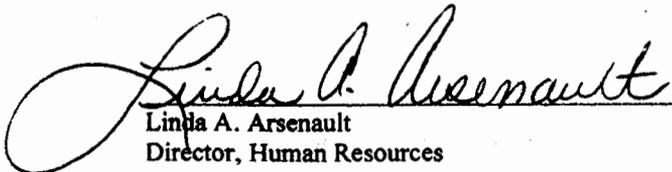
Job Relationships

Workers Supervised: Hospitalists, Emergency Department Physicians, Quality and Patient Care Director, Care Management staff, and Occupational Health staff.

Supervised By: Chief Executive Officer.

Promotion From: No formal line of promotion.

Promotion To: No formal line of promotion.


Linda A. Arsenaault
Director, Human Resources


Russell G. Keene
Chief Executive Officer

ANDROSCOGGIN VALLEY HOSPITAL
BERLIN, NEW HAMPSHIRE 03570

VICE PRESIDENT, ADMINISTRATIVE SERVICES

January 28, 2013

Job Summary

As an integral part of the executive management team, the Vice President, Administrative Services, is responsible for directly contributing to the achievement of the organization's mission; the creation and maintenance of a sustainable business model; a culture committed to quality and continuous improvement, along with the development of a leadership capacity across all divisions. Achieving these high level goals will set the priorities for the day-to-day responsibilities that fall within the detailed job description. In addition, the Vice President, Administrative Services, provides the leadership and direction necessary to achieve the goals and objectives of the Hospital and its affiliates. Responsibilities must be carried out in a manner which optimizes the financial integrity of the organization and the development, motivation and direction of all staff in the hospital.

The Vice President, Administrative Services, directs activities of the administrative division, assuring sound business practices. Promotes and maintains an environment which is in compliance with federal, state and local regulations, accrediting agencies, and as delineated in the Hospital Corporate Compliance Program.

Directs and supervises the activities of the following departments: Credentialing, Food Service, Cafeteria, Customer Service, Patient Access, Health Information Management, Revenue Cycle Services and Information Technology. Is responsible to develop, organize and lead a creative, visionary, multi-functional, customer-focused team. Responsible for promoting a quality and service excellence culture. Assures the effective and efficient operation of the division through design, implementation, and maintenance of systems and proper utilization of human resources. Establishes, reviews, and updates short- and long-term goals in order to be consistent with Hospital-wide plans. Analyzes, selects, and implements programs necessary to achieve the goals and strategic plans of the Hospital. Executes problem identification, data gathering, and implementation of actions that are in the best interest of the administrative division and its mission, values, and philosophy. Maintains documentation and statistics as necessary. Manages time effectively to ensure that deadlines are met.

Participates in the overall Hospital policy and decision making process, thereby assuming a multi-disciplinary perspective while addressing the specific responsibilities of the administrative division. Coordinates the activities of the administrative division (Information Technology, Health Information Management, Patient Access, Food Service, Cafeteria, Credentialing Coordinator and Administrative Intranet Specialist) with other divisions of the Hospital and assures a well integrated plan of operation compatible with Hospital-wide objectives and the Hospital mission.

Responsible for direction in planning, designing, monitoring and evaluating programs and policies in the Accounts Receivable and Customer Service departments as well as coordinating revenue cycle interaction with all the revenue producing departments.

Serves as a key person in developing strategic policy, procedures, protocols and standardization for the administrative division. Prepares cost estimates for current and proposed projects within the administrative division. Reviews project requests and coordinates related activities as needed. Works to ensure that divisional projects are completed timely and within budget. Evaluates vendor proposals to ensure integration and adherence to specifications as it relates to the administrative services division.

Responsible for reviewing all contracts on behalf of the Hospital and its affiliates. Timely reviews contracts, evaluating their level of risk and identifies opportunities to minimize risk and recommends appropriate changes including legal content. Develops database to ensure the expiration of contracts are managed appropriately.

Establishes departmental policies, procedures and job descriptions necessary for effective and efficient systems and management of administrative services human resources. Reviews and revises annually or more often, as necessary.

Job Description

Vice President, Administrative Services

Page 2

Represents the Hospital within the community and on a state-wide and national basis, as appropriate, to promote a continuity of care between the Hospital and other health care providers.

Demonstrates positive human relations skills, utilizing effective leadership. Maintains a sensitive, fair and impartial approach to dealing with employees. Delegates authority as necessary. Motivates employees through use of positive reinforcement.

Ensures that the division is adequately staffed with properly trained personnel. Assures competence of staff through active participation in the recruiting, interviewing, orienting and training process. Establishes and monitors standards of performance among all subordinates, and ensures that standards are being consistently met. Improves subordinates performance through ongoing counseling, coaching, delegation and feedback practices. Conducts performance appraisals. Maintains division morale by meeting the professional and personal needs of employees to the extent possible. Creates and maintains an environment conducive to high employee morale and group cohesiveness. Maintains two-way communication, problem solving, and information transfer with all managers within division.

Responsible for assuring the most effective and efficient utilization of corporate resources through the use of financial and statistical data in decision making and strategic planning processes. Assists with the preparation of an annual financial budget and capital budget to fulfill the objectives and needs of the Hospital. Ensures that the division operates within approved budget limitations.

Reviews, interprets, analyzes, and communicates financial and statistical trends, outlines operational needs, and plans and recommends appropriate courses of action to management and the Board of Directors so that desired results are achieved. Conducts statistical analysis to assist in assessing operational efficiency.

Participates on various committees. Attends meetings of the Hospital Board and other affiliate boards as requested by the Chief Executive Officer in order to remain current on corporate activities.

Contributes to the development and implementation of educational programs for management staff, Board members, Medical Staff, and the community. Attends continuing education programs to maintain a current level of management, professional, and technical skill.

Participates in departmental/Hospital-wide performance improvement activities.

Actively participates in departmental/Hospital-wide safety programs and demonstrates an understanding of safety issues and practices in all aspects of work.

Is responsible for coordinating the efforts of the Hospital and its affiliates and the Medical Staff related to legal actions. Files claims with insurance companies. Works directly with legal counsel. Maintains records of all legal actions. Documents events that may be of value in defending or pursuing legal actions. Responsible for research necessary to advance the position of the Hospital and its affiliates and the Medical Staff. Keeps the Chief Executive Officer apprized of the status of legal actions. Keeps abreast of law and current judicial decisions in the fields of medical malpractice, labor, antitrust, bylaws, corporate restructuring, and credentialing.

Is responsible to plan, develop, and implement the Hospital's Medical Staff credentialing program. Oversees the processing of applications for initial appointment and reappointment to the Medical Staff and Allied Health Professionals Staff. Assists in administering the delineation of clinical privileges system. Acts as staff support to the Credentials Committee, performing research when necessary. Ensures the granting of appointment and clinical privileges is communicated to appropriate Hospital individuals. Assures appropriate recordkeeping. Oversees the orientation program for new appointees. Obtains and maintains evidence of current licensure, professional liability insurance coverage, and DEA certification, where applicable.

Job Description
Vice President, Administrative Services
Page 3

Is responsible for reviewing operations and documents (such as bylaws, rules and regulations, policies and procedures, etc.) of the Hospital and its affiliates. Identifies opportunities for improvement and recommends appropriate changes.

Assures Hospital-wide compliance with HIPAA security regulations.

Has overall responsibility for the Hospital's automated information systems, including the file servers, local area networks, and telecommunications systems. Directs computer operations and system development activities. Consults with managers/senior managers about data processing and management information needs. Is responsible for enterprise-wide planning, inclusive of a detailed information technology strategic plan, designing, implementing, and integrating information management systems to support managerial and organizational functions, such as patient care, decision making, operations, and performance improvement activities. Supervises acquisition, installation, training, data migration, and support of enterprise-wide information management systems, inclusive of back up systems, and serves as a resource for automation requests. Ensures confidentiality, security, and integrity of information systems. Develops standards for the definition, capture, analysis, transformation, transmission, and reporting of data and information. Ensures availability of knowledge-based information resources for use in education, research, analysis, managerial decisions, and improving processes. Chairs the Information Management Committee.

Has overall responsibility of the Hospital's Health Information Management Department, inclusive of the legal medical record and electronic medical record.

Performs initial and periodic information security risk assessments and conducts related ongoing compliance monitoring activities in coordination with the organization's other compliance and operational assessment functions. Refers potential security concerns to appropriate senior manager for further review and follow-up. Reviews all system-related information security plans to ensure alignment between security and privacy practices. Establishes and administers a process for receiving, documenting, tracking and investigating complaints concerning the organization's security policies and procedures. Oversees, directs, delivers, or ensures delivery of initial and periodic information security training and orientation to all employees, volunteers, medical and professional staff, and other appropriate third parties. Maintains current knowledge of applicable federal and state privacy laws, regulations, and standards, and monitors advancements in information privacy technologies to ensure organizational adaptation and compliance.

Performs additional assignments as requested. Maintains utmost confidentiality in all aspects of duties.

Builds effective relationships within and outside the organization. Demonstrates the ability to work collaboratively with others. Adapts readily and appropriately to unforeseen challenges. Demonstrates flexibility and adjusts to changing work demands. Pursues responsibilities in a focused, positive, and enthusiastic manner. Effectively communicates with Administration, Medical Staff, co-workers, outside organizations, visitors, patients and their families. Actively participates in committee assignments. Focuses on customer satisfaction through anticipation of customer needs and the development and implementation of action designed to meet those needs. Demonstrates innovation and creativity in the provision of services. Manages time effectively to ensure that deadlines are met and that personal priorities support organizational objectives. Demonstrates an understanding of the relationship between departmental/personal responsibilities and overall organizational goals/strategies and acts accordingly. Demonstrates professionalism through the maintenance of clear professional and ethical guidelines/boundaries as well as through self-presentation (dress, language, and behavior).

This position does not involve direct or potential exposure to blood, body fluids or tissues.

Job Description
Vice President, Administrative Services
Page 4

Education, Training, and Experience

A four year degree from an accredited college or university with a major in business administration or hospital administration is required with three years of progressively responsible management experience in a health care facility. A proven record of successful management experience may be substituted for a graduate degree.

Physical Demands

Occasional lifting and carrying of objects up to 15 pounds. This position requires the ability to sit for prolonged periods. Seeing, hearing, speaking, walking.

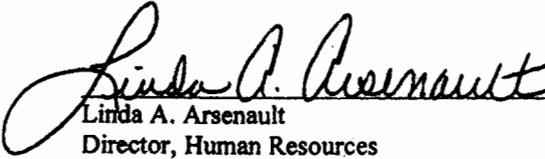
Job Relationships

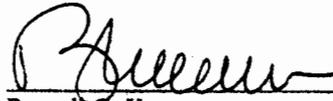
Workers Supervised: Information Technology Director, Health Information Management Director, Patient Financial Director, Patient Access Director, Food Service Director, Customer Service Manager, Credentialing Coordinator and Administrative Intranet Specialist.

Supervised By: Chief Executive Officer

Promotion From: No formal line of promotion

Promotion To: No formal line of promotion


Linda A. Arsenault
Director, Human Resources


Russell G. Keene
Chief Executive Officer

ANDROSCOGGIN VALLEY HOSPITAL
BERLIN, NEW HAMPSHIRE 03570

VICE PRESIDENT, NURSING SERVICES
February 1, 2013

Job Summary

As an integral part of the executive management team, the Vice President of Nursing Services, is responsible for directly contributing to the achievement of the organization's mission; the creation and maintenance of a sustainable business model; a culture committed to quality and continuous improvement, along with the development of a leadership capacity across all divisions. Achieving these high level goals will set the priorities for the day-to-day responsibilities that fall within the detailed job description. In addition, the Vice President, Nursing Services, provides the leadership and direction necessary to achieve the goals and objectives of the Hospital and its affiliates. Responsibilities must be carried out in a manner which optimizes the financial integrity of the organization and the development, motivation and direction of all staff in the hospital.

