



NC DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
MARK PAYNE • Director, Division of Health Service Regulation

January 28, 2020

Thomas W. Huyck
P.O. Box 2600
Boone, NC 28607

Exempt from Review

Record #: 3188
Facility Name: Charles A. Cannon, Jr. Memorial Hospital, Incorporated
FID #: 943054
Business Name: Appalachian Reginal Healthcare System
Business #: 80
Project Description: Convert 17 acute care beds to inpatient psychiatric beds and develop 20 new inpatient psychiatric beds
County: Avery

Dear Mr. Huyck:

The Healthcare Planning and Certificate of Need Section, Division of Health Service Regulation (Agency), determined that based on your letter of January 10, 2020, the above referenced proposal is exempt from certificate of need review in accordance with N.C. Gen. Stat. §131E-184(c) and Section 12F.4.(c) of Session Law 2016-94. Therefore, you may proceed to offer, develop or establish the above referenced project without a certificate of need.

However, you need to contact the Agency's Construction and Acute and Home Care Licensure and Certification Sections to determine if they have any requirements for development of the proposed project.

It should be noted that this determination is binding only for the facts represented by you. Consequently, if changes are made in the project or in the facts provided in your correspondence referenced above, a new determination as to whether a certificate of need is required would need to be made by the Agency. Changes in a project include, but are not limited to: (1) increases in the capital cost; (2) acquisition of medical equipment not included in the original cost estimate; (3) modifications in the design of the project; (4) change in location; and (5) any increase in the number of square feet to be constructed.

If you have any questions concerning this matter, please feel free to contact this office.

Sincerely,

[Handwritten signature of Ena Lightbourne]

Ena Lightbourne
Project Analyst

Martha J. Frisone
Chief

cc: Construction Section, DHSR
Acute and Home Care Licensure and Certification Section, DHSR

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF HEALTH SERVICE REGULATION
HEALTHCARE PLANNING AND CERTIFICATE OF NEED SECTION

LOCATION: 809 Ruggles Drive, Edgerton Building, Raleigh, NC 27603
MAILING ADDRESS: 809 Ruggles Drive, 2704 Mail Service Center, Raleigh, NC 27699-2704
https://info.ncdhhs.gov/dhsr/ • TEL: 919-855-3873



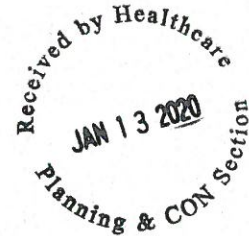
**APPALACHIAN REGIONAL
HEALTHCARE SYSTEM**

Thomas W. Huyck

thuyck@apprhs.org

January 10, 2020

VIA Overnight Mail
Ms. Martha J. Frisone
Chief
Healthcare Planning and Certificate of Need Section
North Carolina Department of Health and Human Services
Division of Health Service Regulation
809 Ruggles Drive
Raleigh, North Carolina 27603



RE: Exempt Project at Charles A. Cannon, Jr. Memorial Hospital, Incorporated
(License # H0037; Avery County) pursuant to Section 12F.4.(c) of Session Law
2016-94

Dear Ms. Frisone:

I am writing on behalf of Charles A. Cannon, Jr. Memorial Hospital, Incorporated (“Cannon Hospital”) regarding its plans to develop a new Behavioral Health Facility pursuant to the Dorothea Dix Property Fund established under N.C. Gen. Stat. § 143C-9-2(b1). As you are aware, projects developed pursuant to the Dorothea Dix Property Fund are exempt from certificate of need (“CON”) review, pursuant to Section 12F.4.(c) of Session Law 2016-94. However, out of an abundance of caution, I am writing to provide prior written notice to the Healthcare Planning and Certificate of Need Section of the project.

Proposed Project

Cannon Hospital plans to develop a separately licensed, thirty-seven (37) bed Behavioral Health Facility to be located at 434 Hospital Drive, Linville, Avery County, North Carolina (the “Behavioral Health Facility”) pursuant to a grant awarded by the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities and Substance Use Disorder Services (“Division of Mental Health”) (the “Dix Project”). This new Behavioral Health Facility will be located at Cannon Hospital and will be known as the Dorothea Dix Behavioral Health Center. It will be operated by Cannon Hospital’s affiliate, Appalachian Regional Behavioral Healthcare, Inc. d/b/a Dorothea Dix Behavioral Health Center, through the lease of a segregated portion of Cannon Hospital’s building in accordance with the requirements of the Construction Section of the Division of Health Service Regulation. The proposed floor plan of the Behavioral Health Facility is attached hereto as Exhibit A.

To develop the Behavioral Health Facility, seventeen (17) acute care beds currently on Cannon Hospital's license will be converted to inpatient behavioral health beds, and twenty (20) new inpatient behavioral health beds will be created. The new beds will all be on the license of Appalachian Regional Behavioral Healthcare, Inc. d/b/a Dorothea Dix Behavioral Health Center. The redistribution of the bed capacity at Cannon Hospital among the categories of health service facility beds and the creation of new beds have already been approved by the North Carolina Department of Health and Human Services as part of the grant award to Cannon Hospital for the Dix Project.

The Behavioral Health Facility will be developed in the space that previously housed the Acute Care Unit at Cannon Hospital. To prepare for the Dix Project, Cannon Health is constructing a new wing of its hospital on its main campus to house its Acute Care Unit (the "Acute Care Project"). The Healthcare Planning and Certificate of Need Section previously issued an exemption acknowledging that the Acute Care Project was exempt from CON review. A copy of that exemption dated September 19, 2018, for the Acute Care Project is attached hereto as Exhibit B.

The estimated capital cost of the Dix Project is approximately \$6.5 million. Cannon Hospital has entered into a contract with the Division of Mental Health for the development of the Behavioral Health Facility, effective from 10/3/2018 to 8/31/2023. A copy of the contract between Cannon Hospital and the Division of Mental Health is attached hereto as Exhibit C, and a description of the project is contained on pages 14 through 15 of the contract. No new institutional health services will be developed as part of the Dix Project beyond what is described in Exhibit C.

Exemption Under Section 12F.4.(c) of Session Law 2016-94

North Carolina General Statute § 143-9-2(b1) establishes the Dorothea Dix Hospital Property Fund. By § 12F.4.(a) of Session Law 2016-94, the General Assembly appropriated \$18 million from the Dorothea Dix Hospital Property Fund for the 2016 to 2017 fiscal year to pay for the renovation and building costs associated with the construction of new licensed, short-term behavioral health beds; the conversion of existing inpatient acute care beds into licensed short-term, inpatient behavioral health beds; or a combination thereof. Section 12F.4.(c) of Session Law 2016-94 exempts from CON review the development of projects funded by the Dorothea Dix Hospital Property Fund. It states:

If the Department approves a request submitted by a rural hospital selected to receive funds allocated under subsection (a) of this section to include within its hospital license a facility, premises, building, outpatient clinic, or other location in an immediately adjoining county with a population of at least 60,000 based on the latest official United States census, as permitted under G.S. 131E 177(e1), as enacted by Section 12G.3 of this act, then the Secretary shall allocate funds to that hospital for the construction or conversion of a sufficient number

Ms. Martha Frisone

January 10, 2020

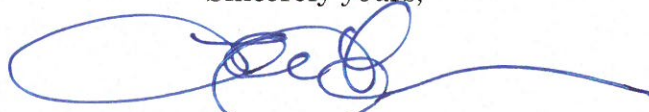
Page 3

of additional beds to ensure that, within the three year period following approval of such request, the hospital has a total inventory of at least 18 licensed and operational short term, inpatient behavioral health beds. Notwithstanding the State Medical Facilities Plan, Article 9 of Chapter 131E of the General Statutes, or any other provision of law to the contrary, these additional short term, inpatient behavioral health beds shall be exempt from certificate of need review. The hospital unit or other location in which these additional short term, inpatient behavioral health beds are located shall be named in honor of Dorothea Dix.

We would appreciate the Healthcare Planning and Certificate of Need Section's written confirmation that the Dix Project described above is exempt from CON review.

Thank you for your time and attention to this matter.

Sincerely yours,



THOMAS HUYCK
Chief Legal Officer

Enclosures

cc: Robert L. Wilson, Jr. (w/o enclosures)
Carrie Hanger (w/o enclosures)



NC DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
MARK PAYNE • Director, Division of Health Service Regulation

Exhibit "B"

September 19, 2018

Robert L. Wilson, Jr.
4140 Parklake Avenue
Raleigh, NC 27612

Exempt from Review

Record #: 2696
Facility Name: Charles A. Cannon, Jr. Memorial Hospital, Incorporated
FID #: 943054
Business Name: Charles A. Cannon, Jr. Memorial Hospital, Incorporated
Business #: 454
Project Description: Construct a new wing to house existing acute care beds
County: Avery

Dear Mr. Wilson:

The Healthcare Planning and Certificate of Need Section, Division of Health Service Regulation (Agency), determined that based on your letter of August 31, 2018 and correspondence of September 13, 2018, the above referenced proposal is exempt from certificate of need review in accordance with N.C. Gen. Stat. §131E-184(g). Therefore, you may proceed to offer, develop or establish the above referenced project without a certificate of need.

However, you need to contact the Agency's Construction and Acute and Home Care Licensure and Certification Sections to determine if they have any requirements for development of the proposed project.

It should be noted that this determination is binding only for the facts represented by you. Consequently, if changes are made in the project or in the facts provided in your correspondence referenced above, a new determination as to whether a certificate of need is required would need to be made by the Agency. Changes in a project include, but are not limited to: (1) increases in the capital cost; (2) acquisition of medical equipment not included in the original cost estimate; (3) modifications in the design of the project; (4) change in location; and (5) any increase in the number of square feet to be constructed.

If you have any questions concerning this matter, please feel free to contact this office.

Sincerely,

[Signature of Ena Lightbourne]
Ena Lightbourne
Project Analyst

[Signature of Martha J. Frisone]
Martha J. Frisone
Chief, Healthcare Planning and
Certificate of Need Section

cc: Construction Section, DHSR
Acute and Home Care Licensure and Certification Section, DHSR
Melinda Boyette, Administrative Assistant, Healthcare Planning, DHSR

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF HEALTH SERVICE REGULATION

HEALTHCARE PLANNING AND CERTIFICATE OF NEED SECTION

LOCATION: 809 Ruggles Drive, Edgerton Building, Raleigh, NC 27603
MAILING ADDRESS: 2701 Mail Service Center, Raleigh, NC 27699-2701
www.ncdhhs.gov/dhsr/ • TEL: 919-855-3750 • FAX: 919-733-2757

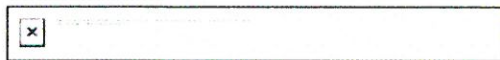
AN EQUAL OPPORTUNITY / AFFIRMATIVE ACTION EMPLOYER

Lightbourne, Ena

From: Bob Wilson <bob.wilson@nelsonmullins.com>
Sent: Thursday, September 13, 2018 11:33 AM
To: Lightbourne, Ena
Subject: RE: [External] RE: Cannon Hospital CON Exemption
Attachments: CMH Existing 091218 - 4849-1767-4098 v 1.pdf

CAUTION: External email. Do not click links or open attachments unless verified. Send all suspicious email as an attachment to [Report Spam](#).