The Vice President, Nursing Services, directs all activities of the nursing division through the assurance of sound practices, quality patient care and compliance with all Hospital, Medical Staff and accrediting agencies' policies and standards. The Vice President, Nursing Services, participates in the overall policy and decision making process, thereby assuming a multi-disciplinary perspective while addressing the specific responsibilities of the nursing division.

The Vice President, Nursing Services establishes standards of practice and develops, in concert with other members of the staff as appropriate, policies and procedures, standards of patient care, standards of practice and exercises final authority over them. Assures that policies, procedures and standards describe and guide the provision of patient care required by all patients served by the Hospital. Is responsible for all activity on all nursing units, Quality and Patient Safety, Pharmacy Department, Care Management, Infection Control and Employee Health, and CMS survey preparedness.

Is responsible to develop, organize and lead a creative, visionary, multi-functional, customer-focused work team. Instrumental in developing and maintaining a positive environment. Responsible for promoting a quality and service excellence culture. Assures the effective and efficient operation of the division through design, implementation, and maintenance of systems and proper utilization of human resources. Establishes, reviews, and updates short- and long-term goals in order to be consistent with Hospital-wide plans. Analyzes, selects, and implements programs necessary to achieve the goals and strategic plans of the Hospital. Demonstrates innovation and creativity in the provision of services. Organizes division structure in a manner that results in efficiency, effectiveness, and responsiveness. Executes problem identification, data gathering, and implementation of strategy actions that are in the best interest of the division and its mission, values, and philosophy. Assesses the internal and external environment, determines the impact on department(s), and makes appropriate managerial changes. Discerns opportunities available and assesses the impact of various options. Maintains documentation and statistics as necessary. Manages time effectively to ensure that deadlines are met. Ensures departments meet or exceed benchmark data for comparable sized hospitals.

Serves as a key person in developing strategic plans, policy, procedures, protocols and standardization for the division. Prepares and implements initiatives which align with the Hospital's goals and business strategies. Analyzes the feasibility of proposed and actual projects as they relate to the division strategic and operational plans. Prepares cost estimates for current and proposed projects. Reviews project requests and coordinates related activities. Works to ensure that projects are completed timely and within budget. Evaluates vendor proposals to ensure integration and adherence to specifications.

Establishes divisional policies, procedures and job descriptions necessary for effective and efficient systems and management of human resources. Reviews and revises annually or more often, as necessary.

Participates in the Hospital admission system for the purpose of coordinating patient requirements for quality care with available resources. Develops and implements the Hospital's plan for providing quality care. Oversees the implementation and maintenance of an effective program to monitor, evaluate, and improve the quality of care delivered to patients.

Vice President, Nursing Services

Job Description

Page 2

Represents the Hospital within the community and on a state-wide and national basis, as appropriate, to promote a continuity of care between the Hospital and other health care providers.

Coordinates the activities of the division with other divisions of the Hospital and assures a well-integrated plan of operation compatible with organizational objectives and the Hospital mission.

Demonstrates positive human relations skills, utilizing effective leadership. Maintains a sensitive, fair, and impartial approach to dealing with employees. Delegates authority as necessary. Motivates employees through use of positive reinforcement and recognition of employee problems with efforts to resolve these problems. Establishes and monitors standards of performance among all subordinates, and ensures that standards are being consistently met. Conducts regular and timely employee performance evaluations. Improves subordinates performance through ongoing counseling, coaching, delegation and feedback practices. Is responsible to create and maintain an environment conducive to high employee morale and group cohesiveness. Conducts division-wide meetings to maintain two-way communication, problem solving, and information passing a minimum of once per a month. Assures the competence of staff through active participation in the recruitment, interviewing, and selection of employees. Assumes responsibility for a comprehensive orientation program that is documented for each new employee.

Provides opportunities for training, continuing development, and education of employees. Responsible for Hospital-wide mandatory training as well as coordination of Hospital-wide educational activities. Ensures clinical competencies of staff. Assists with the planning, development and presentation of community education programs. Keeps up to date on current personnel management skills and techniques.

Possesses critical thinking skills. Offers insightful and innovation contributions to complex situations. Generates alternative hypotheses to explain information, observations, or data. Conceptualizes issues from different points of view. Incorporates value consideration in decision-making. Acts in the best interest of the Hospital. Pursues responsibilities in a focused, positive, and enthusiastic manner.

Assumes responsibility for successfully fulfilling standards, regulations, and criteria of licensing and accrediting agencies. Informs administrative staff, medical staff, and patient care staff of changes in statutes, regulations, and policies relating to the nursing division. Responsible for fulfilling all requirements relating to CMS surveys. Ensures compliance with the requirements of CMS and State of New Hampshire Pharmacy Board. Ensures compliance with the requirements of all licensing, accrediting, and regulatory agencies, as well as with all Hospital and Medical Staff policies and standards.

Oversees the coordination, planning, implementation and participation in Hospital-wide quality activities that monitor patient care, administrative, and economic outcomes. In conjunction with Health Information Director, responsible for planning, developing, implementing, coordinating and administering the Hospital-wide quality program to achieve widespread measurable improvements in the quality of care delivered across the entire care continuum. Routinely monitors pertinent standards and regulations. Establishes the required and desired data/indicators for the program. Oversees collection and analysis of data including, but not limited to, incident reports, medication occurrences, patient and family complaints, and customer satisfaction surveys. Develops mechanism to disseminate quality information to committees, divisions, departments, the governing body and others. Conducts an annual appraisal of the quality program and recommends revisions. Responsible for providing quarterly reports to the AVH Board of Directors, relating specifically to Hospital-wide quality initiatives. Utilizes the results to improve the quality of service provided. Ensures a timely response to employee and customer requests. Focuses on customer satisfaction through anticipation of customer needs and the development and implementation of action designed to meet those needs.

Provides oversight for all care management, utilization review, discharge planning, and social work processes for the Hospital. Oversees the development of strategies, policies, and procedures to ensure successful care management operations consistent with any managed care contracts entered into by the Hospital. Responsible to ensure that the Hospital always meets regulatory requirements as a Critical Access Hospital, including adhering to the 25-bed limit

Vice President, Nursing Services

Job Description

Page 3

and average length of stay for inpatients. Maintains an awareness of legal and regulatory responsibilities imposed by governmental agencies and others as they impact inpatient care and Critical Access status. Conducts a thorough assessment of programs, operations, systems and opportunities for improvement.

Develops, recommends and implements comprehensive, realistic annual operating and capital budgets that reflect division needs based on changing external and internal environments. Establishes priorities, and directs resource consumption according to predetermined plans and controls. Utilizes sound budgeting techniques. Manages the division in a cost-effective manner by utilizing current materials management techniques, maximizing human resources, and continuously reevaluation the manner in which services are delivered. Maintains a defined level of productivity. Responsible for pursuing and achieving established service, quality, productivity and financial goals and benchmarks.

Develops, recommends, and implements comprehensive, realistic annual operating and capital budgets (adjusted for volume) that reflect departmental needs based on changing external and internal environments. Establishes priorities, and directs resource consumption according to predetermined plans and controls. Utilizes sound budgeting techniques. Utilizes and allocates materials and space efficiently and effectively. Manages the department in a cost-effective manner by utilizing current materials management techniques, maximizing human resources, and continuously reevaluating the manner in which services are delivered. Prepares periodic reports of budget variances. Participates in product evaluation activities as necessary, and promotes product standardization whenever possible.

Promotes the maintenance of a safe environment and enforces the observation of safety related policies, guidelines, and standards among staff. Actively participates in department/Hospital wide safety programs and demonstrates an understanding of safety issues and practices in all aspects of work.

Adheres to all pertinent departmental and Hospital policies. Promotes and maintains an environment which is in compliance with federal, state and local regulations, accrediting agencies, and as delineated in the Hospital Corporate Compliance Program.

Assumes overall responsibility for Hospital-wide operations pursuant to the Hospital policy on Line of Authority.

Maintains utmost confidentiality in all aspects of duties.

Builds effective relationships within and outside the organization. Demonstrates the ability to work collaboratively with others. Adapts readily and appropriately to unforeseen challenges. Demonstrates flexibility and adjusts to changing work demands. Pursues responsibilities in a focused, positive, and enthusiastic manner. Effectively communicates with President, fellow division heads, managers, Medical Staff, nursing and other staff, outside organizations, visitors, patients and their families. Actively participates in committee assignments. Focuses on customer satisfaction through anticipation of customer needs and the development and implementation of action designed to meet those needs. Demonstrates innovation and creativity in the provision of services. Manages time effectively to ensure that deadlines are met and that personal priorities support organizational objectives. Demonstrates an understanding of the relationship between departmental/personal responsibilities and overall organizational goals/strategies and acts accordingly. Demonstrates professionalism through the maintenance of clear professional and ethical guidelines/ boundaries as well as through self-presentation (dress, language, and behavior). This position involves no direct or potential exposure to blood, body fluids, or tissues.

Education, Training and Experience

Must be licensed by the State of New Hampshire Board of Nursing. A Bachelors degree in nursing is mandatory. An advanced degree and five (5) years of progressive nursing management experience is preferred. Three years of progressively responsible management experience is required. Excellent leadership and organizational skills are essential, with orientation to detail and accuracy. Must possess highly developed written and verbal skills. Must be highly motivated, self-directed, and capable of gathering data and making sound decisions. Must be knowledgeable

Vice President, Nursing Services

Job Description

Page 4

of current theoretical and practical approaches to the delivery of nursing care and the strategies for examining and applying relevant concepts. Knowledge of current principles of leadership, management and performance improvement a must.

Physical Demands

Occasional lifting and carrying of objects up to 15 pounds. This position requires the ability to sit for prolonged periods. Seeing, Hearing, Speaking.

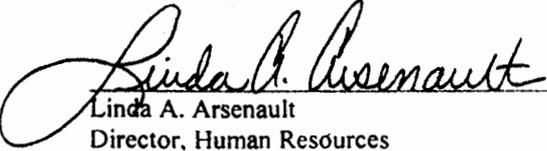
Job Relationships

Workers Supervised: Education Department Director, Emergency Department Director, Home Health and Hospice Director, ICU Coordinator, Quality and Patient Safety Director, Medical/Surgical Director, Pharmacy Director, Surgical Services Director, Women's Services Coordinator, Hospital Coordinators and Care Partners.

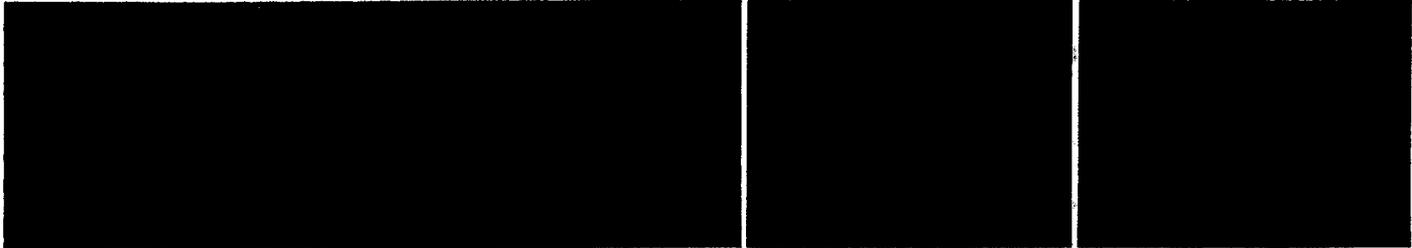
Supervised By: Chief Executive Officer.

Promotion From: No formal line of promotion.

Promotion To: No formal line of promotion.


Linda A. Arsenault
Director, Human Resources


Russell G. Keene
Chief Executive Officer



Androscoggin Valley

HOSPITAL

FINANCIAL STATEMENTS

December 31, 2012 and 2011

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Androscoggin Valley Hospital, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Androscoggin Valley Hospital, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of Androscoggin Valley Hospital, Inc. as of December 31, 2012 and 2011, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

BerryDunn McNeil & Parker, LLC

Portland, Maine
April 30, 2013

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Balance Sheets

December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 7,352,615	\$ 9,990,795
Assets limited as to use	-	103,069
Patient accounts receivable, less estimated uncollectibles and contractual allowances (2012 - \$5,859,323; 2011 - \$6,456,899)	5,705,512	6,340,168
Other accounts receivable	54,637	43,230
Meaningful use receivable	1,592,592	-
Supplies	340,616	312,963
Prepaid expenses and other current assets	<u>2,436,626</u>	<u>2,430,259</u>
Total current assets	17,482,598	19,220,484
Assets limited as to use, excluding current portion	19,837,745	18,618,246
Property and equipment, net	14,226,250	14,581,948
Other assets		
Advances to affiliates	1,157,510	1,234,197
Deferred compensation	<u>2,222,660</u>	<u>1,675,104</u>
Total other assets	<u>3,380,170</u>	<u>2,909,301</u>
Total assets	<u>\$ 54,928,763</u>	<u>\$ 55,329,979</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current liabilities		
Current portion of long-term debt	\$ 1,275,079	\$ 918,073
Accounts payable and accrued expenses	3,557,883	3,973,743
Accrued salaries and related amounts	2,437,531	2,391,154
Estimated third-party payor settlements	<u>8,072,113</u>	<u>7,668,614</u>
Total current liabilities	15,342,606	14,951,584
Long-term debt, excluding current portion	13,428,450	13,020,971
Pension liability	8,975,509	8,207,972
Deferred compensation	2,222,660	1,675,104
Interest rate swap	<u>-</u>	<u>2,338,470</u>
Total liabilities	39,969,225	40,194,101
Commitments and contingencies (Notes 3, 7, 8, and 10)		
Unrestricted net assets	<u>14,959,538</u>	<u>15,135,876</u>
Total liabilities and net assets	<u>\$ 54,928,763</u>	<u>\$ 55,329,979</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Statements of Operations and Changes in Net Assets

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues and gains		
Patient service revenue (net of contractual allowances and discounts)	\$ 52,743,143	\$ 53,237,477
Less provision for bad debts	<u>2,882,948</u>	<u>3,104,806</u>
Net patient service revenue	49,860,195	50,132,671
Other revenues	2,549,233	2,295,738
Meaningful use revenue	<u>1,592,592</u>	<u>-</u>
Total unrestricted revenues and gains	<u>54,002,020</u>	<u>52,428,409</u>
Expenses		
Salaries, wages, and fringe benefits	31,142,401	30,384,588
Supplies and other expenses	18,740,705	17,903,507
Insurance	592,842	557,756
Depreciation and amortization	2,260,009	2,245,582
Interest expense	<u>477,936</u>	<u>533,614</u>
Total expenses	<u>53,213,893</u>	<u>51,605,027</u>
Operating income	<u>788,127</u>	<u>823,382</u>
Nonoperating gains (losses)		
Investment income	142,221	538,589
Realized gain on interest rate swap	127,470	-
Contributions and program support	51,108	26,468
Community benefit grant	(638,401)	(709,600)
Unrealized loss on interest rate swap	-	(914,168)
Loss on early extinguishment of long-term debt	<u>(243,359)</u>	<u>-</u>
Nonoperating gains (losses), net	<u>(560,961)</u>	<u>(1,058,711)</u>
Excess (deficiency) of revenues and gains over expenses and losses	227,166	(235,329)
Change in net unrealized gains on investments	649,238	(1,632,348)
Transfer to affiliate	-	(500,000)
Change in net assets to recognize funded status of pension plan	<u>(1,052,744)</u>	<u>(3,817,584)</u>
Decrease in unrestricted net assets	(176,340)	(6,185,261)
Unrestricted net assets, beginning of year	<u>15,135,878</u>	<u>21,321,139</u>
Unrestricted net assets, end of year	\$ <u>14,959,538</u>	\$ <u>15,135,878</u>

The accompanying notes are an integral part of these financial statements.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Decrease in net assets	\$ (176,340)	\$ (6,185,261)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation and amortization	2,280,009	2,245,562
Gain on disposal of property and equipment	(8,893)	(1,775)
Net realized and unrealized (gains) losses on investments	(848,933)	1,114,472
Net realized and unrealized (gain) loss on interest rate swap	(127,470)	914,168
Loss on early extinguishment of long-term debt	243,359	-
Provision for bad debts	2,882,948	3,104,808
Change in net assets to recognize funded status of pension plan	1,052,744	3,817,584
Equity transfer to affiliate	-	500,000
(Increase) decrease in		
Patient accounts receivable	(2,248,292)	(5,442,295)
Other accounts receivable	(11,407)	10,078
Meaningful use receivable	(1,592,592)	-
Supplies	(27,653)	(31,416)
Prepaid expenses and other current assets	(8,387)	(246,856)
Increase (decrease) in		
Accounts payable and accrued expenses	(415,860)	120,678
Accrued salaries and related amounts	46,377	114,838
Estimated third-party payor settlements	403,499	4,369,853
Pension liability	(285,207)	(457,402)
Net cash provided by operating activities	<u>1,143,922</u>	<u>3,947,034</u>
Cash flows from investing activities		
Proceeds from sale of investments	9,777,168	2,917,817
Purchases of investments	(10,046,665)	(3,345,821)
Purchases of property and equipment	(1,903,272)	(1,821,691)
Decrease (increase) in advances to affiliate	76,687	(72,776)
Net cash used by investing activities	<u>(2,096,082)</u>	<u>(2,322,471)</u>
Cash flows from financing activities		
Payments on long-term debt	(1,004,634)	(880,176)
Retirement of long-term debt	(12,848,000)	-
Proceeds from issuance of long-term debt	14,500,000	-
Payments on capital leases	-	(147,182)
Increase in bond issuance costs	(125,366)	-
Retirement of interest rate swap	(2,211,000)	-
Net cash used by financing activities	<u>(1,686,020)</u>	<u>(1,027,358)</u>
Net (decrease) increase in cash and cash equivalents	(2,838,180)	597,205
Cash and cash equivalents, beginning of year	<u>9,990,795</u>	<u>9,393,590</u>
Cash and cash equivalents, end of year	\$ <u>7,352,615</u>	\$ <u>9,990,795</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ <u>516,572</u>	\$ <u>538,036</u>

The accompanying notes are an integral part of these financial statements.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Nature of Business

Androscoggin Valley Hospital, Inc. (Hospital) is a non-profit critical access hospital which provides inpatient, outpatient, emergency care, ambulatory care, specialty care, and home health services to residents of Berlin, New Hampshire and the surrounding communities. The Hospital is controlled by NorthCare (NCR), a non-profit entity organized under New Hampshire law to serve as a holding company. NCR is the sole member of the Hospital. Related parties, Mountain Health Services, Inc. (MHS) and Androscoggin Valley Hospital Foundation (AVHF), are also controlled by NCR.

The Hospital, along with Upper Connecticut Valley Hospital and Weeks Medical Center, has formed Northern New Hampshire Health Collaborative, LLC, (the Collaborative). The Collaborative is a New Hampshire limited liability company located in Berlin, New Hampshire with the purpose to promote effective, efficient and rational expenditure of resources in order to preserve and enhance future access to critical, primary, and preventive health care services within the respective communities served in Northern New Hampshire. Collaborative initiatives may include management agreements, joint ventures, purchasing arrangement and innovative healthcare delivery platforms. Membership interests will be allocated equally. The Collaborative has been approved by the New Hampshire Attorney General and a decision is pending from the Federal Trade Commission. There has been minimal activity since its formation.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting in the statements of cash flows, the Hospital considers all cash accounts, which are not subject to withdrawal restrictions or penalties, purchased with maturity of three months or less, as cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

In evaluating the collectibility of accounts receivable, the Hospital analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Data for each major payor source is regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. For receivables relating to services provided to patients having third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a corresponding provision for bad debts. For receivables relating to self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service based on past experience, which indicates that many patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2012, the Hospital decreased its estimate from \$2,580,116 to \$2,267,042 in the allowance for doubtful accounts relating to self-pay patients and during 2011 the Hospital increased its estimate from \$1,960,404 to \$2,580,116. During 2012, self-pay write-offs increased from \$2,500,125 to \$2,916,847 and during 2011 self-pay write-offs decreased from \$2,726,730 to \$2,500,125, respectively. These changes resulted from trends experienced in the collection of amounts from self-pay patients during 2012 and 2011, respectively.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenues and gains over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and temporary unrealized losses on investments are excluded from this measure.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets and statements of operations and changes in net assets.

Assets Limited as to Use

Assets limited as to use include designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets limited as to use also include money market funds restricted according to the terms of the bond indenture agreement.

Supplies

Supplies are carried at the lower of cost (determined by the first-in, first-out method) or market.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if contributed, at fair market value determined at the date of donation, less accumulated depreciation. The Hospital's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets. The provision for depreciation has been computed using the straight-line method at rates which are intended to amortize the cost of assets over their estimated useful lives. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Bond Issuance Costs

The costs incurred to obtain long-term financing are being amortized by the straight-line method over the repayment period of the related debt. The costs are included in long-term debt in the balance sheet.

Interest Rate Swap

During 2012 and 2011, the Hospital used an interest rate swap contract to eliminate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, to account for its interest rate swap contract. The Hospital was required to include the fair value of the swap in the balance sheet, and annual changes, if any, in the fair value of the swap in the statement of operations.

Gains and losses on derivative financial instruments that do not qualify as cash flow hedges are required to be included in the performance indicator. The interest rate swap did not qualify as a cash flow hedge during 2012 and 2011. As a result, the realized gain and unrealized loss on the interest rate swap have been included in the excess (deficiency) of revenues and gains over expenses and losses.

In March 2012, both parties mutually agreed to terminate the interest rate swap contract.

Employee Fringe Benefits

The Hospital has an "earned time" plan which provides benefits to employees for paid leave hours. Under this plan, each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays, or illnesses. Hours earned, but not used, are vested with the employee. The Hospital accrues a liability for such paid leave as it is earned. The earned time plan does not cover the physicians.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The cost of charity care provided was approximately \$1,963,000 in 2012 and \$1,682,000 in 2011. The cost is estimated by applying the ratio of total cost to total charges to the charges associated with providing such care.

Operating Indicator

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Gain or loss on disposal of property and equipment and investment income used to fund interest expense and other operating expenses are included in operating income. Peripheral or incidental transactions are reported as nonoperating gains (losses), which primarily include certain investment income (loss), contributions and program support, community benefit grants, and realized and unrealized gains and losses on interest rate swap.

Excess (Deficiency) of Revenues and Gains Over Expenses and Losses

The statements of operations and changes in net assets include excess (deficiency) of revenues and gains over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include unrealized gains and temporary unrealized losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and the change in net assets to recognize funded status of pension plan.

Income Taxes

The Hospital is a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 45,763,948	\$ 44,766,298
General and administrative	<u>7,449,945</u>	<u>6,838,729</u>
	<u>\$ 53,213,893</u>	<u>\$ 51,605,027</u>

New Accounting Pronouncement

In July 2011, the FASB amended ASC 954, *Health Care Entities*, to require health care entities to change the presentation of the statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosures are required about the policies for recognizing revenue and assessing bad debts. The amendments also require disclosure of qualitative and quantitative information about significant changes in the allowance for doubtful accounts. The amendments to ASC 954 were effective for the Hospital beginning January 1, 2012 and have been incorporated into the Hospital's December 31, 2012 financial statements.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. generally accepted accounting principles, management has considered transactions or events occurring through April 30, 2013, which was the date the financial statements were issued.