Ms. Lightbourne, I have attached schematics of the two floors of the hospital building, labeled to show how the facility is presently utilized, including the first floor administration, finance, and medical records area. Please let me know if you need any additional information, or if you would like to discuss this further. Thanks, Bob Wilson



ROBERT L. WILSON, JR. PARTNER
bob.wilson@nelsonmullins.com
GLENLAKE ONE | SUITE 200
4140 PARKLAKE AVENUE | RALEIGH, NC 27612
T 919.329.3870 F 919.329.3799
NELSONMULLINS.COM [VCARD](#) [VIEW BIO](#)

From: Lightbourne, Ena [mailto:ena.lightbourne@dhhs.nc.gov]
Sent: Monday, September 10, 2018 8:09 AM
To: Bob Wilson <bob.wilson@nelsonmullins.com>
Subject: RE: [External] RE: Cannon Hospital CON Exemption

Hi Mr. Wilson thank you for responding to my email. Can you send me another copy of exhibit 3 or 4 with a small notation indicating their location. I apologized, I should of mentioned that in my original email.

Thank you.

Ena Lightbourne

Certificate of Need, Project Analyst
[Division of Health Service Regulation](#), Healthcare Planning and Certificate of Need Section
[NC Department of Health and Human Services](#)

Office: 919-855-4610
Ena.lightbourne@dhhs.nc.gov

809 Ruggles Drive, Edgerton Building
2704 Mail Service Center
Raleigh, North Carolina 27699-2704

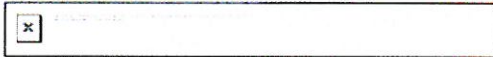
[Twitter](#) | [Facebook](#) | [YouTube](#) | [LinkedIn](#)

From: Bob Wilson [<mailto:bob.wilson@nelsonmullins.com>]
Sent: Friday, September 07, 2018 5:01 PM
To: Lightbourne, Ena <ena.lightbourne@dhhs.nc.gov>
Subject: [External] RE: Cannon Hospital CON Exemption

CAUTION: External email. Do not click links or open attachments unless verified. Send all suspicious email as an attachment to [Report Spam](#).

Ms. Lightbourne, I apologize for the delayed response. I have confirmed that the Hospital's administrative offices are located in the hospital building referred to in the letter. In addition, the Hospital maintains financial services, financial assistance, and staff providing information regarding billing questions and taking payments, also in the hospital building referred to in the letter. However, there is no billing that actually goes out from this building – as is common where a central billing office is utilized by a health care system.

I hope that the above information is helpful to you in response to your question. We, of course, believe that the hospital building involved is, in fact, a "main campus" building that is appropriate to the request. Please let me know if you need anything more. Thanks and best regards, Bob Wilson



ROBERT L. WILSON, JR. PARTNER
bob.wilson@nelsonmullins.com
GLENLAKE ONE | SUITE 200
4140 PARKLAKE AVENUE | RALEIGH, NC 27612
T 919.329.3870 F 919.329.3799
NELSONMULLINS.COM VCARD VIEW BIO

From: Lightbourne, Ena [<mailto:ena.lightbourne@dhhs.nc.gov>]
Sent: Thursday, September 6, 2018 10:53 AM
To: Bob Wilson <bob.wilson@nelsonmullins.com>
Subject: Cannon Hospital CON Exemption

Good Morning Mr. Wilson,

I received your letter regarding an exemption for the construction of a new wing to house existing acute care beds. However, I would like to request some additional information. Can you provide the specific location of the financial and administrative offices on the main campus? Feel free to contact me at the number below if you have any questions.

Thank you.

Ena Lightbourne

Certificate of Need, Project Analyst
Division of Health Service Regulation, Healthcare Planning and Certificate of Need Section
NC Department of Health and Human Services

Office: 919-855-4610
Ena.lightbourne@dhhs.nc.gov

809 Ruggles Drive, Edgerton Building
2704 Mail Service Center
Raleigh, North Carolina 27699-2704

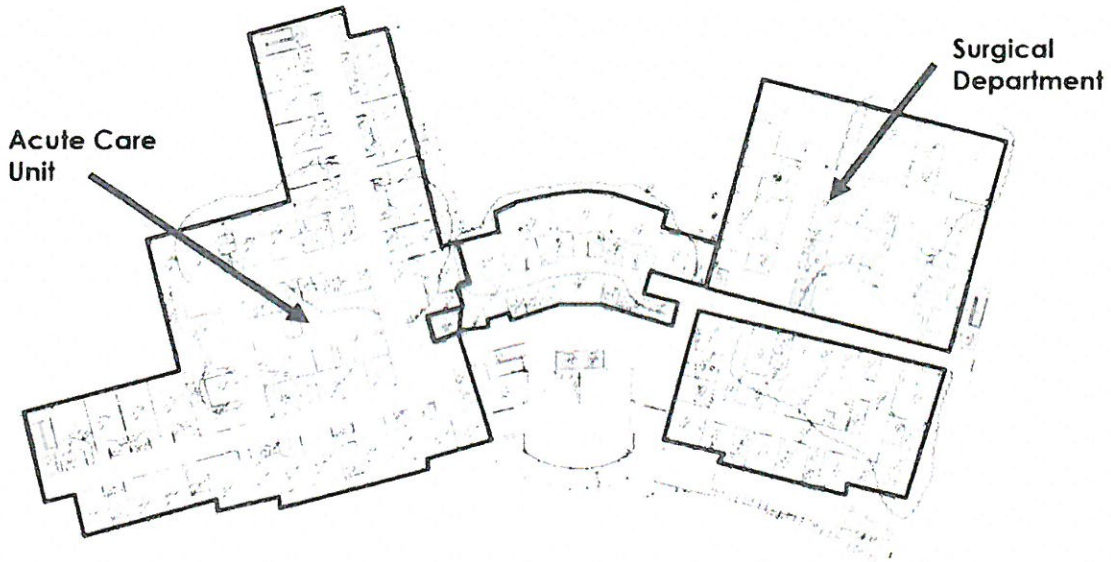
[Twitter](#) | [Facebook](#) | [YouTube](#) | [LinkedIn](#)

Email correspondence to and from this address is subject to the North Carolina Public Records Law and may be disclosed to third parties by an authorized State official. Unauthorized disclosure of juvenile, health, legally privileged, or otherwise confidential information, including confidential information relating to an ongoing State procurement effort, is prohibited by law. If you have received this email in error, please notify the sender immediately and delete all records of this email.

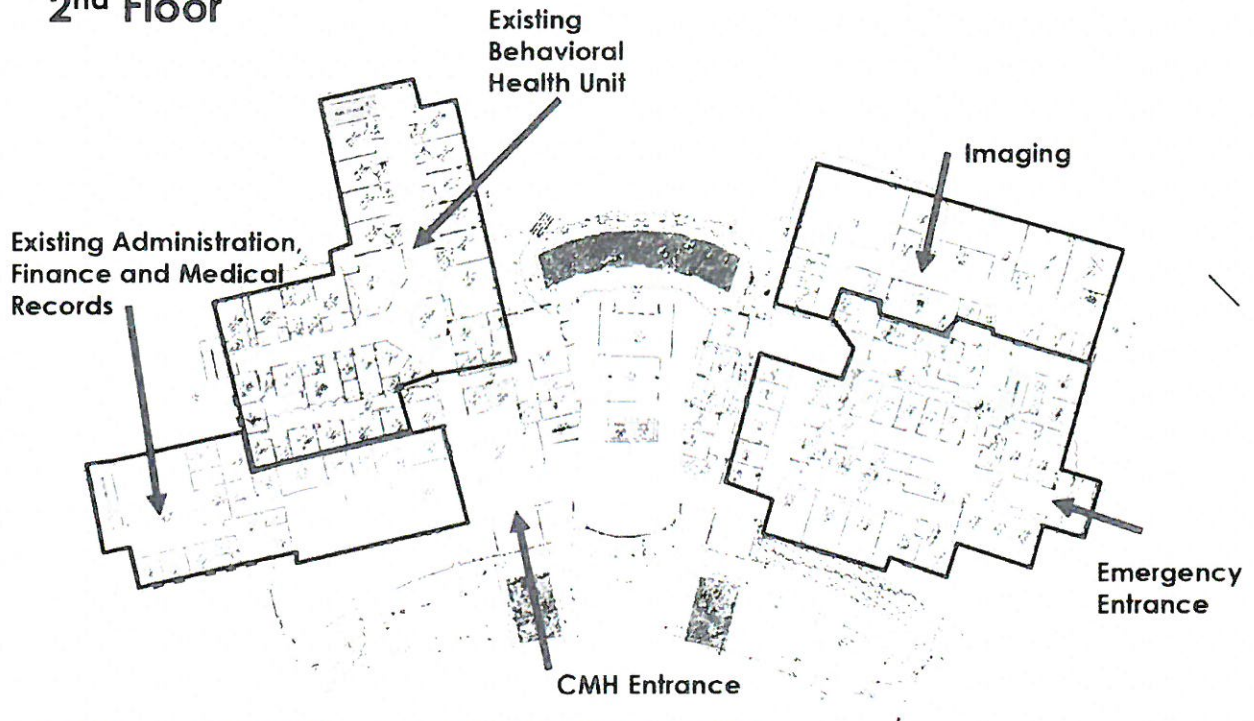
Confidentiality Notice

This message is intended exclusively for the individual or entity to which it is addressed. This communication may contain information that is proprietary, privileged, confidential or otherwise legally exempt from disclosure. If you are not the named addressee, you are not authorized to read, print, retain, copy or disseminate this message or any part of it. If you have received this message in error, please notify the sender immediately either by phone (800-237-2000) or reply to this e-mail and delete all copies of this message.

Existing Cannon Memorial Hospital



2nd Floor



1st Floor

Lightbourne, Ena

From: Bob Wilson <bob.wilson@nelsonmullins.com>
Sent: Monday, September 10, 2018 9:07 AM
To: Lightbourne, Ena
Subject: RE: [External] RE: Cannon Hospital CON Exemption

CAUTION: External email. Do not click links or open attachments unless verified. Send all suspicious email as an attachment to [Report Spam](#).

I will have this outlined and will send it to you as soon as possible. Thanks.