2. **Assets Limited as to Use**

Assets limited as to use consist of:

	<u>2012</u>	<u>2011</u>
Funds designated by the Board for capital improvements	\$19,837,745	\$18,618,246
Funds held by Trustee under bond indenture agreement Debt Service Fund	<u>-</u>	<u>103,069</u>
	<u>19,837,745</u>	18,721,315
Less current portion	<u>-</u>	<u>103,069</u>
	<u>\$19,837,745</u>	<u>\$18,618,246</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

The composition of assets limited as to use as of December 31 was as follows:

	<u>2012</u>	<u>2011</u>
Cash and short-term investments	\$ 4,884,909	\$ 3,061,632
U.S. Treasury securities and other government-sponsored enterprises	2,015,308	2,024,236
Corporate bonds	2,251,458	831,442
Marketable equity securities	4,475,914	4,831,392
Mutual funds	3,304,447	5,145,405
Alternative investments	<u>2,905,709</u>	<u>2,827,208</u>
	<u>\$19,837,745</u>	<u>\$18,721,315</u>

Investment income and gains (losses) for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Income (loss)		
Interest and dividend income	\$ 517,081	\$ 654,780
Realized gains on sales of securities	197,695	517,876
Management fees	<u>(89,713)</u>	<u>(95,126)</u>
	<u>\$ 625,063</u>	<u>\$ 1,077,530</u>
Other changes in unrestricted net assets		
Change in net unrealized gains	<u>\$ 649,238</u>	<u>\$ (1,632,348)</u>

Income on investments is reported as follows:

	<u>2012</u>	<u>2011</u>
Other revenues	\$ 482,842	\$ 538,941
Nonoperating gains	<u>142,221</u>	<u>538,589</u>
	<u>\$ 625,063</u>	<u>\$ 1,077,530</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

3. Property and Equipment

The major categories of property and equipment, at cost, are as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 77,592	\$ 77,592
Land improvements	1,103,848	1,109,576
Buildings and fixtures	20,596,708	20,225,987
Fixed equipment	5,715,060	5,682,562
Major moveable equipment	<u>14,042,117</u>	<u>13,615,592</u>
	41,535,325	40,711,309
Less accumulated depreciation	<u>27,974,177</u>	<u>26,306,787</u>
	13,561,148	14,404,522
Construction in progress	<u>667,102</u>	<u>177,426</u>
	<u>\$14,228,250</u>	<u>\$ 14,581,948</u>

During 2012, the Hospital Board of Directors approved the design, purchase and installation of a biomass boiler at an estimated cost of approximately \$2,800,000. At December 31, 2012, approximately \$515,000 of costs are included in construction in progress related to this project. The project is expected to be completed by November 2013 and to be financed by a bank loan.

4. Line of Credit

The Hospital has an unsecured \$3,500,000 revolving line of credit with a bank. There were no borrowings outstanding under this line at December 31, 2012 and 2011. Interest on borrowings is assessed at the Wall Street Journal prime rate. The line of credit expires May 30, 2014.

5. Long-Term Debt

Long-term debt and capital lease obligations consist of the following as of December 31:

	<u>2012</u>	<u>2011</u>
New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue Bonds, Androscoggin Valley Hospital Issue, Series 2012 (including \$125,386 of unamortized bond issuance costs in 2012).		
Term bonds, \$2,000,000 and \$12,500,000 maturing on April 1, 2019 and 2027, respectively, payable in equal monthly installments of \$26,428 and \$88,530, including interest at 2.951% and 3.312%, respectively.	\$ 13,697,885	\$ -

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
NHHEFA Revenue Bonds, Androscoggin Valley Hospital Issue, Series 2007 variable rate bonds. Refunded in 2012.	-	12,805,495
Loan payable in monthly installments of \$31,354, including interest (4% at December 31, 2012), through October 2015; collateralized by investments.	<u>1,005,644</u>	<u>1,333,549</u>
	<u>14,703,529</u>	13,939,044
Less current portion	<u>1,276,079</u>	<u>918,073</u>
Long-term debt, excluding current portion	<u>\$ 13,428,450</u>	<u>\$ 13,020,971</u>

The NHHEFA Revenue Bonds, (Androscoggin Valley Hospital Issue, Series 2012), in the amount of \$14,500,000, were issued in March 2012 for the purpose of refinancing existing indebtedness and terminating the Hospital's interest rate swap contract. The Revenue Bond consists of two term bonds in the amounts of \$2,000,000 and \$12,500,000. The terms of the bonds are seven years and ten years (with a five-year renewal option), respectively. A negative-negative pledge agreement was provided as security.

The Series 2012 Revenue Bond Agreement contains various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at December 31, 2012.

The NHHEFA Revenue Bonds (Androscoggin Valley Hospital Issue, Series 2007) in the amount of \$15,000,000 were issued in November 2007. Interest on the Bonds were based on available weekly rates as determined by the remarketing agent based on prevailing market conditions, not to exceed 10% per annum. The Bonds were collateralized by the gross receipts of the Hospital and a letter of credit agreement. The Bonds were issued to advance refund existing bonds, repay other existing debt and fund future capital purchases.

While interest on the Series 2007 Bonds accrued on a weekly variable rate, the Hospital was required to maintain a credit facility in an amount not less than the principal amount of the outstanding Bonds plus accrued interest for 34 days at the maximum interest rate. To comply with this requirement, the Hospital had obtained an irrevocable direct pay letter of credit from JP Morgan Chase Bank, N.A. (Bank) in the amount of \$15,139,727. The letter of credit expired on November 30, 2014 and could be extended by an additional year on each annual anniversary. It was collateralized by a pledge of the Bonds and gross receipts of the Hospital. The Hospital was required to pay the Bank quarterly fees at the rate of .37% per annum of the daily average amount available of the outstanding bonds as defined in the agreement. Interest on drawings were paid at 3% per annum plus the base rate. The base rate was equal to the higher of the Wall Street Journal's prime rate or the Federal Funds Effective Rate plus 0.50%. Upon issuance of the letter of credit, the Hospital was required to pay an origination fee in the amount of \$1,000.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

To satisfy the requirements of the letter of credit reimbursement agreement, the Hospital entered into an interest rate swap agreement with another Bank. Under the agreement, the Hospital made or received payments based on the difference between the fixed-rate interest payments and the variable market-indexed payments. The notional principal amount of the interest rate swap outstanding was \$12,845,000 December 31, 2011. The fixed interest payment rate was 3.4735%, and the variable interest payment received was based on 67% of the 1-month "USD-LIBOR-BBA Index." The fair value of the swap agreement is recorded in the balance sheet as of December 31, 2011. The swap agreement was set to expire on November 1, 2027. Both parties involved in the swap agreement mutually consented to terminate the agreement and settle the contract based on its market valuation as of March 31, 2012.

Scheduled principal repayments on long-term debt under refinanced terms are as follows:

Year ending December 31,

2013 (included in current liabilities)	\$ 1,275,079
2014	1,320,023
2015	1,303,949
2016	1,027,862
2017	1,062,829
Thereafter	<u>8,713,787</u>
	<u>\$ 14,703,529</u>

6. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital was granted Critical Access Hospital (CAH) status. Under CAH, the Hospital is reimbursed 101% of allowable costs for its inpatient, outpatient, and swing-bed services provided to Medicare beneficiaries. Home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates based on clinical, diagnostic, and other factors.

The Hospital is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2008.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through December 31, 2008.

Anthem Blue Cross

Inpatient and outpatient services rendered to Anthem Blue Cross subscribers are reimbursed at submitted charges less a negotiated discount. Radiology and laboratory services are being reimbursed based on a fee schedule. The amounts paid to the Hospital are not subject to any retroactive adjustments.

Revenues from Medicare and Medicaid programs accounted for approximately 45% and 12%, respectively, of the Hospital's patient revenue for the year ended 2012, and 46% and 12%, respectively, of the Hospital's patient revenue for the year ended 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In 2012, net patient service revenue decreased approximately \$371,000, due to adjustment of allowances or recognition of settlements no longer subject to audits, reviews, and investigations. There were no such adjustments in 2011.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal years ended December 31, 2012 and 2011 totaled \$52,743,143 and \$53,237,477, respectively, of which \$46,346,386 and \$46,529,618, respectively, were revenues from third-party payors and \$6,396,757 and \$6,707,859, respectively, were revenues from self-pay patients.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Gross patient service revenue, contractual allowances, and other allowances consisted of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Patient services		
Inpatient	\$ 19,362,329	\$ 18,414,791
Outpatient	61,346,332	62,446,256
Physician services	11,597,028	11,565,511
Home health	<u>1,702,398</u>	<u>1,645,695</u>
Gross patient service revenue	<u>94,008,087</u>	<u>94,072,253</u>
Less Medicare and Medicaid allowances	26,288,099	26,748,733
Less other contractual allowances	11,511,181	11,020,418
Less charity care allowances	<u>3,465,664</u>	<u>3,065,625</u>
Patient service revenue (net of contractual allowances and discounts)	52,743,143	53,237,477
Less provision for bad debts	<u>2,882,948</u>	<u>3,104,806</u>
Net patient service revenue	<u>\$ 49,860,195</u>	<u>\$ 50,132,671</u>

Under the State's Medicaid program, the Hospital receives disproportionate share payments from a pool, which was funded by a 5.5% tax on net patient service revenue in 2012 and 2011, of all New Hampshire hospitals. The disproportionate share revenue amounted to \$4,694,389 and \$4,393,532 for 2012 and 2011, respectively, and is recorded in net patient service revenue. The tax expense, which amounted to \$2,158,936 and \$2,182,619 for 2012 and 2011, respectively, is recorded as an operating expense. Because the State's program has not yet been approved and the methodologies used to determine net patient service revenue and disproportionate share payments remain unsettled, the Hospital has reserved for a portion of these amounts.

7. Pension Plan and Other Deferred Compensation

The Hospital has a non-contributory defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during employment. The Hospital's funding policy is to contribute the amount recommended by the Hospital's actuary to fulfill ERISA requirements. Contributions are intended to provide not only for benefits attributed to service to date, but also those expected to be earned in the future. Effective December 31, 2006, the Hospital froze the defined benefit pension plan and established a defined contribution plan for all eligible employees.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

The following table sets forth the funded status of the defined benefit plan and amounts recognized in the Hospital's financial statements as of and for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 20,471,008	\$ 16,986,948
Interest cost	961,258	989,132
Actuarial loss	1,631,926	3,022,181
Benefits paid	<u>(595,822)</u>	<u>(527,253)</u>
 Benefit obligation at end of year	 <u>\$ 22,468,370</u>	 <u>\$ 20,471,008</u>
 Change in plan assets		
Fair value of plan assets at beginning of year	\$ 12,263,036	\$ 12,139,158
Actual return on plan assets	821,189	(198,869)
Employer contribution	1,060,854	850,000
Benefits paid	(595,822)	(527,253)
Administrative expenses	<u>(56,396)</u>	<u>-</u>
 Fair value of plan assets at end of year	 <u>\$ 13,492,861</u>	 <u>\$ 12,263,036</u>
 Funded status		
Benefit obligation	\$ (22,468,370)	\$ (20,471,008)
Fair value of plan assets	<u>13,492,861</u>	<u>12,263,036</u>
	<u>\$ (8,975,509)</u>	<u>\$ (8,207,972)</u>
 Components of net periodic benefit cost		
Interest cost	\$ 961,258	\$ 989,132
Expected return on plan assets	(961,421)	(979,686)
Amortization of unrecognized net actuarial loss	<u>775,809</u>	<u>383,152</u>
 Net periodic benefit cost	 <u>\$ 775,646</u>	 <u>\$ 392,598</u>
 Accumulated benefit obligation	 <u>\$ (22,468,370)</u>	 <u>\$ (20,471,008)</u>

Included in unrestricted net assets at December 31, 2012 and 2011 are unrecognized actuarial losses of \$10,652,915 and \$9,800,171, respectively, which have not been recognized in net periodic pension cost. The amount expected to be recognized in 2013 is \$853,409.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Assumptions

The assumptions used in the measurement of the Hospital's benefit obligation are shown in the following table:

	<u>2012</u>	<u>2011</u>
Weighted average assumptions at December 31:		
Discount rate		
For determining net periodic benefit cost	4.75 %	6.00 %
For determining benefit obligation	4.25	4.75
Expected return on plan assets	8.00	8.00

To achieve the expected long-term rate of return on plan assets assumption, the Hospital developed a plan investment policy to maximize the safety of the funds, provide adequate liquidity, and maximize return on funds invested. Assets may be allocated in accordance with the plan investment policy as follows:

Equity investments, limited to companies listed on the major stock exchanges	0-65%
Fixed income investments, including cash equivalents with maturity dates under one year, short-term and intermediate funds, and specified insurance contracts	35-100%

Based on a current year actuarial schedule, the Hospital will set a percentage of the total assets to be invested in highly-liquid, short-term investments for that year.