From: Lightbourne, Ena [mailto:ena.lightbourne@dhhs.nc.gov]
Sent: Monday, September 10, 2018 8:09 AM
To: Bob Wilson <bob.wilson@nelsonmullins.com>
Subject: RE: [External] RE: Cannon Hospital CON Exemption

Hi Mr. Wilson thank you for responding to my email. Can you send me another copy of exhibit 3 or 4 with a small notation indicating their location. I apologized, I should of mentioned that in my original email.

Thank you.

Ena Lightbourne

Certificate of Need, Project Analyst
Division of Health Service Regulation, Healthcare Planning and Certificate of Need Section
NC Department of Health and Human Services

Office: 919-855-4610
Ena.lightbourne@dhhs.nc.gov

809 Ruggles Drive, Edgerton Building
2704 Mail Service Center
Raleigh, North Carolina 27699-2704

[Twitter](#) | [Facebook](#) | [YouTube](#) | [LinkedIn](#)

From: Bob Wilson [mailto:bob.wilson@nelsonmullins.com]
Sent: Friday, September 07, 2018 5:01 PM
To: Lightbourne, Ena <ena.lightbourne@dhhs.nc.gov>
Subject: [External] RE: Cannon Hospital CON Exemption

CAUTION: External email. Do not click links or open attachments unless verified. Send all suspicious email as an attachment to [Report Spam](#).

Ms. Lightbourne, I apologize for the delayed response. I have confirmed that the Hospital's administrative offices are located in the hospital building referred to in the letter. In addition, the Hospital maintains financial services, financial assistance, and staff providing information regarding billing questions and taking payments, also in the hospital building referred to in the letter. However, there is no billing that actually goes out from this building – as is common where a central billing office is utilized by a health care system.

I hope that the above information is helpful to you in response to your question. We, of course, believe that the hospital building involved is, in fact, a "main campus" building that is appropriate to the request. Please let me know if you need anything more. Thanks and best regards, Bob Wilson



ROBERT L. WILSON, JR. PARTNER
bob.wilson@nelsonmullins.com
GLENLAKE ONE | SUITE 200
4140 PARKLAKE AVENUE | RALEIGH, NC 27612
T 919.329.3870 F 919.329.3799
NELSONMULLINS.COM VCARD VIEW BIO

From: Lightbourne, Ena [<mailto:ena.lightbourne@dhhs.nc.gov>]
Sent: Thursday, September 6, 2018 10:53 AM
To: Bob Wilson <bob.wilson@nelsonmullins.com>
Subject: Cannon Hospital CON Exemption

Good Morning Mr. Wilson,

I received your letter regarding an exemption for the construction of a new wing to house existing acute care beds. However, I would like to request some additional information. Can you provide the specific location of the financial and administrative offices on the main campus? Feel free to contact me at the number below if you have any questions.

Thank you.

Ena Lightbourne

Certificate of Need, Project Analyst
Division of Health Service Regulation, Healthcare Planning and Certificate of Need Section
NC Department of Health and Human Services

Office: 919-855-4610
Ena.lightbourne@dhhs.nc.gov

809 Ruggles Drive, Edgerton Building
2704 Mail Service Center
Raleigh, North Carolina 27699-2704

[Twitter](#) | [Facebook](#) | [YouTube](#) | [LinkedIn](#)

Email correspondence to and from this address is subject to the North Carolina Public Records Law and may be disclosed to third parties by an authorized State official. Unauthorized disclosure of juvenile, health, legally privileged, or otherwise confidential information, including confidential information relating to an ongoing State procurement effort, is prohibited by law. If you have received this email in error, please notify the sender immediately and delete all records of this email.

Confidentiality Notice

This message is intended exclusively for the individual or entity to which it is addressed. This communication may contain information that is proprietary, privileged, confidential or otherwise legally exempt from disclosure. If you are not the named addressee, you are not authorized to read, print, retain, copy or disseminate this message or any part of it. If you have received this message in error, please notify the sender immediately either by phone (800-237-2000) or reply to this e-mail and delete all copies of this message.

Robert L. Wilson, Jr.
T 919.329.3870
bob.wilson@nelsonmullins.com

4140 Parklake Avenue
GlenLake One | Second Floor
Raleigh, NC 27612
T 919.329.3800 F 919.329.3799
nelsonmullins.com

August 31, 2018

VIA HAND DELIVERY

Ms. Martha J. Frisone, Chief
Healthcare Planning and Certificate of Need Section
North Carolina Department of Health and Human Services
Division of Health Service Regulation
809 Ruggles Drive
Raleigh, North Carolina 27603



RE: Exempt Project at Charles A. Cannon, Jr. Memorial Hospital, Incorporated
(License # H0037; Avery County) Pursuant to N.C. Gen. Stat. § 131E-184(g)

Dear Ms. Frisone:

Pursuant to N.C. Gen. Stat. § 131E-184(g)(3), Charles A. Cannon, Jr. Memorial Hospital, Incorporated ("Cannon Hospital") is providing prior written notice of its intention to construct a new wing of its hospital located at 434 Hospital Drive, Linville, Avery County, North Carolina, to house its existing Acute Care Unit.

Proposed Project

As you are aware, Cannon Hospital plans to develop a thirty-seven (37) bed Behavioral Health Facility pursuant to a project funded by the Dorothea Dix Hospital Property Fund. That project (the "Dix Project") is exempt from certificate of need ("CON") review pursuant to Section 12F.4(c) of Session Law 2016-94 and is not the subject of this letter. The Behavioral Health Facility will be developed at Cannon Hospital where its existing Acute Care Unit is currently situated. Upon completion of the Dix Project, Cannon Hospital plans to have eight (8) remaining acute care beds operated by the critical access hospital. The redistribution of the bed capacity at Cannon Hospital among the categories of health service facility beds has already been approved as part of the grant award to Cannon Hospital for the Dix Project.

In order to develop the Dix Project, Cannon Hospital proposes to construct a new wing of its hospital to house its Acute Care Unit and to move the Acute Care Unit to the new wing so that the Behavioral Health Facility may be housed in that space. All of the acute care beds to be housed in the new wing of Cannon Hospital for the Acute Care Unit are currently licensed and utilized by Cannon Hospital. Please see Exhibit 1 for a copy of Cannon Hospital's current license. The construction of the new wing for the Acute Care Unit (the "Acute Care Project") also will allow Cannon Hospital to modernize its Acute Care Unit. The current unit has undergone minimal updates since its initial construction in 1999. The enclosed Exhibit 2 is a rendering of the existing Cannon Hospital Floor Plan, and Exhibit 3 is the Proposed Floor Plan of Cannon Hospital upon

completion of the Dix Project and the Acute Care Project. Exhibit 4 is a rendering of the location of the new Acute Care Unit.

The estimated capital cost of the proposed Acute Care Project is approximately \$3.3 million. The project may include buying new patient beds for the Acute Care Unit and other furniture, although it is anticipated that existing beds and furnishings will be used when available and suitable. No "major medical equipment" as defined in N.C. Gen. Stat. § 131E-176(14o) will be acquired as part of this project.

Exemption Under N.C. Gen. Stat. § 131E-184(g)

Cannon Hospital believes that this proposal to construct a new wing to its hospital located at 434 Hospital Drive in Linville, Avery County, North Carolina, to house its existing Acute Care Unit is exempt from CON review pursuant to N.C. Gen. Stat. § 131E-184(g). Section 131E-184(g) of the CON Law states:

(g) The Department shall exempt from certificate of need review any capital expenditure that exceeds the two million dollar (\$2,000,000) threshold set forth in G.S. 131E-176(16)b. if all of the following conditions are met:

(1) The sole purpose of the capital expenditure is to renovate, replace on the same site, or expand the entirety or a portion of an existing health service facility that is located on the main campus.

(2) The capital expenditure does not result in (i) a change in bed capacity as defined in G.S. 131E 176(5) or (ii) the addition of a health service facility or any other new institutional health service other than that allowed in G.S. 131E-176(16)b.

(3) The licensed health service facility proposing to incur the capital expenditure shall provide prior written notice to the Department, along with supporting documentation to demonstrate that it meets the exemption criteria of this subsection.

Cannon Hospital hereby confirms that, pursuant to N.C. Gen. Stat. §§ 131E-184(g)(1) and (2):

1. The proposed project will take place on the "main campus" of Cannon Hospital located at 434 Hospital Drive, Linville, Avery County, North Carolina. The location at 434 Hospital Drive is the site of the main building from which Cannon Hospital, a licensed health service facility, provides clinical patient services and exercises financial and administrative control over the entire facility. See N.C. Gen. Stat. § 131E-176(14n)a. (definition of "main campus").
2. The sole purpose of the capital expenditure for the Acute Care Project is to renovate, replace on the same site, and to expand an existing health service facility that is located on the main campus of Cannon Hospital.
3. The capital expenditure for the Acute Care Project will not result in (i) a change in bed capacity as defined in N.C. Gen. Stat. § 131E-176(5), or (ii) the addition of a

Ms. Martha J. Frisone, Chief
Page 3
August 31, 2018

health service facility or any other new institutional health service other than that allowed in N.C. Gen. Stat. § 131E-176(16)b.

This letter provides the prior written notice required pursuant to N.C. Gen. Stat. § 131E-184(g)(3).

We would appreciate the Healthcare Planning and Certificate of Need Section's written confirmation that the renovations for the Acute Care Unit described above as the Acute Care Project are exempt from CON review.

Thank you for your time and attention to this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert L. Wilson, Jr.", with a stylized flourish at the end.

Robert L. Wilson, Jr.

Enclosures

EXHIBIT 1

CHARLES A. CANNON, JR. MEMORIAL HOSPITAL, INCORPORATED LICENSE

State of North Carolina

Department of Health and Human Services
Division of Health Service Regulation

*Effective January 01, 2018, this license is issued to
Charles A. Cannon, Jr. Memorial Hospital, Inc.*

*to operate a hospital known as
Charles A. Cannon, Jr. Memorial Hospital, Incorporated
located in Newland, North Carolina, Avery County.*

*This license is issued subject to the statutes of the
State of North Carolina, is not transferable and shall remain
in effect until amended by the issuing agency.*

Facility ID: 943054

License Number: H0037

Bed Capacity: 50

General Acute 30, Psych 10,

Nursing, 10

Dedicated Inpatient Surgical Operating Rooms: 0

Dedicated Ambulatory Surgical Operating Rooms: 0

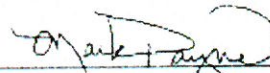
Shared Surgical Operating Rooms: 2

Dedicated Endoscopy Rooms: 1

Authorized by:



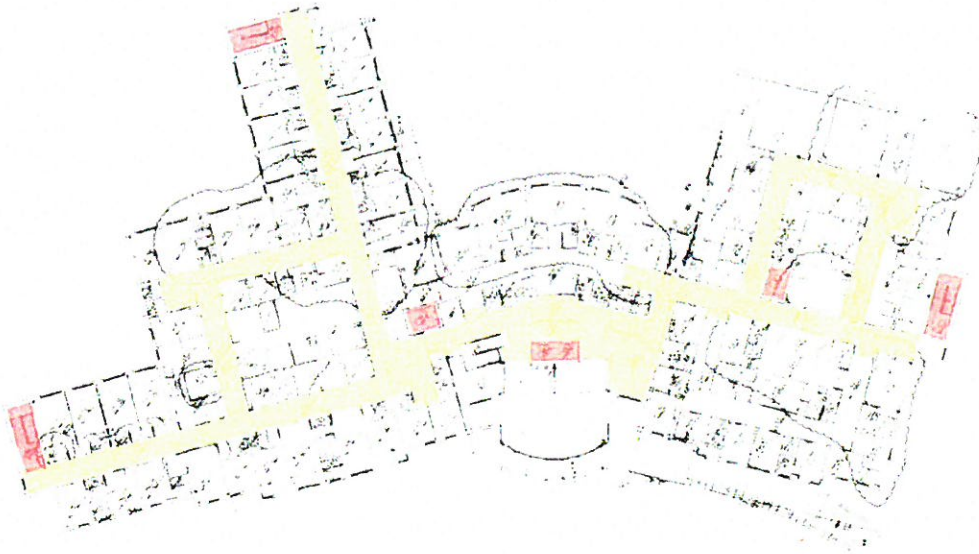
Secretary, N.C. Department of Health and
Human Services



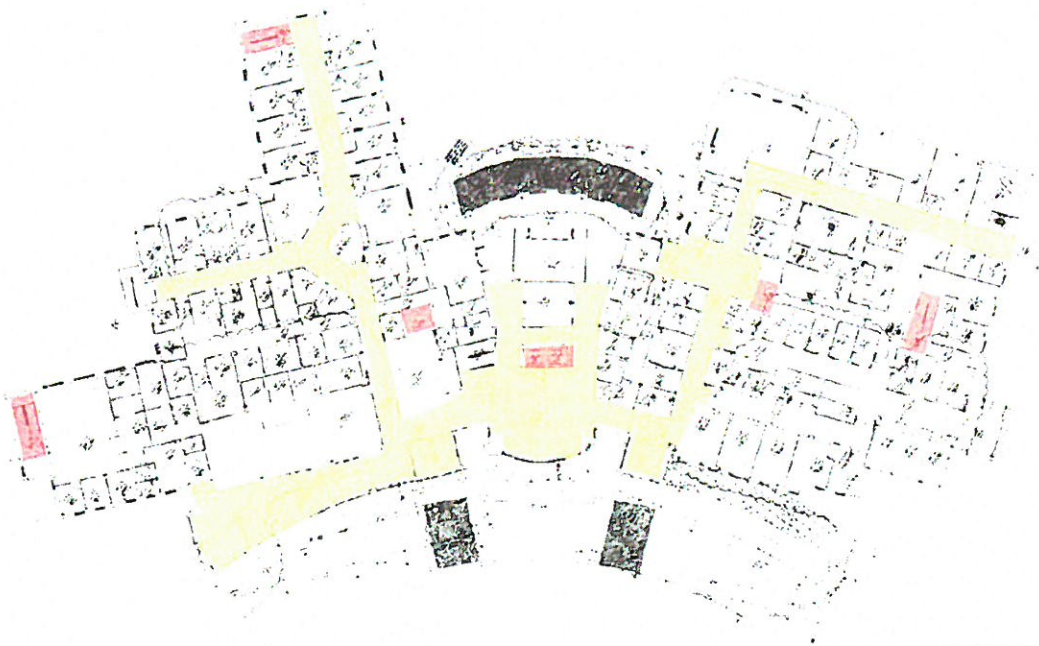
Director, Division of Health Service Regulation

EXHIBIT 2

EXISTING CANNON HOSPITAL FLOOR PLAN



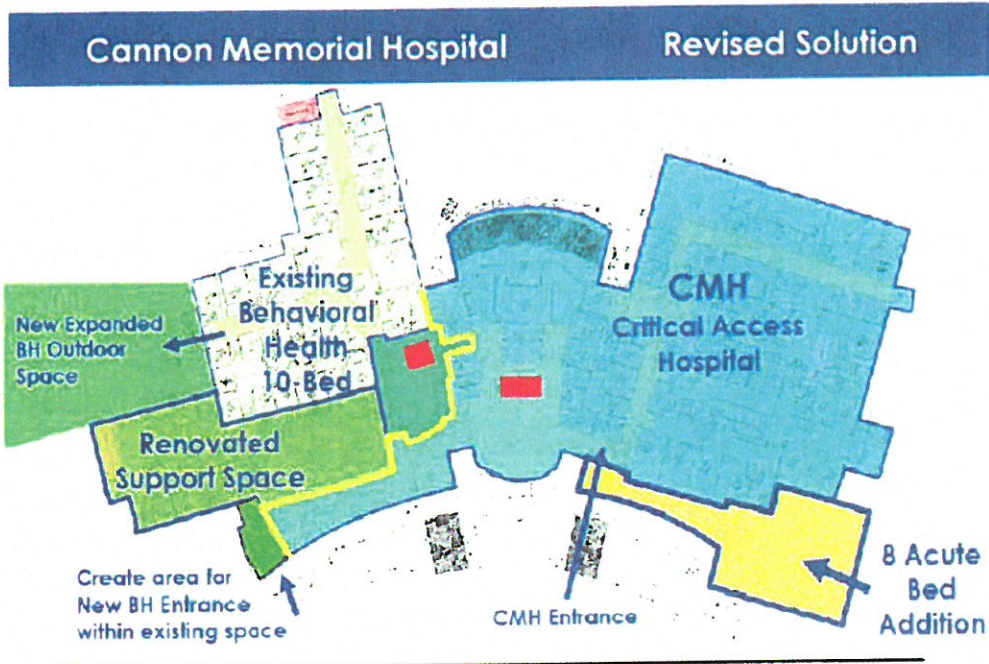
2nd Floor



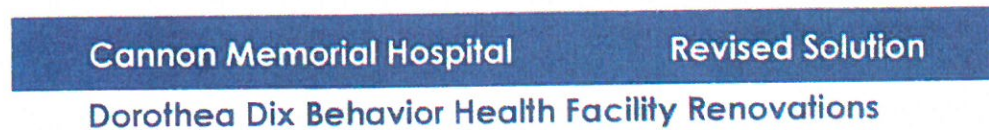
1st Floor

EXHIBIT 3

**PROPOSED FLOOR PLAN UPON OF CANNON HOSPITAL
UPON COMPLETION OF DIX PROJECT AND ACUTE CARE PROJECT**



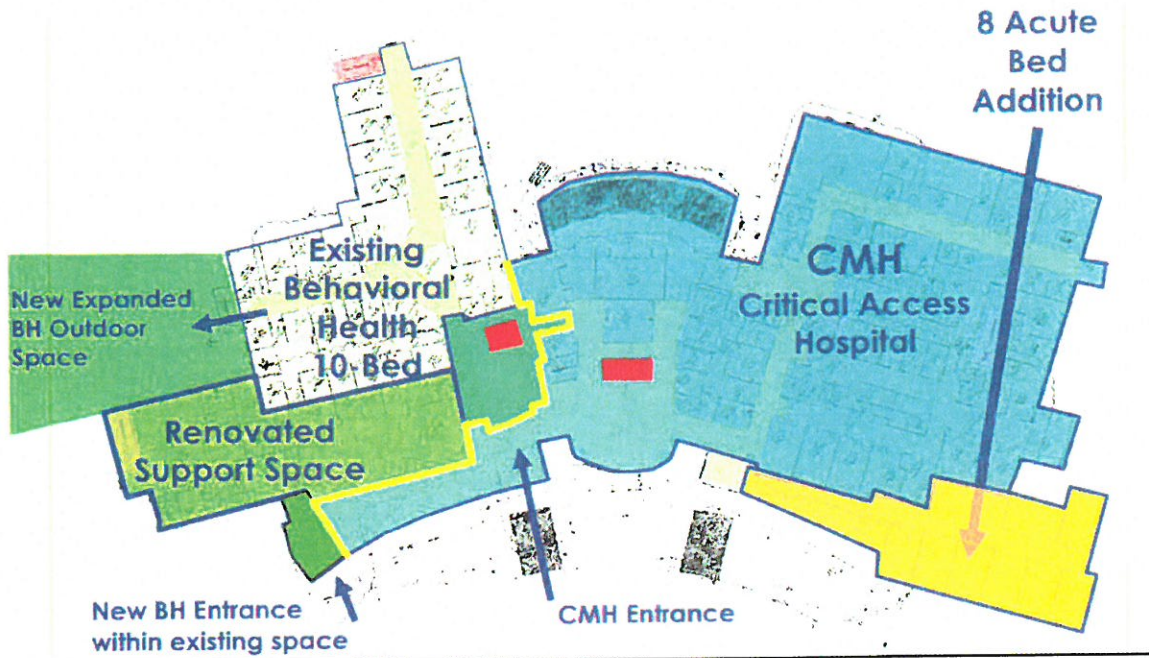
1st Floor



2nd Floor

EXHIBIT 4

FLOOR PLAN FOR NEW ACUTE CARE UNIT



1st Floor

Exhibit "C"



NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**
Division of Mental Health, Developmental
Disabilities and Substance Abuse Services

ROY COOPER • Governor
MANDY COHEN, MD, MPH • Secretary
KODY H. KINSLEY • Interim Senior Director

October 24, 2018

Chuck Mantooth, President & CEO
Appalachian Regional Healthcare System
PO Box 2600
Boone, NC 28607

Dear Mr. Mantooth:

Please find enclosed your fully executed original **SFY 19, Contract #00036043**, with the North Carolina Department of Health and Human Services (DHHS), Division of Mental Health, Developmental Disabilities and Substance Use Disorder Services.

If you have questions, please contact me at (919) 715-2480.

Sincerely,

A handwritten signature in blue ink that reads "Steven Holmberg".

Steven Holmberg
Contract Manager

Cc: Jessica Herrmann, DMH/DD/SAS Contract Administrator

NC DEPARTMENT OF HEALTH AND HUMAN SERVICES • DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE
ABUSE SERVICES

LOCATION: 306 N. Wilmington Street, Bath Building, Raleigh, NC 27601
MAILING ADDRESS: 3001 Mail Service Center, Raleigh, NC 27699-3001
www.ncdhhs.gov • TEL: 919-733-7011 • FAX: 919-508-0951

AN EQUAL OPPORTUNITY / AFFIRMATIVE ACTION EMPLOYER

Table of Contents Charles A. Cannon, Jr. Memorial Hospital

| Article | Section | Page Number |
|----------------|---|--------------------|
| A. | Contract Cover | 2 |
| B. | General Terms and Conditions | 10 |
| C. | Scope of Work | 14 |
| D. | Project Milestones and Timeline | 21 |
| E. | DHHS Requirements for Design and Construction Contracts | 22 |
| F. | Project Budget | 29 |
| G. | Payment Schedule and Final Settlement | 31 |
| H. | Sustainability Plan | 33 |
| I. | Reporting Requirements | 38 |
| J. | Certifications | 39 |

A. Contract Cover

GENERAL CONTRACT COVER

This contract is entered into by and between the North Carolina Department of Health and Human Services, Division of Mental Health, Developmental Disabilities and Substance Abuse Services (the "Division") and Charles A. Cannon, Jr. Memorial Hospital, Incorporated (the "Hospital") (referred to collectively as the "Parties"), and establishes the agreement between the Parties for development of new behavioral health inpatient beds to be located at the Hospital, and related efforts.