Plan Assets

The Plan's primary investment objective is to ensure that contributions, assets, and returns from investments shall be sufficient to meet the Plan's obligations, without undue exposure to risk. Plan management directs its investment managers to maintain well-diversified portfolios. Fixed income portfolios are to be diversified by maturity, quality, sector, and industry in a manner comparable to the benchmark index (Lehman Intermediate Government/Credit Index).

Investment returns are to be measured using quarterly and annual investment performance reviews. The reviews will include measurement of return and comparison of return to appropriate indices, as well as risk and diversification analyses as compared to index values.

The Hospital's pension plan weighted-average asset allocations at December 31, 2012 and 2011, by asset category, are as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	7 %	22 %
Mutual funds	34	59
Fixed income	56	15
Alternative investments	<u>3</u>	<u>4</u>
Total	<u>100 %</u>	<u>100 %</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Contributions

The Hospital expects to contribute \$856,000 to the Plan in 2013.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid as follows:

2013	\$ 681,000
2014	682,000
2015	783,000
2016	894,000
2017	990,000
Years 2018-2022	6,192,000

Additional Benefit Plans

The Hospital established a contributory defined contribution plan available to substantially all employees. The Hospital's policy under the defined contribution plan is to fund its portion of amounts due under the plan on a current basis and to recognize expense as incurred. During 2012 and 2011, the Hospital contributed \$327,488 and \$323,920 to this plan, respectively.

The Hospital also maintains a nonqualified deferred compensation plan which was established for a select group of management or highly-compensated employees. The amounts contributed to the plan by the Hospital and employees are recognized as an asset and a corresponding liability in the financial statements.

8. Related Party Transactions

The Hospital has extended an interest-free \$1,000,000 revolving line of credit to MHS, an affiliate of the Hospital. Advances under the line of credit are due upon demand. Included in advances to affiliates are advances under the line of credit of \$32,588 and \$180,288 as of December 31, 2012 and 2011, respectively. During 2011, the Hospital made a noncash equity transfer of \$500,000 to MHS.

During 2012 and 2011, the Hospital recorded \$36,667 and \$40,000, respectively, of revenue from AVHF, NCR, and MHS for management, accounting, and other administrative services.

During 2012 and 2011, the Hospital incurred costs of \$25,000 primarily related to equipment provided by NCR.

During 2012 and 2011, the Hospital recorded revenue of \$54,613 and \$39,473, respectively, from AVHF as reimbursement for qualifying physician education and various expenses related to programs provided for community benefit.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Advances to affiliates as of December 31 consisted of:

	<u>2012</u>	<u>2011</u>
Due from NCR	\$ 530,247	\$ 540,247
Due from AVHF	594,675	513,662
Due from MHS	<u>32,588</u>	<u>180,288</u>
	<u>\$1,157,510</u>	<u>\$1,234,197</u>

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Medicare	39 %	39 %
Medicaid	10	10
Commercial insurance and other	17	22
Patients	20	19
Anthem Blue Cross	<u>14</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

The Hospital maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. Hospital management believes it is not exposed to any significant risk on cash and cash equivalents.

10. Commitments and Contingencies

Malpractice Loss Contingencies

The Hospital insures its medical malpractice risks on a claims-made basis under a policy which covers all employees of the Hospital. A claims-made policy provides specified coverage for claims reported during the policy term. The policy contains a provision which allows the Hospital to purchase "tail" coverage for an indefinite period of time to avoid any lapse in insurance coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of doing business. Generally Accepted Accounting Principles require the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. The Hospital has evaluated its exposure to losses arising from potential claims and determined that no such accrual is necessary for the year ended December 31, 2012. The Hospital intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Asset Retirement Obligation

FASB ASC 410, *Asset Retirement and Environmental Obligations*, requires entities to record asset retirement obligations at fair value if they can be reasonably estimated. The State of New Hampshire requires special disposal procedures relating to building materials containing asbestos. The Hospital building contains some encapsulated asbestos, but a liability has not been recognized. This is because there are no current plans to renovate or dispose of the building that would require the removal of the asbestos; accordingly, the liability has an indeterminate settlement date and its fair value cannot be reasonably estimated.

Community Benefit Grant

The Hospital and Coos County Family Health Services (CCFHS) have entered into an agreement whereby the Hospital will provide funding in the form of a community benefit grant to CCFHS for the purpose of supporting a portion of the otherwise uncompensated costs incurred by CCFHS in providing physician services. The terms of the agreement require that the Hospital provide CCFHS with the agreed-upon community benefit grant funds on July 1 of the appropriate grant year. The amount of the community benefit grant to be awarded will be determined on an annual basis in accordance with the terms of the agreement. The initial term of the community benefit grant agreement expires December 31, 2023. Grant expense of \$638,401 and \$709,600 was incurred in 2012 and 2011, respectively.

In February 2009, the community benefit grant was renegotiated to the following payment schedule, contingent upon CCFHS achieving certain annual encounter levels:

<u>On July 1</u>	<u>Not to Exceed</u>
2011 - 2022	\$ 700,000
2023	350,000

11. Meaningful Use Revenue

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" of certified EHR technology. The Medicare criteria for meaningful use will be staged in three steps from fiscal year 2011 through 2015. The meaningful use attestation is subject to audit by the Centers of Medicare and Medicaid Services in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation, and could result in return of a portion or all of the incentive payments received by the Hospital. Management has determined that no allowance is needed against the established meaningful use receivable at December 31, 2012.

The Medicaid program will provide incentive payments to hospitals and eligible professionals as they adopt, and implement, upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years. There will be no payment adjustments under the Medicaid EHR incentive program.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

During 2012, the Hospital recorded meaningful use revenue from the Medicaid and Medicare EHR programs of \$292,592 and \$1,300,000, respectively.

12. Fair Value Measurement

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	<u>Fair Value Measurements at December 31, 2012, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 4,884,909	\$ 4,884,909	\$ -	\$ -
U.S. Treasury securities and other government- sponsored enterprises	2,015,308	2,015,308	-	-
Corporate bonds	2,251,458	-	2,251,458	-
Marketable equity securities:				
Consumer discretionary	107,771	107,771	-	-
Consumer staples	138,428	138,428	-	-
Energy	137,827	137,827	-	-
Financials	204,674	204,674	-	-
Healthcare	151,662	151,662	-	-
Industrials	90,057	90,057	-	-
Information technology	187,392	187,392	-	-
Materials	42,637	42,637	-	-
Miscellaneous equity	3,202,472	3,202,472	-	-
Telecommunication services	169,708	169,708	-	-
Utilities	43,286	43,286	-	-
Total marketable equity securities	<u>4,475,914</u>	<u>4,475,914</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Index funds	-	-	-	-
Balanced funds	203,733	203,733	-	-
Growth funds	1,840,892	1,840,892	-	-
Fixed income funds	1,039,320	1,039,320	-	-
International funds	220,592	220,592	-	-
Total mutual funds	<u>3,304,447</u>	<u>3,304,447</u>	<u>-</u>	<u>-</u>
Alternative investments:				
Ivory Offshore Flagship Fund	1,045,839	-	1,045,839	-
ACL Alternative Fund	672,199	-	672,199	-
Ironwood Institutional Fund	1,187,671	-	-	1,187,671
Total alternative investments	<u>2,905,709</u>	<u>-</u>	<u>1,718,038</u>	<u>1,187,671</u>
Investments to fund deferred compensation	2,222,660	2,222,660	-	-
Total assets	\$ <u>22,060,405</u>	\$ <u>16,903,236</u>	\$ <u>3,969,496</u>	\$ <u>1,187,671</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

	<u>Fair Value Measurements at December 31, 2012, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments - held by defined benefit pension plan (Note 7):				
Cash and cash equivalents	\$ 944,943	\$ 944,943	\$ -	\$ -
U.S. Treasury securities and other government-sponsored enterprises	317,835	317,835	-	-
International bonds	-	-	-	-
Corporate bonds	7,298,836	-	7,298,836	-
Mutual funds:				
Balanced funds	247,842	247,842	-	-
Bond funds	1,993,904	1,993,904	-	-
Growth funds	751,061	751,061	-	-
International funds	780,666	780,666	-	-
Insurance bond fund	<u>762,431</u>	<u>762,431</u>	<u>-</u>	<u>-</u>
Total mutual funds	<u>4,535,904</u>	<u>4,535,904</u>	<u>-</u>	<u>-</u>
Alternative investments	<u>395,343</u>	<u>-</u>	<u>395,343</u>	<u>-</u>
Total	<u>\$ 13,492,861</u>	<u>\$ 5,798,882</u>	<u>\$ 7,694,179</u>	<u>\$ -</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance, January 1, 2011	\$ -
Purchases	1,124,000
Net change in asset value	<u>(31,458)</u>
Balance, December 31, 2011	1,092,542
Purchases	-
Net change in asset value	<u>95,129</u>
Balance, December 31, 2012	<u>\$1,187,671</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

	<u>Fair Value Measurements at December 31, 2011, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 3,061,632	\$ 3,061,632	\$ -	\$ -
U.S. Treasury securities and other government- sponsored enterprises	2,024,236	2,024,236	-	-
Corporate bonds	831,442	-	831,442	-
Marketable equity securities:				
Consumer discretionary	420,235	420,235	-	-
Consumer staples	455,881	455,881	-	-
Energy	489,589	489,589	-	-
Financials	584,382	584,382	-	-
Healthcare	488,851	488,851	-	-
Industrials	285,939	285,939	-	-
Information technology	706,224	706,224	-	-
Materials	212,030	212,030	-	-
Miscellaneous equity	609,719	609,719	-	-
Telecommunication services	409,103	409,103	-	-
Utilities	189,439	189,439	-	-
Total marketable equity securities	<u>4,831,392</u>	<u>4,831,392</u>	-	-
Mutual funds:				
Index funds	1,212,326	1,212,326	-	-
Balanced funds	1,090,215	1,090,215	-	-
Growth funds	1,773,092	1,773,092	-	-
Fixed income funds	366,265	366,265	-	-
International funds	703,507	703,507	-	-
Total mutual funds	<u>5,145,405</u>	<u>5,145,405</u>	-	-
Alternative investments:				
Ivory Offshore Flagship Fund	1,004,418	-	1,004,418	-
ACL Alternative Fund	730,248	-	730,248	-
Ironwood Institutional Fund	1,092,542	-	-	1,092,542
Total alternative investments	<u>2,827,208</u>	-	<u>1,734,666</u>	<u>1,092,542</u>
Investments to fund deferred compensation	1,675,104	1,675,104	-	-
Total assets	<u>\$ 20,396,419</u>	<u>\$ 16,737,769</u>	<u>\$ 2,566,166</u>	<u>\$ 1,092,542</u>
Liabilities:				
Interest rate swap	\$ 2,338,470	\$ -	\$ 2,338,470	\$ -
Total liabilities	<u>\$ 2,338,470</u>	<u>\$ -</u>	<u>\$ 2,338,470</u>	<u>\$ -</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

	<u>Fair Value Measurements at December 31, 2011, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments - held by defined benefit pension plan (Note 7):				
Cash and cash equivalents	\$ 2,721,067	\$ 2,721,067	\$ -	\$ -
U.S. Treasury securities and other government-sponsored enterprises	1,137,395	1,137,395	-	-
International bonds	75,251	-	75,251	-
Corporate bonds	624,343	-	624,343	-
Mutual funds:				
Index funds	1,467,248	1,467,248	-	-
Balanced funds	393,718	393,718	-	-
Growth funds	3,306,356	3,306,356	-	-
International funds	1,237,326	1,237,326	-	-
Insurance bond funds	<u>870,848</u>	<u>870,848</u>	-	-
Total mutual funds	7,275,496	7,275,496	-	-
Alternative investments	<u>429,484</u>	-	<u>429,484</u>	-
Total	<u>\$ 12,263,036</u>	<u>\$ 11,133,958</u>	<u>\$ 1,129,078</u>	<u>\$ -</u>

The fair value for Level 2 assets (excluding alternative investments) and liabilities is primarily based on market prices of underlying assets, comparable securities, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value for Level 2 alternative investments is based on the Hospital's pro-rata share of the total underlying fund assets, which all have readily determinable fair values.