The Parties hereby agree as follows:

1. Purpose and Scope: The purpose and scope of this contract is the agreement between the Parties for development by the Hospital of the Project involving a new behavioral health inpatient facility, as authorized by the General Assembly pursuant to N.C. Session Law 2016-94, Sec. 12F.4.

2. Contract Documents:

This contract consists of the following documents, which are incorporated herein by reference (collectively, the "Contract Documents"):

- (A) General Contract Cover
- (B) General Terms and Conditions
- (C) Scope of Work
- (D) Project Milestones and Timeline
- (E) DHHS Requirements for Design and Construction Contracts
- (F) Project Budget
- (G) Payment Schedule and Final Settlement
- (H) Sustainability Plan
- (I) Project Reporting Requirements
- (J) State Certifications

Incorporated by Reference:

The following documents are reference materials and are available by going to the following website, Open Window (http://dhhsopenwindow.nc.gov/index.aspx?pid=doc_ReferenceDocuments).

- (A) Travel: Policies Governing Travel Related Expenses for Contractors
- (B) Notice of Certain Reporting and Audit Requirements
- (C) General Statutes G.S. 143C6 Non-State Entities Receiving State Funds
- (D) Subchapter 03M Uniform Administration of State Grants

These documents constitute the entire agreement between the Parties and supersede all prior oral or written statements and agreements.

3. Precedence Among Contract Documents:

In the event of a conflict between or among the terms of the Contract Documents, the terms in the Contract Document with the highest relative precedence shall prevail. The order of precedence shall be the order of documents as listed in the Contract Documents section, with the first-listed documents having the highest precedence and the last-listed documents having the lowest precedence. If there are multiple contract amendments, the most recent amendment shall have the highest precedence and the oldest amendment shall have the lowest precedence. For the avoidance of doubt, the **General Contract Cover** shall have precedence over the **General Terms and Conditions** of this contract.

4. Term:

This contract shall be effective as of October 3, 2018 (“Commencement Date”) and shall terminate on August 31, 2023, with the option to extend, if mutually agreed upon, through a written amendment as provided for in the General Terms and Conditions.

5. Hospital’s Duties:

(a) The Hospital shall develop and implement the behavioral health facility project in accordance with the terms set forth in this contract and the Contract Documents, including without limitation the scope of work, project milestones and timeline, DHHS requirements for design and construction contracts, the Hospital’s sustainability plan, and reporting requirements (the “Project”), and in accordance with the approved Dorothea Dix Hospital Property Fund (“Dix Property Fund”) budget and payment schedule for the Project.

(b) The Hospital shall be responsible for any Project cost overruns exceeding the total contract amount of \$6,503,478. The Hospital must provide the Division proof-of-funds for any amounts included in the total budget for the Project which exceed the Dix Property Fund budget of \$6,503,478 available for this Project and the total amount of this contract.

(c) The Hospital shall take all steps necessary to promptly obtain all approvals required to complete the Project and serve patients in the new behavioral health facility described in this contract, including without limitation: (i) final inspection approval by the DHHS Division of Health Service Regulation (“DHSR”), and recommendation by the DHSR Construction Section for construction approval to the DHHS Acute and Home Care (“ACHC”) Licensure and Certification Section; (ii) licensure by the ACHC Licensure and Certification Section; and (iii) certification by the Centers for Medicare and Medicaid Services (“CMS”).

(d) Pursuant to and in accordance with N.C. Session Law 2016-94, Sec. 12F.4.(b), as a condition of receiving funds for the Project set forth in this contract, the Hospital shall reserve at least fifty percent (50%) of the constructed or converted beds developed and funded pursuant to this contract for (i) purchase by the North Carolina Department of Health and Human Services under the State-administered, three-way contract, and (ii) referrals by local management entities/managed care organizations (“LME/MCOs”) of individuals who are indigent or Medicaid recipients. The Hospital shall take all steps necessary to obtain approval by the Division for facility designation for the custody and treatment of involuntary clients (“IVC Designation”) pursuant to N.C.G.S. 122C-252 and implementing regulations, promptly after licensure of the inpatient behavioral health beds developed pursuant to this contract and in any event within no more than six months after licensure. Within 45 days after obtaining Division approval for IVC Designation, the Hospital shall execute a Three-Way Contract for Community Adult Psychiatric Inpatient Services as part of the State-administered three-way contract program for such services managed by DHHS and the Division and the local LME/MCO.

(e) Pursuant to N.C. Session Law 2016-94, Sec. 12F.4, the facility with constructed or converted inpatient behavioral health beds developed and funded pursuant to this contract shall be named in honor of Dorothea Dix.

(f) Notwithstanding any other provision of this contract, the Hospital may assign its rights under this contract to a successor-in-interest which will purchase or otherwise acquire ownership or control of the Hospital so long as: (i) the Hospital provides at least thirty (30) days’ prior written notice of such purchase or acquisition to the Division, and obtains the Division’s prior written approval of the Hospital’s assignment of this contract to the successor-in-interest, which approval shall not be unreasonably withheld; (ii) the Hospital provides the Division written evidence that prior to the

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

assignment of this contract, the Hospital's successor-in-interest agrees in writing to fulfill all of the Hospital's obligations and commitments under this contract and the Contract Documents, including without limitation the completion of the Project and the development of the new behavioral health facility in Linville, Avery County, in accordance with the terms set forth in the contract and the Contract Documents; and (iii) the Hospital's successor-in-interest shall fulfill all of the Hospital's obligations and commitments under this contract and the Contract Documents.

6. Division's Duties:

The Division shall pay the Hospital in the manner and the amounts specified in the Contract Documents. The total amount of funding available to be paid by the Division to the Hospital under this contract shall not exceed the total amount of \$6,503,478 awarded to the Hospital in the RFA pursuant to N.C. Session Law 2016-94, Sec. 12F.4. This amount consists of \$6,503,478 in State funds (funds appropriated by the North Carolina General Assembly from the Dix Property Fund), \$0 in Local funds, \$0 in Other funds and \$0 in Federal funds.

The total contract amount is \$6,503,478.

7. Payment Provisions:

Payment shall be made by the Division to the Hospital in accordance with the terms set forth in this contract and the Contract Documents, including without limitation, the Budget and Payment Schedule and Final Settlement terms.

The Hospital's current Project Budget is attached to this contract in Section F. The Hospital shall provide to the Division a final itemized Project Budget the sooner of the completion of Phase 2 or October 31, 2019. Upon written acceptance and approval by the Division, the final itemized Project Budget submitted by the Hospital and approved by the Division will supersede and replace Section F of this contract.

8. Conflict of Interest Policy:

The Division has determined that this contract is a financial assistance contract. The Hospital shall file with the Division a copy of the Hospital's policy addressing conflicts of interest that may arise involving the Hospital's management employees and the members of its Board of Directors. The policy shall address situations in which any of these individuals may directly or indirectly benefit from the Hospital's disbursing of state funds and shall include actions to be taken by the Hospital or the individual, or both, to avoid conflicts of interest and the appearance of impropriety. The policy shall be filed before the Division may disburse the grant funds. (N.C.G.S. 143C-6-23(b)).

9. Grants:

The Contractor/Grantee has the responsibility to ensure that all sub-contractors, if any, provide all information necessary to permit the Contractor/Grantee to comply with the standards set forth in this contract.

10. Reversion of Unexpended Funds:

Any unexpended funds shall revert to the Dix Property Fund upon termination of this contract.

11. Reporting Requirements:

The Division has determined that this is a contract for financial assistance, and therefore is subject to the reporting requirements described on the Notice of Certain Reporting and Audit Requirements. Regulations and Reporting Requirements of N.C. General Statute 143C-6.23 can be found at ncgrants.gov.

12. Sustainability Plan:

The Hospital shall develop and implement a sustainability plan for successful utilization of the new behavioral health beds developed pursuant to this contract to provide short-term behavioral health inpatient services for the short-term care of individuals experiencing an acute mental health or substance use disorder crisis. The Hospital’s sustainability plan shall include at a minimum the following detailed information and projections which address the following:

- Projected Financial Resources to support the operation of the new behavioral health inpatient beds, including funding from existing sources and any potential new funding sources, and any contingency plans to address any unanticipated funding shortfalls;
- Projected Staffing Resources to provide psychiatric and substance use disorder services through the new behavioral health inpatient beds;
- Supported Utilization Projections for the new behavioral health inpatient beds; and
- Any other factors anticipated to support the continued operation and sustainability of the new behavioral health beds.

The Hospital’s sustainability plan is attached to this contract in Section H and incorporated by reference herein.

13. Contract Administrators:

All notices permitted or required to be given by one Party to the other and all questions about the contract from one Party to the other shall be addressed and delivered to the other Party’s contract administrator. The name, post office address, street address, telephone number, fax number and email address of the Parties’ respective initial contract administrators are set out below. Either Party may change the name, post office address, street address, telephone number, fax number or email address of its contract administrator by giving timely written notice to the other Party.

For the Division:

| IF DELIVERED BY US POSTAL SERVICE | IF DELIVERED BY ANY OTHER MEANS |
|---|---|
| Art Eccleston, Senior Psychologist II Division of Mental Health, Developmental Disabilities and Substance Abuse Services, 3001 Mail Service Center Raleigh, NC 27699-3001 Telephone: (919) 715-2029 Email: art.eccleston@dhhs.nc.gov | Art Eccleston, Senior Psychologist II Division of Mental Health, Developmental Disabilities and Substance Abuse Services, 306 North Wilmington Street Raleigh, NC 27601 |

For the Hospital:

| IF DELIVERED BY US POSTAL SERVICE | IF DELIVERED BY ANY OTHER MEANS |
|---|--|
| Chuck Mantoath, Chief Executive Officer Charles A. Cannon, Jr. Memorial Hospital, Inc. P.O. Box 2600 Boone, NC 28607 Telephone: (828) 737-7832 Email: cmantoath@apprhs.org | Chuck Mantoath, Chief Executive Officer Charles A. Cannon, Jr. Memorial Hospital, Inc. 336 Deerfield Road Boone, NC 28607 |

14. Supplementation of Expenditure of Public Funds:

The Hospital assures that funds received pursuant to this contract shall be used only to supplement, not to supplant, the total amount of federal, state and local public funds that the Hospital otherwise expends for contract services and related programs. Funds received under this contract shall be used to provide additional public funding for such services; the funds shall not be used to reduce the Hospital's total expenditure of other public funds for such services.