The fair value for Level 3 alternative investments is based on the Hospital's pro-rata share of the total underlying fund assets, a significant portion of which are valued using significant unobservable inputs and the fund management's own assumptions.

The Ivory Offshore Flagship Fund (the Fund) allows for quarterly redemptions, however, 45-day prior written notice is required to withdraw all or a portion of the investment in the Fund. In the event the Hospital withdraws all of its investment balance in the Fund, there is a 5% withhold until the Fund completes its annual audit, at which time the remaining 5% is distributed to the Hospital.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2012 and 2011

The Ironwood Institutional Fund (the Fund) allows for semi-annual redemptions on June 30 and December 31 of each year, however, 95-day prior written notice is required to withdraw all or a portion of the investment in the Fund. In the event the Hospital withdraws all of its investment balance in the Fund, there is a 5% withhold until the Fund completes its annual audit, at which time the remaining 5% is distributed to the Hospital.

The Hospital's financial instruments consist of cash and cash equivalents, marketable securities, trade accounts receivable and payable, estimated third-party payor settlements, interest rate swap, and long-term debt. The fair values of all financial instruments approximate their carrying values at December 31, 2012 and 2011.



Androscoggin Valley
HOSPITAL

FINANCIAL STATEMENTS

December 31, 2013 and 2012

With Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Androscoggin Valley Hospital, Inc.

We have audited the accompanying financial statements of Androscoggin Valley Hospital, Inc., which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of Androscoggin Valley Hospital, Inc. as of December 31, 2012 and 2011, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Portland, Maine
REPORT DATE

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Balance Sheets

December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 6,681,590	\$ 7,352,615
Patient accounts receivable, less estimated uncollectibles and contractual allowances (2013 - \$8,006,870; 2012 - \$5,869,323)	7,130,536	5,705,512
Other accounts receivable	135,561	54,637
Meaningful use receivable	365,345	1,592,592
Supplies	360,558	340,616
Prepaid expenses and other current assets	<u>2,628,507</u>	<u>2,436,626</u>
Total current assets	17,302,097	17,482,598
Assets limited as to use	21,165,493	19,837,745
Property and equipment, net	15,183,179	14,228,250
Other assets		
Advances to affiliates	1,147,594	1,157,510
Deferred compensation	<u>3,037,882</u>	<u>2,222,660</u>
Total other assets	<u>4,185,476</u>	<u>3,380,170</u>
Total assets	<u>\$ 57,836,245</u>	<u>\$ 54,928,763</u>

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The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
Current liabilities		
Current portion of long-term debt	\$ 1,320,025	\$ 1,275,079
Accounts payable and accrued expenses	3,257,698	3,557,883
Accrued salaries and related amounts	2,373,012	2,437,531
Estimated third-party payor settlements	<u>10,130,122</u>	<u>8,072,113</u>
Total current liabilities	17,080,857	15,342,606
Long-term debt, excluding current portion	12,117,788	13,428,450
Pension liability	7,439,021	8,975,509
Deferred compensation	<u>3,037,882</u>	<u>2,222,660</u>
Total liabilities	39,675,548	39,969,225
Commitments and contingencies (Notes 3, 7, and 10)		
Unrestricted net assets	<u>18,160,697</u>	<u>14,959,538</u>
Total liabilities and net assets	<u>\$ 57,836,245</u>	<u>\$ 54,928,763</u>

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ANDROSCOGGIN VALLEY HOSPITAL, INC.

Statements of Operations and Changes in Net Assets

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted revenues and gains		
Patient service revenue (net of contractual allowances and discounts)	\$ 54,836,375	\$ 52,738,028
Less provision for bad debts	<u>3,016,514</u>	<u>2,882,948</u>
Net patient service revenue	51,819,861	49,855,080
Other revenues	2,935,234	2,554,348
Meaningful use revenue	<u>395,988</u>	<u>1,592,592</u>
Total unrestricted revenues and gains	<u>55,151,083</u>	<u>54,002,020</u>
Expenses		
Salaries, wages, and fringe benefits	30,800,593	31,142,401
Supplies and other expenses	16,842,001	16,581,769
Medicaid enhancement tax	2,716,082	2,158,936
Insurance	564,705	592,842
Depreciation and amortization	2,211,505	2,260,009
Interest expense	<u>472,535</u>	<u>477,936</u>
Total expenses	<u>53,607,421</u>	<u>53,213,893</u>
Operating income	<u>1,543,662</u>	<u>788,127</u>
Nonoperating gains (losses)		
Investment (loss) income	(79,572)	142,221
Contributions and program support, net	(17,960)	51,108
Community benefit grant	(677,500)	(638,401)
Realized loss on interest rate swap	-	127,470
Loss on early extinguishment of long-term debt	<u>-</u>	<u>(243,359)</u>
Nonoperating losses, net	<u>(775,032)</u>	<u>(560,961)</u>
Excess of revenues and gains over expenses and losses	768,630	227,166
Change in net unrealized gains on investments	1,002,747	649,238
Change in net assets to recognize funded status of pension plan	<u>1,429,782</u>	<u>(1,052,744)</u>
Increase (decrease) in unrestricted net assets	3,201,159	(176,340)
Unrestricted net assets, beginning of year	<u>14,959,538</u>	<u>15,135,878</u>
Unrestricted net assets, end of year	\$ <u>18,160,697</u>	\$ <u>14,959,538</u>

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The accompanying notes are an integral part of these financial statements.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 3,201,159	\$ (176,340)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	2,211,505	2,260,009
Gain on disposal of property and equipment	(5,294)	(6,893)
Net realized and unrealized gains on investments	(973,694)	(846,933)
Net realized gain on interest rate swap	-	(127,470)
Loss on early extinguishment of long-term debt	-	243,359
Provision for bad debts	3,016,514	2,882,948
Change in net assets to recognize funded status of pension plan	(1,429,782)	1,052,744
(Increase) decrease in		
Patient accounts receivable	(4,441,538)	(2,248,292)
Other accounts receivable	(80,924)	(11,407)
Meaningful use receivable	1,227,247	(1,592,592)
Supplies	(19,942)	(27,653)
Prepaid expenses and other current assets	(191,881)	(6,367)
Increase (decrease) in		
Accounts payable and accrued expenses	(300,185)	(415,860)
Accrued salaries and related amounts	(64,519)	46,377
Estimated third-party payor settlements	2,058,009	403,499
Pension liability	<u>(106,706)</u>	<u>(285,207)</u>
Net cash provided by operating activities	<u>4,099,969</u>	<u>1,143,922</u>
Cash flows from investing activities		
Proceeds from sale of investments	6,653,765	9,777,168
Purchases of investments	(7,007,819)	(10,046,665)
Proceeds from sale of property and equipment	28,250	-
Purchases of property and equipment	(3,166,402)	(1,903,272)
Decrease in advances to affiliate	<u>9,916</u>	<u>76,687</u>
Net cash used by investing activities	<u>(3,482,290)</u>	<u>(2,096,082)</u>
Cash flows from financing activities		
Payments on long-term debt	(1,288,704)	(1,004,634)
Retirement of long-term debt	-	(12,845,000)
Proceeds from issuance of long-term debt	-	14,500,000
Increase in bond issuance costs	-	(125,386)
Retirement of interest rate swap	-	(2,211,000)
Net cash used by financing activities	<u>(1,288,704)</u>	<u>(1,686,020)</u>
Net decrease in cash and cash equivalents	(671,025)	(2,638,180)
Cash and cash equivalents, beginning of year	<u>7,352,615</u>	<u>9,990,795</u>
Cash and cash equivalents, end of year	\$ <u>6,681,590</u>	\$ <u>7,352,615</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ <u>472,535</u>	\$ <u>516,572</u>

The accompanying notes are an integral part of these financial statements.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Nature of Business

Androscoggin Valley Hospital, Inc. (Hospital) is a non-profit critical access hospital which provides inpatient, outpatient, emergency care, ambulatory care, specialty care, and home health services to residents of Berlin, New Hampshire and the surrounding communities. The Hospital is controlled by NorthCare (NCR), a non-profit entity organized under New Hampshire law to serve as a holding company. NCR is the sole member of the Hospital. Related parties, Mountain Health Services, Inc. (MHS) and Androscoggin Valley Hospital Foundation (AVHF), are also controlled by NCR.

The Hospital, along with Upper Connecticut Valley Hospital (UCVH) and Weeks Medical Center (Weeks), has formed Northern New Hampshire Health Collaborative, LLC, (the Collaborative). The Collaborative is a New Hampshire limited liability company located in Berlin, New Hampshire with the purpose to promote effective, efficient and rational expenditure of resources in order to preserve and enhance future access to critical, primary, and preventive health care services within the respective communities served in Northern New Hampshire. Collaborative initiatives may include management agreements, joint ventures, purchasing arrangement and innovative healthcare delivery platforms. Membership interests will be allocated equally. The Collaborative has been approved by the New Hampshire Attorney General and a decision is pending from the Federal Trade Commission. During 2013, home health services of the Hospital and UCVH were transferred to and performed by Weeks. Effective January 1, 2014, home health services were transferred to the Collaborative.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments which have a maturity of three months or less when purchased and exclude amounts limited as to use by Board designation.

Patient Accounts Receivable

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Data for each major payor source is regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. For receivables relating to self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

provision for bad debts in the period of service based on past experience, which indicates that many patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2013, the Hospital decreased its estimate from \$2,267,042 to \$2,151,353 in the allowance for doubtful accounts relating to self-pay patients and during 2012 the Hospital decreased its estimate from \$2,580,116 to \$2,267,042. During 2013, self-pay write-offs decreased from \$2,916,847 to \$2,624,369 and during 2012 self-pay write-offs increased from \$2,500,125 to \$2,916,847, respectively. These changes resulted from trends experienced in the collection of amounts from self-pay patients during 2013 and 2012, respectively.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues and gains over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and temporary unrealized losses on investments are excluded from this measure.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets and statements of operations and changes in net assets.

Assets Limited as to Use

Assets limited as to use include designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Supplies

Supplies are carried at the lower of cost (determined by the first-in, first-out method) or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if contributed, at fair market value determined at the date of donation, less accumulated depreciation. The Hospital's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets. The provision for depreciation has been computed using the straight-line method at rates which are intended to amortize the cost of assets over their estimated useful lives.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Bond Issuance Costs

The costs incurred to obtain long-term financing are being amortized by the straight-line method over the repayment period of the related debt. The costs are included in long-term debt in the balance sheet.

Employee Fringe Benefits

The Hospital has an "earned time" plan which provides benefits to employees for paid leave hours. Under this plan, each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays, or illnesses. Hours earned, but not used, are vested with the employee. The Hospital accrues a liability for such paid leave as it is earned. The earned time plan does not cover the physicians.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedules, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The cost of charity care provided was approximately \$1,788,000 in 2013 and \$1,963,000 in 2012. The cost is estimated by applying the ratio of total cost to total charges to the charges associated with providing such care.

Operating Indicator

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Gain or (loss) on disposal of property and equipment and investment income used to fund interest expense and other operating expenses are included in operating income. Peripheral or incidental transactions are reported as nonoperating gains (losses), which primarily include certain investment income (loss), contributions and program support, community benefit grants, and realized losses on the interest rate swap and early extinguishment of long-term debt.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Excess of Revenues and Gains Over Expenses and Losses

The statements of operations and changes in net assets include excess of revenues and gains over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include unrealized gains and temporary unrealized losses on investments other than trading securities and the change in net assets to recognize funded status of pension plan.

Income Taxes

The Hospital is a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes.

Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Health care services	\$ 45,030,234	\$ 45,763,948
General and administrative	<u>8,577,187</u>	<u>7,449,945</u>
	<u>\$ 53,607,421</u>	<u>\$ 53,213,893</u>

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. generally accepted accounting principles, management has considered transactions or events occurring through REPORT DATE, which was the date the financial statements were issued.

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ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

2. Assets Limited as to Use

The composition of assets limited as to use as of December 31 was as follows:

	<u>2013</u>	<u>2012</u>
Cash and short-term investments	\$ 3,764,257	\$ 4,884,909
U.S. Treasury securities and other government-sponsored enterprises	1,573,604	2,015,308
Corporate bonds	3,689,257	2,251,458
Marketable equity securities	4,764,705	4,475,914
Mutual funds	3,384,501	3,304,447
Alternative investments	<u>3,989,169</u>	<u>2,905,709</u>
	<u>\$21,165,493</u>	<u>\$19,837,745</u>

Investment income and gains (losses) for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Income (loss)		
Interest and dividend income	\$ 445,284	\$ 517,081
Realized (losses) gains on sales of securities	(29,053)	197,695
Management fees	<u>(81,771)</u>	<u>(89,713)</u>
	<u>\$ 334,460</u>	<u>\$ 625,063</u>
Other changes in unrestricted net assets		
Change in net unrealized gains	<u>\$ 1,002,747</u>	<u>\$ 649,238</u>

Income on investments is reported as follows:

	<u>2013</u>	<u>2012</u>
Other revenues	\$ 414,032	\$ 482,842
Nonoperating (losses) gains	<u>(79,572)</u>	<u>142,221</u>
	<u>\$ 334,460</u>	<u>\$ 625,063</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

3. Property and Equipment

The major categories of property and equipment, at cost, are as follows as of December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 77,592	\$ 77,592
Land improvements	1,136,840	1,103,848
Buildings and fixtures	20,688,155	20,596,708
Fixed equipment	5,411,542	5,715,060
Major moveable equipment	<u>15,215,874</u>	<u>14,042,117</u>
	42,530,003	41,535,325
Less accumulated depreciation	<u>29,403,744</u>	<u>27,974,177</u>
	13,126,259	13,561,148
Construction in progress	<u>2,056,920</u>	<u>667,102</u>
	<u>\$15,183,179</u>	<u>\$ 14,228,250</u>

During 2012, the Hospital Board of Directors approved the design, purchase and installation of a biomass boiler at an estimated cost of approximately \$3,200,000. At December 31, 2013 and 2012, costs of approximately \$1,773,000 and \$515,000, respectively, are included in construction in progress related to this project. The project is expected to be completed by April 2014 and will be funded through operations and/or bank financing.

4. Line of Credit

The Hospital has an unsecured \$3,500,000 revolving line of credit with a bank. There were no borrowings outstanding under this line at December 31, 2013 and 2012. Interest on borrowings is assessed at the Wall Street Journal prime rate. The line of credit expires May 30, 2014.

5. Long-Term Debt

Long-term debt consists of the following as of December 31:

	<u>2013</u>	<u>2012</u>
New Hampshire Health and Education Facilities Authority (NHHEFA) Revenue Bonds, Androscoggin Valley Hospital Issue, Series 2012 (including \$102,398 and \$125,386 of unamortized bond issuance costs in 2013 and 2012, respectively).		
Term bonds, \$2,000,000 and \$12,500,000 maturing on April 1, 2019 and 2027, respectively, payable in equal monthly installments of \$26,428 and \$88,530, including interest at 2.951% and 3.312%, respectively.	\$ 12,781,633	\$ 13,697,885

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Loan payable in monthly installments of \$31,354, including interest (4% at December 31, 2013), through October 2015; collateralized by investments.	<u>656,180</u>	<u>1,005,644</u>
Less current portion	<u>13,437,813</u> <u>1,320,025</u>	14,703,529 <u>1,275,079</u>
Long-term debt, excluding current portion	<u>\$ 12,117,788</u>	<u>\$ 13,428,450</u>

The NHHEFA Revenue Bonds, (Androscoggin Valley Hospital Issue, Series 2012), in the amount of \$14,500,000, were issued in March 2012 for the purpose of refinancing existing indebtedness and terminating the Hospital's interest rate swap contract. The Revenue Bond consists of two term bonds in the amounts of \$2,000,000 and \$12,500,000. The terms of the bonds are seven years and ten years (with a five-year renewal option), respectively. A negative-negative pledge agreement was provided as security.

The Series 2012 Revenue Bond Agreement contains various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at December 31, 2013.

Scheduled annual principal repayments of long-term debt for the next five years and thereafter are as follows:

2014 (included in current liabilities)	\$ 1,320,025
2015	1,296,257
2016	1,027,862
2017	1,062,829
2018	1,097,944
Thereafter	<u>7,632,896</u>
	<u>\$ 13,437,813</u>

6. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital was granted Critical Access Hospital (CAH) status. Under CAH, the Hospital is reimbursed 101% of allowable costs for its inpatient, outpatient, and swing-bed services provided to Medicare beneficiaries. Home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates based on clinical, diagnostic, and other factors.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

The Hospital is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2009.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through December 31, 2009.

Anthem Blue Cross

Inpatient and outpatient services rendered to Anthem Blue Cross subscribers are reimbursed at submitted charges less a negotiated discount. Ambulatory surgery and laboratory services are being reimbursed based on a fee schedule. The amounts paid to the Hospital are not subject to retroactive adjustments.

Revenues from Medicare and Medicaid programs accounted for approximately 46% and 11%, respectively, of the Hospital's patient revenue for the year ended 2013, and 47% and 11%, respectively, of the Hospital's patient revenue for the year ended 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$114,000 and \$371,000 in 2013 and 2012, respectively, due to adjustment of allowances or recognition of settlements no longer subject to audits, reviews, and investigations.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal years ended December 31, 2013 and 2012 totaled \$54,836,375 and \$52,738,028, respectively, of which \$48,871,654 and \$46,341,271, respectively, were revenues from third-party payors and \$5,964,721 and \$6,396,757, respectively, were revenues from self-pay patients.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Gross patient service revenue, contractual allowances, and other allowances consisted of the following for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Patient services		
Inpatient	\$ 20,369,781	\$ 19,385,120
Outpatient	66,195,049	62,813,410
Physician services	10,632,815	10,102,044
Home health	<u>763,932</u>	<u>1,702,398</u>
Gross patient service revenue	<u>97,961,577</u>	<u>94,002,972</u>
Less Medicare and Medicaid allowances	26,595,616	25,518,410
Less other contractual allowances	13,263,116	12,280,870
Less charity care allowances	<u>3,266,470</u>	<u>3,465,664</u>
Patient service revenue (net of contractual allowances and discounts)	54,836,375	52,738,028
Less provision for bad debts	<u>3,016,514</u>	<u>2,882,948</u>
Net patient service revenue	<u>\$ 51,819,861</u>	<u>\$ 49,855,080</u>

Under the State's Medicaid program, the Hospital receives disproportionate share payments which amounted to \$4,029,981 and \$4,694,389 for 2013 and 2012, respectively, and are recorded in net patient service revenue. Because the State's program has not yet been approved and the methodologies used to determine disproportionate share payments remain unsettled, the Hospital has reserved for a portion of these amounts.

7. Pension Plan and Other Deferred Compensation

The Hospital has a non-contributory defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during employment. The Hospital's funding policy is to contribute the amount recommended by the Hospital's actuary to fulfill ERISA requirements. Contributions are intended to provide not only for benefits attributed to service to date, but also those expected to be earned in the future. Effective December 31, 2006, the Hospital froze the defined benefit pension plan and established a defined contribution plan for all eligible employees.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

The following table sets forth the funded status of the defined benefit plan and amounts recognized in the Hospital's financial statements as of and for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 22,468,370	\$ 20,471,008
Interest cost	949,116	961,258
Actuarial (gain) loss	(1,156,022)	1,631,926
Benefits paid	<u>(679,195)</u>	<u>(595,822)</u>
 Benefit obligation at end of year	 <u>\$ 21,582,269</u>	 <u>\$ 22,468,370</u>
 Change in plan assets		
Fair value of plan assets at beginning of year	\$ 13,492,861	\$ 12,263,036
Actual return on plan assets	487,470	821,189
Employer contribution	900,000	1,060,854
Benefits paid	(679,195)	(595,822)
Administrative expenses	<u>(57,888)</u>	<u>(56,396)</u>
 Fair value of plan assets at end of year	 <u>\$ 14,143,248</u>	 <u>\$ 13,492,861</u>
 Funded status		
Benefit obligation	\$ (21,582,269)	\$ (22,468,370)
Fair value of plan assets	<u>14,143,248</u>	<u>13,492,861</u>
	<u>\$ (7,439,021)</u>	<u>\$ (8,975,509)</u>
 Components of net periodic benefit cost		
Interest cost	\$ 949,116	\$ 961,258
Expected return on plan assets	(1,050,163)	(961,421)
Amortization of unrecognized net actuarial loss	<u>894,338</u>	<u>775,809</u>
 Net periodic benefit cost	 <u>\$ 793,291</u>	 <u>\$ 775,646</u>
 Accumulated benefit obligation	 <u>\$ (21,582,269)</u>	 <u>\$ (22,468,370)</u>

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Included in unrestricted net assets at December 31, 2013 and 2012 are unrecognized actuarial losses of \$9,223,136 and \$10,652,915, respectively, which have not been recognized in net periodic pension cost. The amount expected to be recognized in 2014 is \$732,874.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Assumptions

The assumptions used in the measurement of the Hospital's benefit obligation are shown in the following table:

	<u>2013</u>	<u>2012</u>
Weighted average assumptions at December 31:		
Discount rate		
For determining net periodic benefit cost	4.25 %	4.75 %
For determining benefit obligation	4.71	4.25
Expected return on plan assets	8.00	8.00

To achieve the expected long-term rate of return on plan assets assumption, the Hospital developed a plan investment policy to maximize the safety of the funds, provide adequate liquidity, and maximize return on funds invested. Assets may be allocated in accordance with the plan investment policy as follows:

Equity investments, limited to companies listed on the major stock exchanges	0-65%
Fixed income investments, including cash equivalents with maturity dates under one year, short-term and intermediate funds, and specified insurance contracts	35-100%

Based on a current year actuarial schedule, the Hospital will set a percentage of the total assets to be invested in highly-liquid, short-term investments for that year.

Plan Assets

The Plan's primary investment objective is to ensure that contributions, assets, and returns from investments shall be sufficient to meet the Plan's obligations, without undue exposure to risk. Plan management directs its investment managers to maintain well-diversified portfolios. Fixed income portfolios are to be diversified by maturity, quality, sector, and industry in a manner comparable to the benchmark index (Lehman Intermediate Government/Credit Index).