15. Disbursements:

As a condition of this contract, the Hospital acknowledges and agrees to make disbursements in accordance with the following requirements:

- (a) Implement adequate internal controls over disbursements;
- (b) Pre-audit all vouchers presented for payment to determine:
 - Validity and accuracy of payment
 - Payment due date
 - Adequacy of documentation supporting payment
 - Legality of disbursement
- (c) Assure adequate control of signature stamps/plates;
- (d) Assure adequate control of negotiable instruments; and
- (e) Implement procedures to ensure that account balance is solvent and reconcile the account monthly.

16. Outsourcing to Other Countries:

The Hospital certifies that it has identified to the Division all jobs related to the contract that have been outsourced to other countries, if any. The Hospital further agrees that it will not outsource any such jobs during the term of this contract without providing notice to the Division.

17. Supplemental Terms and Conditions:

(a) Termination Without Cause.

Neither the Division nor the Hospital may terminate this contract without cause during the term hereof, or during any extensions or renewals of the same.

(b) Termination For Cause.

If, through any cause, the Hospital shall fail to fulfill its obligations under this contract in a timely and proper manner, the Division shall have the right to terminate this contract by giving written notice to the Hospital and specifying the effective date thereof. Provided, however, that the Hospital shall have a period of sixty (60) days following its receipt of such notice from the Division to cure the alleged default. If, following such sixty (60) day period, the Hospital has cured the alleged default to the reasonable satisfaction of the Division, then this contract shall not be terminated. In the event that the Hospital has not cured the alleged default following such sixty (60) day period, then this contract may be terminated. In that event, the Hospital shall be entitled to receive compensation for any expenses actually incurred prior to the effective date of termination pursuant to and in accordance with the payment terms of this contract, minus any payment or compensation previously made. Notwithstanding the foregoing provision, the Hospital shall not be relieved of liability to the Division for damages sustained by the Division by virtue of the Hospital's breach of this contract, and the Division may withhold any payment due the Hospital for the purpose of setoff until such time as the exact amount of damages due the Division from such breach can be determined. The filing of a petition for bankruptcy by the Hospital shall be an act of default under this contract.

(c) Availability of Funds.

The Parties acknowledge, agree and understand that pursuant to N.C. Session Law 2016-94, Section 12F.4 and the Request for Application Award made by the Division to the Hospital, the sum of \$6,503,478 (Six Million Five Hundred Three Thousand Four Hundred Seventy-eight Dollars) has been appropriated by the General Assembly and set aside by the Division as of the Effective Date of this contract for use to pay the Hospital for development and completion of the Project in accordance with the terms of this contract and Session Law 2016-04, Sec. 12F.4, and such funds shall be available for such purpose during the term of this contract.

(d) Subcontracting.

The Hospital shall be responsible for the performance of all of its subcontractors. Notwithstanding anything in this contract to the contrary, nothing in this contract shall be construed to require the Hospital to obtain written approval from the Division of subcontractors selected by the Hospital for services pertaining to the Project.

(e) Intellectual Property Rights.

Notwithstanding anything in this contract to the contrary, the parties acknowledge and agree that the terms set forth in the section of the General Terms and Conditions entitled, "Intellectual Property Rights," are not applicable to this contract.

18. Project Implementation:

The Parties acknowledge, agree and understand that Hospital shall be responsible for performing all of its obligations pursuant to this contract, including developing and completing the Project. The Parties further acknowledge, agree and understand that the Hospital shall be responsible for taking all steps necessary to work cooperatively with Appalachian Regional Healthcare System, Inc. ("ARHS") to implement and operate the Project in compliance with this contract and N.C. Session Law 2016-94 and any other applicable law, including without limitation operation of the new behavioral health facility by Hospital's corporate affiliate to be established for that purpose, Appalachian Regional Behavioral Healthcare, Inc., d/b/a Dorothea Dix Behavioral Health Center (the "Behavioral Health Center"), and execution of all agreements necessary to operate and implement the Project. The Hospital shall provide to the Division copies of all executed agreements between the Hospital, ARHS, the Behavioral Health Center, and/or any other corporate affiliate or related corporate entity regarding the operation and implementation of the Project, including without limitation, any lease agreement between the Hospital and the Behavioral Health Center (collectively, "Project Agreements"), promptly after the execution of such Project Agreements. The Hospital shall provide the Division copies of any such Project Agreements within 30 days after their final execution.

(f) Signature Warranty:

The undersigned represent and warrant that they are authorized to bind their principals to the terms of this contract.

Signatures follow on next page

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

In Witness Whereof, the Hospital and the Division have executed this contract in duplicate originals, with one original being retained by each party.

Charles A. Cannon, Jr. Memorial Hospital, Incorporated

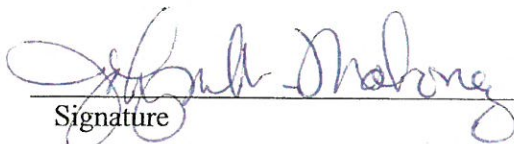

Signature

Chuck Mantooth
Printed Name

10.04.2018
Date

Chief Executive Officer
Title

ATTEST


Signature

Jolynn M. Mahoney
Printed Name

10.04.2018
Date

Executive Assistant to the CEO
Title Corporate Secretary

[CORPORATE SEAL]

ACKNOWLEDGEMENT OF CONTRACT AND PROJECT:

Appalachian Regional Healthcare System, Inc. joins in the execution of this contract for the purpose of acknowledging its interests and responsibilities pertaining to Phase 2 of the project implementation plan and the start-up, implementation and operation of the behavioral health inpatient facility to be developed by Charles A. Cannon, Jr. Memorial Hospital, Incorporated, pursuant to this contract.

Appalachian Regional Healthcare System, Inc.


Signature

Chuck Mantooth
Printed Name

10.04.2018
Date

President & CEO
Title

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

**North Carolina Department of Health and Human Services,
Division of Mental Health, Developmental Disabilities and Substance Abuse Services**

Kody Kinsley / eham
Signature

10-22-18
Date

Kody Kinsley
Printed Name

Deputy Secretary, DHHS
Title

B. General Terms and Conditions

GENERAL TERMS AND CONDITIONS

Relationships of the Parties

Independent Contractor: The Hospital is and shall be deemed to be an independent contractor in the performance of this contract and as such shall be wholly responsible for the work to be performed and for the supervision of its employees. The Hospital represents that it has, or shall secure at its own expense, all personnel required in performing the services under this contract. Such employees shall not be employees of, or have any individual contractual relationship with, the Division.

Subcontracting: The Hospital shall not subcontract any of the work contemplated under this contract without prior written approval from the Division. Any approved subcontract shall be subject to all conditions of this contract. Only the subcontractors specified in the contract documents are to be considered approved upon award of the contract. The Division shall not be obligated to pay for any work performed by any unapproved subcontractor. The Hospital shall be responsible for the performance of all of its subcontractors.

Assignment: No assignment of the Hospital's obligations or the Hospital's right to receive payment hereunder shall be permitted. However, upon written request approved by the issuing purchasing authority, the State may: (a) Forward the Hospital's payment check directly to any person or entity designated by the Hospital; or (b) Include any person or entity designated by the Hospital as a joint payee on the Hospital's payment check. In no event shall such approval and action obligate the State to anyone other than the Hospital and the Hospital shall remain responsible for fulfillment of all contract obligations.

Beneficiaries: Except as herein specifically provided otherwise, this contract shall inure to the benefit of and be binding upon the Parties and their respective successors. It is expressly understood and agreed that the enforcement of the terms and conditions of this contract, and all rights of action relating to such enforcement, shall be strictly reserved to the Division and the Hospital. Nothing contained in this contract shall give or allow any claim or right of action whatsoever by any other third person. It is the express intention of the Division and the Hospital that any such person or entity, other than the Division or the Hospital, receiving services or benefits under this contract shall be deemed an incidental beneficiary only.

Indemnity and Insurance

Indemnification: The Hospital agrees to indemnify and hold harmless the Division, the State of North Carolina, and any of their officers, agents and employees, from any claims of third parties arising out of any act or omission of the Hospital in connection with the performance of this contract.

Insurance: (a) During the term of the contract, the Hospital shall provide, at its sole cost and expense, commercial insurance of such types and with such terms and limits as may be reasonably associated with the contract. At a minimum, the

Hospital shall provide and maintain the following coverage and limits:

(1) Worker's Compensation Insurance: The Hospital shall provide and maintain worker's compensation insurance, as required by the laws of the State of North Carolina, covering all of the Hospital's employees who are engaged in any work under the contract.

(2) Employer's Liability Insurance: The Hospital shall provide employer's liability insurance, with minimum limits of \$500,000.00, covering all of the Hospital's employees who are engaged in any work under the contract.

(3) Commercial General Liability Insurance: The Hospital shall provide commercial general liability insurance on a comprehensive broad form on an occurrence basis with a minimum combined single limit of \$1,000,000.00 for each occurrence.

(4) Automobile Liability Insurance: The Hospital shall provide automobile liability insurance with a combined single limit of \$500,000.00 for bodily injury and property damage; a limit of \$500,000.00 for uninsured/under insured motorist coverage; and a limit of \$2,000.00 for medical payment coverage. The Hospital shall provide this insurance for all automobiles that are:

- (A) owned by the Hospital and used in the performance of this contract;
- (B) hired by the Hospital and used in the performance of this contract; and
- (C) owned by the Hospital's employees and used in performance of this contract ("non-owned vehicle insurance"). Non-owned vehicle insurance protects employers when employees use their personal vehicles for work purposes. Non-owned vehicle insurance supplements, but does not replace, the car-owner's liability insurance.

The Hospital is not required to provide and maintain automobile liability insurance on any vehicle – owned, hired, or non-owned --unless the vehicle is used in the performance of this contract.

- (b) The insurance coverage minimums specified in subparagraph (a) are exclusive of defense costs. The Hospital understands and agrees that the insurance coverage minimums specified in subparagraph (a) are not limits, or caps, on the Hospital's liability or obligations under this contract.
- (c) The Hospital may obtain a waiver of any one or more of the requirements in subparagraph (a) by demonstrating that it has insurance that provides protection that is equal to or greater than the coverage and limits specified in subparagraph (a). The Division shall be the sole judge of whether such a waiver should be granted.

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

- (d) The Hospital may obtain a waiver of any one or more of the requirements in paragraph (a) by demonstrating that it is self-insured and that its self-insurance provides protection that is equal to or greater than the coverage and limits specified in subparagraph (a). The Division shall be the sole judge of whether such a waiver should be granted.
- (e) Providing and maintaining the types and amounts of insurance or self-insurance specified in this paragraph is a material obligation of the Hospital and is of the essence of this contract.
- (f) The Hospital shall only obtain insurance from companies that are authorized to provide such coverage and that are authorized by the Commissioner of Insurance to do business in the State of North Carolina. All such insurance shall meet all laws of the State of North Carolina.
- (g) The Hospital shall comply at all times with all lawful terms and conditions of its insurance policies and all lawful requirements of its insurer.
- (h) The Hospital shall require its subcontractors to comply with the requirements of this paragraph.
- (i) The Hospital shall demonstrate its compliance with the requirements of this paragraph by submitting certificates of insurance, if requested, to the Division before the Hospital begins work under this contract.

Default and Termination

Termination Without Cause: The Division may terminate this contract without cause by giving 30 days written notice to the Contractor.

Termination for Cause: If, through any cause, the Hospital shall fail to fulfill its obligations under this contract in a timely and proper manner, the Division shall have the right to terminate this contract by giving written notice to the Hospital and specifying the effective date thereof. In that event, all finished or unfinished deliverable items prepared by the Contractor under this contract shall, at the option of the Division, become its property and the Hospital shall be entitled to receive just and equitable compensation for any satisfactory work completed pursuant to this contract, minus any payment or compensation previously made. Notwithstanding the foregoing provision, the Hospital shall not be relieved of liability to the Division for damages sustained by the Division by virtue of the Hospital's breach of this contract, and the Division may withhold any payment due the Hospital for the purpose of setoff until such time as the exact amount of damages due the Division from such breach can be determined. In case of default by the Contractor, without limiting any other remedies for breach available to it, the Division may procure the contract services from other sources and hold the Contractor responsible for any excess cost occasioned thereby. The filing of a petition for bankruptcy by the Hospital shall be an act of default under this contract.

Waiver of Default: Waiver by the Division of any default or breach in compliance with the terms of this contract by the Hospital shall not be deemed a waiver of any subsequent default or breach and shall not be construed to be modification of the

terms of this contract unless stated to be such in writing, signed by an authorized representative of the Division and the Hospital and attached to this contract.

Availability of Funds: The Parties agree and understand that the payment of the sums specified in this contract is dependent and contingent upon and subject to the appropriation, allocation, and availability of funds for this purpose to the Division.

Force Majeure: Neither party shall be deemed to be in default of its obligations hereunder if and so long as it is prevented from performing such obligations by any act of war, hostile foreign action, nuclear explosion, riot, strikes, civil insurrection, earthquake, hurricane, tornado, or other catastrophic natural event or act of God.

Survival of Promises: All promises, requirements, terms, conditions, provisions, representations, guarantees, and warranties contained herein shall survive the contract expiration or termination date unless specifically provided otherwise herein, or unless superseded by applicable Federal or State statutes of limitation.

Intellectual Property Rights

Copyrights and Ownership of Deliverables: All deliverable items produced pursuant to this contract are the exclusive property of the Division. The Contractor shall not assert a claim of copyright or other property interest in such deliverables.

Federal Intellectual Property Bankruptcy Protection Act: The Parties agree that the Division shall be entitled to all rights and benefits of the Federal Intellectual Property Bankruptcy Protection Act, Public Law 100-506, codified at 11 U.S.C. 365 (n) and any amendments thereto.

Compliance with Applicable Laws

Compliance with Laws: The Hospital shall comply with all laws, ordinances, codes, rules, regulations, and licensing requirements that are applicable to the conduct of its business, including those of federal, state, and local agencies having jurisdiction and/or authority.

Equal Employment Opportunity: The Hospital shall comply with all federal and State laws relating to equal employment opportunity.

Health Insurance Portability and Accountability Act (HIPAA): The Hospital agrees that, if the Division determines that some or all of the activities within the scope of this contract are subject to the Health Insurance Portability and Accountability Act of 1996, P.L. 104-91, as amended ("HIPAA"), or its implementing regulations, it will comply with the HIPAA requirements and will execute such agreements and practices as the Division may require to ensure compliance.

Confidentiality

Confidentiality: Any information, data, instruments, documents, studies or reports given to or prepared or assembled by the Hospital under this contract shall be kept as confidential and not divulged or made available to any individual or

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

organization without the prior written approval of the Division. The Hospital acknowledges that in receiving, storing, processing or otherwise dealing with any confidential information it will safeguard and not further disclose the information except as otherwise provided in this contract.

Data Security: The Hospital shall adopt and apply data security standards and procedures that comply with all applicable federal, state, and local laws, regulations, and rules.

Duty to Report: The Hospital shall report a suspected or confirmed security breach to the Division's Contract Administrator within twenty-four (24) hours after the breach is first discovered, provided that the Hospital shall report a breach involving Social Security Administration data or Internal Revenue Service data within one (1) hour after the breach is first discovered. During the performance of this contract, the Hospital is to notify the Division contract administrator of any contact by the federal Office for Civil Rights (OCR) received by the Hospital.

Cost Borne by Hospital: If any applicable federal, state, or local law, regulation, or rule requires the Division or the Hospital to give affected persons written notice of a security breach arising out of the Hospital's performance under this contract, the Hospital shall bear the cost of the notice.

Oversight

Access to Persons and Records: The State Auditor shall have access to persons and records as a result of all contracts or grants entered into by State agencies or political subdivisions in accordance with General Statute 147-64.7. Additionally, as the State funding authority, the Department of Health and Human Services shall have access to persons and records as a result of all contracts or grants entered into by State agencies or political subdivisions.

Record Retention: Records shall not be destroyed, purged or disposed of without the express written consent of the Division. State basic records retention policy requires all grant records to be retained for a minimum of five years or until all audit exceptions have been resolved, whichever is longer. If the contract is subject to federal policy and regulations, record retention may be longer than five years. Records must be retained for a period of three years following submission of the final Federal Financial Status Report, if applicable, or three years following the submission of a revised final Federal Financial Status Report. Also, if any litigation, claim, negotiation, audit, disallowance action, or other action involving this Contract has been started before expiration of the five-year retention period described above, the records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular five-year period described above, whichever is later. The record retention period for Temporary Assistance for Needy Families (TANF) and MEDICAID and Medical Assistance grants and programs must be retained for a minimum of ten years.

Warranties and Certifications

Date and Time Warranty: The Hospital warrants that the product(s) and service(s) furnished pursuant to this contract

("product" includes, without limitation, any piece of equipment, hardware, firmware, middleware, custom or commercial software, or internal components, subroutines, and interfaces therein) that perform any date and/or time data recognition function, calculation, or sequencing will support a four digit year format and will provide accurate date/time data and leap year calculations. This warranty shall survive the termination or expiration of this contract.

Certification Regarding Collection of Taxes: G.S. 143-59.1 bars the Secretary of Administration from entering into contracts with vendors that meet one of the conditions of G.S. 105-164.8(b) and yet refuse to collect use taxes on sales of tangible personal property to purchasers in North Carolina. The conditions include: (a) maintenance of a retail establishment or office; (b) presence of representatives in the State that solicit sales or transact business on behalf of the vendor; and (c) systematic exploitation of the market by media-assisted, media-facilitated, or media-solicited means. The Hospital certifies that it and all of its affiliates (if any) collect all required taxes.

Miscellaneous

Choice of Law: The validity of this contract and any of its terms or provisions, as well as the rights and duties of the parties to this contract, are governed by the laws of North Carolina. The Hospital, by signing this contract, agrees and submits, solely for matters concerning this Contract, to the exclusive jurisdiction of the courts of North Carolina and agrees, solely for such purpose, that the exclusive venue for any legal proceedings shall be Wake County, North Carolina. The place of this contract and all transactions and agreements relating to it, and their situs and forum, shall be Wake County, North Carolina, where all matters, whether sounding in contract or tort, relating to the validity, construction, interpretation, and enforcement shall be determined.

Amendment: This contract may not be amended orally or by performance. Any amendment must be made in written form and executed by duly authorized representatives of the Division and the Hospital. The Purchase and Contract Divisions of the N.C. Department of Administration and the N.C. Department of Health and Human Services shall give prior approval to any amendment to a contract awarded through those offices.

Severability: In the event that a court of competent jurisdiction holds that a provision or requirement of this contract violates any applicable law, each such provision or requirement shall continue to be enforced to the extent it is not in violation of law or is not otherwise unenforceable and all other provisions and requirements of this contract shall remain in full force and effect.

Headings: The Section and Paragraph headings in these General Terms and Conditions are not material parts of the agreement and should not be used to construe the meaning thereof.

Gender and Number: Masculine pronouns shall be read to include feminine pronouns and the singular of any word or phrase shall be read to include the plural and vice versa.

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

Time of the Essence: Time is of the essence in the performance of this contract.

Key Personnel: The Hospital shall not replace any of the key personnel assigned to the performance of this contract without the prior written approval of the Division. The term "key personnel" includes any and all persons identified by as such in the contract documents and any other persons subsequently identified as key personnel by the written agreement of the Parties.

Care of Property: The Hospital agrees that it shall be responsible for the proper custody and care of any property furnished to it for use in connection with the performance of this contract and will reimburse the Division for loss of, or damage to, such property. At the termination of this contract, the Hospital shall contact the Division for instructions as to the disposition of such property and shall comply with these instructions.

Travel Expenses: Reimbursement to the Hospital for travel mileage, meals, lodging and other travel expenses incurred in the performance of this contract shall not exceed the rates published in the applicable State rules. International travel shall not be reimbursed under this contract.

Sales/Use Tax Refunds: If eligible, the Hospital and all of its contractors and subcontractors shall: (a) ask the North Carolina Department of Revenue for a refund of all sales and use taxes paid by them in the performance of this contract, pursuant to G.S. 105-164.14; and (b) exclude all refundable sales and use taxes from all reportable expenditures before the expenses are entered in their reimbursement reports.

Advertising: The Hospital shall not use the award of this contract as a part of any news release or commercial advertising.

C. Scope of Work

Project Description

In order to help meet the tremendous demand for inpatient behavioral health beds, the Hospital intends to improve the delivery of appropriate and effective inpatient psychiatric and substance use disorder services by converting 17 acute care beds currently licensed by the Hospital and creating 20 beds, pursuant to N.C. Session Law 2016-94, Sec. 12F.4, thus creating a 37 bed new, separately licensed behavioral health center to be located at the Hospital. This facility, to be known as the Dorothea Dix Behavioral Health Center, will be operated by the Hospital's affiliate, Appalachian Regional Behavioral Healthcare, Inc., d/b/a Dorothea Dix Behavioral Health Center, through the lease of a segregated portion of the Hospital's building in accordance with the requirements of the Construction Section, Division of Health Service Regulation. The Hospital's existing 10-bed distinct part behavioral health unit will be closed upon the opening of the Behavioral Health Center.