Investment returns are to be measured using quarterly and annual investment performance reviews. The reviews will include measurement of return and comparison of return to appropriate indices, as well as risk and diversification analyses as compared to index values.

The Hospital's pension plan weighted-average asset allocations at December 31, 2013 and 2012, by asset category, are as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	6 %	7 %
Mutual funds	43	34
Fixed income	45	56
Alternative investments	<u>6</u>	<u>3</u>
Total	<u>100 %</u>	<u>100 %</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Contributions

The Hospital expects to contribute \$1,095,000 to the Plan in 2014.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid as follows:

2014	\$ 734,000
2015	807,000
2016	916,000
2017	976,000
2018	1,003,000
Years 2019-2023	6,578,000

Additional Benefit Plans

The Hospital established a contributory defined contribution plan available to substantially all employees. The Hospital's policy under the defined contribution plan is to fund its portion of amounts due under the plan on a current basis and to recognize expense as incurred. During 2013 and 2012, the Hospital contributed \$310,671 and \$327,488 to this plan, respectively.

The Hospital also maintains a nonqualified deferred compensation plan which was established for a select group of management or highly-compensated employees. The amounts contributed to the plan by the Hospital and employees are recognized as an asset and a corresponding liability in the financial statements.

8. Related Party Transactions

Advances to affiliates as of December 31 consisted of:

	<u>2013</u>	<u>2012</u>
Due from NCR	\$ 526,081	\$ 530,247
Due from AVHF	588,925	594,675
Due from MHS	<u>32,588</u>	<u>32,588</u>
	<u>\$1,147,594</u>	<u>\$1,157,510</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows as of December 31:

	<u>2013</u>	<u>2012</u>
Medicare	42 %	39 %
Medicaid	15	10
Commercial insurance and other	19	17
Patients	13	20
Anthem Blue Cross	<u>11</u>	<u>14</u>
	<u>100 %</u>	<u>100 %</u>

The Hospital maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. Hospital management believes it is not exposed to any significant risk on cash and cash equivalents.

10. Commitments and Contingencies

Malpractice Loss Contingencies

The Hospital insures its medical malpractice risks on a claims-made basis under a policy which covers all employees of the Hospital. A claims-made policy provides specified coverage for claims reported during the policy term. The policy contains a provision which allows the Hospital to purchase "tail" coverage for an indefinite period of time to avoid any lapse in insurance coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of doing business. Generally Accepted Accounting Principles require the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. The Hospital has evaluated its exposure to losses arising from potential claims and determined that no such accrual is necessary for the year ended December 31, 2013 and 2012. The Hospital intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

Asset Retirement Obligation

FASB ASC 410, *Asset Retirement and Environmental Obligations*, requires entities to record asset retirement obligations at fair value if they can be reasonably estimated. The State of New Hampshire requires special disposal procedures relating to building materials containing asbestos. The Hospital building contains some encapsulated asbestos, but a liability has not been recognized. This is because there are no current plans to renovate or dispose of the building that would require the removal of the asbestos; accordingly, the liability has an indeterminate settlement date and its fair value cannot be reasonably estimated.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Community Benefit Grant

The Hospital and Coos County Family Health Services (CCFHS) have entered into an agreement whereby the Hospital will provide funding in the form of a community benefit grant to CCFHS for the purpose of supporting a portion of the otherwise uncompensated costs incurred by CCFHS in providing physician services. The terms of the agreement require that the Hospital provide CCFHS with the agreed-upon community benefit grant funds on July 1 of the appropriate grant year. The amount of the community benefit grant to be awarded will be determined on an annual basis in accordance with the terms of the agreement. The initial term of the community benefit grant agreement expires December 31, 2023. Grant expense of \$677,500 and \$638,401 was incurred in 2013 and 2012, respectively.

In February 2009, the community benefit grant was renegotiated to the following payment schedule, contingent upon CCFHS achieving certain annual encounter levels:

<u>On July 1</u>	<u>Not to Exceed</u>
2011 - 2022	\$700,000
2023	350,000

11. Meaningful Use Revenue

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" on certified EHR technology. The Medicare criteria for meaningful use will be staged in three steps from fiscal year 2011 through 2015. The meaningful use attestation is subject to audit by the Centers of Medicare and Medicaid Services in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation, and could result in return of a portion or all of the incentive payments received by the Hospital. Management has determined that no allowance is needed against the established meaningful use receivable at December 31, 2013 and 2012.

The Medicaid program will provide incentive payments to hospitals and eligible professionals as they adopt, and implement, upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years. There will be no payment adjustments under the Medicaid EHR incentive program.

12. Fair Value Measurement

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	<u>Fair Value Measurements at December 31, 2013, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 3,764,257	\$ 3,764,257	\$ -	\$ -
U.S. Treasury securities and other government- sponsored enterprises	1,573,604	1,573,604	-	-
Corporate bonds	3,689,257	-	3,689,257	-
Marketable equity securities:				
Consumer discretionary	83,091	83,091	-	-
Consumer staples	111,149	111,149	-	-
Energy	152,881	152,881	-	-
Financials	279,414	279,414	-	-
Healthcare	113,870	113,870	-	-
Industrials	109,973	109,973	-	-
Information technology	120,558	120,558	-	-
Materials	22,283	22,283	-	-
Miscellaneous equity	3,598,950	3,598,950	-	-
Telecommunication services	125,897	125,897	-	-
Utilities	46,639	46,639	-	-
Total marketable equity securities	<u>4,764,705</u>	<u>4,764,705</u>	-	-
Mutual funds:				
Balanced funds	549,928	549,928	-	-
Bond funds	494,785	494,785	-	-
Growth funds	1,683,092	1,683,092	-	-
International funds	656,696	656,696	-	-
Total mutual funds	<u>3,384,501</u>	<u>3,384,501</u>	-	-
Alternative investments:				
Ivory Offshore Flagship Fund	1,724,696	-	1,724,696	-
ACL Alternative Fund	311,132	-	311,132	-
Ironwood Institutional Fund	1,953,341	-	-	1,953,341
Total alternative investments	<u>3,989,169</u>	-	<u>2,035,828</u>	<u>1,953,341</u>
Investments to fund deferred compensation	<u>3,037,882</u>	<u>3,037,882</u>	-	-
Total assets	\$ <u>24,203,375</u>	\$ <u>16,524,949</u>	\$ <u>5,725,085</u>	\$ <u>1,953,341</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

	<u>Fair Value Measurements at December 31, 2013, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments - held by defined benefit pension plan (Note 7):				
Cash and cash equivalents	\$ 876,047	\$ 876,047	\$ -	\$ -
U.S. Treasury securities and other government-sponsored enterprises	1,575,076	1,575,076	-	-
Corporate bonds	4,713,679	-	4,713,679	-
Mutual funds:				
Balanced funds	1,396,414	1,396,414	-	-
Bond funds	2,863,984	2,863,984	-	-
Growth funds	181,354	181,354	-	-
International funds	175,945	175,945	-	-
Insurance bond fund	672,223	672,223	-	-
Value fund	<u>800,628</u>	<u>800,628</u>	-	-
Total mutual funds	<u>6,090,548</u>	<u>6,090,548</u>	-	-
Alternative investments	<u>887,898</u>	-	<u>887,898</u>	-
Total	<u>\$ 14,148,248</u>	<u>\$ 8,541,671</u>	<u>\$ 5,601,577</u>	<u>\$ -</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

Balance, January 1, 2012	\$ 1,092,542
Net change in asset value	<u>95,129</u>
Balance, December 31, 2012	1,187,671
Purchases	1,190,000
Sales	(595,000)
Net change in asset value	<u>170,670</u>
Balance, December 31, 2013	<u>\$ 1,953,341</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

	<u>Fair Value Measurements at December 31, 2012, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 4,884,909	\$ 4,884,909	\$ -	\$ -
U.S. Treasury securities and other government- sponsored enterprises	2,015,308	2,015,308	-	-
Corporate bonds	2,251,458	-	2,251,458	-
Marketable equity securities:				
Consumer discretionary	107,771	107,771	-	-
Consumer staples	138,428	138,428	-	-
Energy	137,827	137,827	-	-
Financials	204,674	204,674	-	-
Healthcare	151,662	151,662	-	-
Industrials	90,057	90,057	-	-
Information technology	187,392	187,392	-	-
Materials	42,637	42,637	-	-
Miscellaneous equity	3,202,472	3,202,472	-	-
Telecommunication services	169,708	169,708	-	-
Utilities	43,286	43,286	-	-
Total marketable equity securities	<u>4,475,914</u>	<u>4,475,914</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Balanced funds	203,733	203,733	-	-
Growth funds	1,840,892	1,840,892	-	-
Fixed income funds	1,039,320	1,039,320	-	-
International funds	220,502	220,502	-	-
Total mutual funds	<u>3,304,447</u>	<u>3,304,447</u>	<u>-</u>	<u>-</u>
Alternative investments:				
Ivory Offshore Flagship Fund	1,045,839	-	1,045,839	-
ACL Alternative Fund	672,199	-	672,199	-
Ironwood Institutional Fund	1,187,671	-	-	1,187,671
Total alternative investments	<u>2,905,709</u>	<u>-</u>	<u>1,718,038</u>	<u>1,187,671</u>
Investments to fund deferred compensation	2,222,660	2,222,660	-	-
Total assets	\$ <u>22,060,405</u>	\$ <u>16,903,238</u>	\$ <u>3,969,496</u>	\$ <u>1,187,671</u>

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

	<u>Fair Value Measurements at December 31, 2012, Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments - held by defined benefit pension plan (Note 7):				
Cash and cash equivalents	\$ 944,943	\$ 944,943	\$ -	\$ -
U.S. Treasury securities and other government-sponsored enterprises	317,835	317,835	-	-
Corporate bonds	7,298,836	-	7,298,836	-
Mutual funds:				
Balanced funds	247,842	247,842	-	-
Bond funds	1,993,904	1,993,904	-	-
Growth funds	751,061	751,061	-	-
International funds	780,666	780,666	-	-
Insurance bond funds	<u>762,431</u>	<u>762,431</u>	-	-
Total mutual funds	4,535,904	4,535,904	-	-
Alternative investments	<u>395,343</u>	-	<u>395,343</u>	-
Total	<u>\$ 13,492,861</u>	<u>\$ 5,798,682</u>	<u>\$ 7,694,179</u>	<u>\$ -</u>

The fair value for Level 2 assets (excluding alternative investments) and liabilities is primarily based on market prices of underlying assets, comparable securities, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value for Level 2 alternative investments is based on the Hospital's pro-rata share of the total underlying fund assets, which all have readily determinable fair values.

The fair value for Level 3 alternative investments is based on the Hospital's pro-rata share of the total underlying fund assets, a significant portion of which are valued using significant unobservable inputs and the fund management's own assumptions.

The Ivory Offshore Flagship Fund (the Fund) allows for quarterly redemptions; however, 45-day prior written notice is required to withdraw all or a portion of the investment in the Fund. In the event the Hospital withdraws all of its investment balance in the Fund, there is a 5% withhold until the Fund completes its annual audit, at which time the remaining 5% is distributed to the Hospital.

ANDROSCOGGIN VALLEY HOSPITAL, INC.

Notes to Financial Statements

December 31, 2013 and 2012

The Ironwood Institutional Fund (the Fund) allows for semi-annual redemptions on June 30 and December 31 of each year; however, 95-day prior written notice is required to withdraw all or a portion of the investment in the Fund. In the event the Hospital withdraws all of its investment balance in the Fund, there is a 5% withhold until the Fund completes its annual audit, at which time the remaining 5% is distributed to the Hospital.

The Hospital's financial instruments consist of cash and cash equivalents, marketable securities, trade accounts receivable and payable, estimated third-party payor settlements, and long-term debt. The fair values of all financial instruments approximate their carrying values at December 31, 2013 and 2012.

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