The Hospital and the Behavioral Health Center agree to reserve at least fifty percent (50%) of the beds in the Behavioral Health Center for its State-Administered, Three-Way Contract with the Local Management Entity, Managed Care Organization, Vaya Health.

The Hospital and ARHS will take all necessary steps to assure that the Behavioral Health Center will comply with all licensing and regulations for physical plant rules, life safety standards, and licensure of psychiatric and substance abuse inpatient beds, and to assure that the Behavioral health Center submits application(s) in compliance with all regulations identified in Section 5.0 (Scope of Work) of the Request for Applications that apply to the 37 proposed new psychiatric/substance use inpatient beds, whenever applicable.

The Hospital and ARHS will take all necessary steps to assure that the Behavioral Health Center will use the 37 beds exclusively for the delivery of inpatient behavioral healthcare. With the 37 new beds, the Hospital and the Behavioral Health Center hope to expand the services provided by the Hospital's small existing inpatient behavioral health unit, which is comprised of all Adult-Acute Psychiatric beds designated to serve adults between the ages of 18 and 64, to include inpatient beds dedicated to substance use patients and medical psychiatric patients (patients with co-occurring mental and physical conditions). These patients also will be between the ages of 18 and 64. In order to best meet the needs of the region and state, the Hospital and the Behavioral Health Center wish to retain some flexibility on the ultimate disposition of the 37 psychiatric/substance use beds, but is currently considering this model:

- 20 Adult-Acute beds
- 10 Medical Psychiatric beds, to include Geriatric Psychiatry
- 7 Substance Use beds

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

The Hospital expects to serve patients from every county in North Carolina, as well as other states, just as it currently does in the existing 10 bed behavioral health unit. Naturally, this project will provide the largest impact on the communities located closest to the facility, nearly all of which are rural. Likewise the Emergency Departments (“EDs”) located closest to the Hospital would receive the most benefit from this project. These EDs would be Cannon (Avery), WMC (Watauga), Ashe Memorial Hospital (Ashe), and Blue Ridge Regional Hospital (Mitchell).

The Hospital has developed policies and procedures for Admission, Continued Stay, and Exclusionary Criteria for services delivered in its 10-bed behavioral health unit. It is anticipated that these policies and procedures – with minimal changes – will be utilized by the Behavioral Health Center.

Performance Measures

- Increase in total number of patients served in the Hospital’s present inpatient behavioral health unit
 - The Hospital currently admits an average of 550 patients each year to its 10-bed behavioral health unit. The Hospital receives over 5,000 referrals to the unit each year. The Project will give the Behavioral Health Center a total of 37 inpatient behavioral health beds, a two hundred seventy percent (270%) increase. Given the level of demand for inpatient beds, it is expected that the 27-bed expansion will increase the number of admissions by 270% as well. Thus, the Behavioral Health Center forecasts an additional 1,485 behavioral health admissions each year ($550 \times 2.7=1,485$). This data will be tracked daily through the Behavioral Center’s census and can be reported as often as necessary.
- Reduction in ARHS Emergency Department wait times for behavioral health patients
 - The current lengths of stay for behavioral health patients in ARHS’ two emergency departments are 13 hours at the Hospital and 16 hours at WMC. It is expected that the increase in inpatient behavioral health beds will cut these wait times by thirty percent (30%) each. The new targeted wait times are 9.1 hours at the Hospital and 11.2 hours at WMC. This data is currently tracked and can be reported as often as necessary.

Project Outcome

- Patient Satisfaction
 - The ultimate goal of this project is to provide the highest level of care to the patients who will ultimately utilize the newly converted beds. The Hospital has a proven track record of extraordinary patient satisfaction metrics, and expects the Behavioral Health Center to maintain this record. Every patient

is given the opportunity to complete a survey upon discharge. From 2008 to 2016, the Hospital served 4,000 patients in the 10-bed behavioral health unit. Eighty percent (80%) of these patients were involuntarily committed. Eighty percent (80%) of patients completed the survey. Ninety-six percent (96%) reported positive satisfaction. The industry average suggests that thirty percent (30%) of behavioral health patients will complete a survey and fifty percent (50%) will report a positive experience. It is expected that the Behavioral Health Center will maintain a positive patient satisfaction rating of at least ninety-five percent (95%).

- Reduction in travel time between local emergency departments and inpatient behavioral health beds
 - By increasing its number of inpatient behavioral health beds, the Behavioral Health Center will increase the number of referrals that it can admit from local emergency departments and emergency departments within the Vaya Health catchment area. The four (4) emergency rooms that are located in closest proximity to the Behavioral Health Center are Cannon (Avery County)(on campus), WMC (Watauga County)(19 miles, 28 minute drive time), Blue Ridge Regional Hospital (Mitchell County)(22 miles, 41 minute drive time), and Ashe Memorial Hospital (Ashe) (45 miles, 1 hour drive time).
- Expand inpatient behavioral health services to a broader age range of patients
 - Currently, all 10 beds in the Hospital's present behavioral health unit are designated as Adult-acute care and can only accommodate patients between the ages of 18 and 64. It is intended that the Project will use some of the newly converted beds to serve substance use disorder patients and medical psychiatric patients.

Project Implementation Plan

On March 1, 2017, Administrators from ARHS and the Hospital met to assess the current physical space at the Hospital and discuss the architectural feasibility of converting existing underutilized, acute-care beds to behavioral health beds.

The results of this meeting and further study showed that the Hospital and ARHS must develop the Project through a "Phased Approach," described more fully below. Because the Hospital must remain operational throughout the entire process of the renovations in order to complete the behavioral health facility, it was determined that the Hospital must build a new 8-bed acute care wing. Once this wing becomes operational, the existing patient rooms will be segregated off and renovated into the new behavioral health beds. The following is a brief description of the phases:

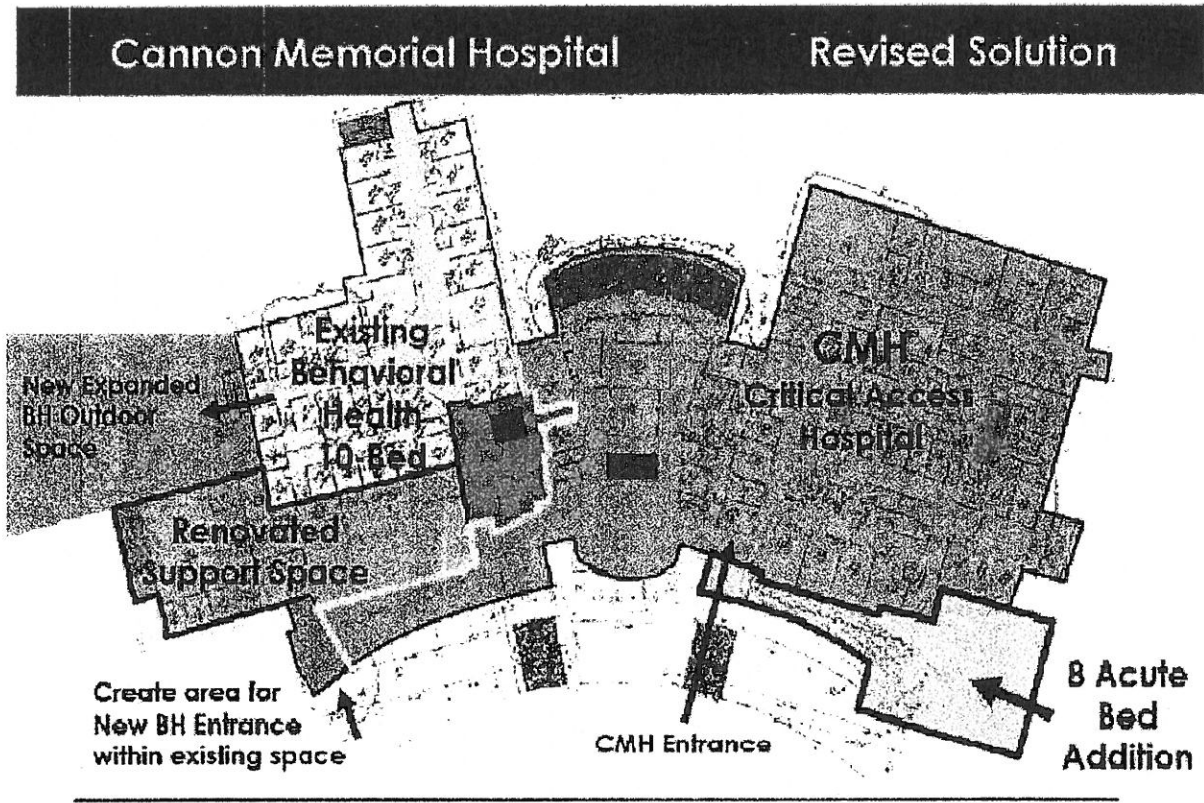
- **Planning Phase – September 1, 2018 to August 31, 2021.** At the direction of the internal Project Manager, the Hospital’s designated planning team will develop a written plan, with time-driven milestones in which to complete the conversion from inpatient acute beds to behavioral health beds. The Hospital will also contract with an external Development Project Manager, who will be responsible for the selection of architects, engineering and environmental firms, assisting with the bid processes and selecting a general contractor for construction.
- **Phase 1 – September 1, 2018 to August 31, 2021.** In Phase 1 it will be important to begin educating employees and the community about the positive impact of this bed conversion and discuss and any changes in medical services that may be affected. The Hospital and ARHS will likely develop “talking points” and conduct information sessions in the community.
- **Phase 2 – September 1, 2018 to October 31, 2020.** During this phase, the Hospital will design and construct a new 8-bed acute care wing to the Hospital. Once constructed and operational, the acute care patients will be moved into this wing, vacating the patient rooms that will be converted or created to 27 behavioral health beds. The estimated timeline for Phase 2 is approximately 24-26 months depending upon the starting month and winter weather. The Parties acknowledge and agree that Phase 2 pertaining to the new acute care wing will not be funded from the funds available to the Hospital pursuant to this contract. The Parties acknowledge and agree that all costs associated with Phase 2 are not a part of the inpatient behavioral health facility project for which funds are available pursuant to this contract, that all Phase 2 costs will be funded by other sources, and that all Phase 2 costs will be the total and exclusive responsibility of ARHS.
- **Phase 3 – September 1, 2018 to October 31, 2019.** During Phase 3, the Hospital will engage an architectural firm and construction firm to jointly develop the detailed renovation plans based on the concepts presented in the “Appalachian Regional Healthcare System Renovation Planning Feasibility Study” (the “Feasibility Study”). This collaboration between the Hospital’s project management team, the Hospital’s architect, and the Hospital’s construction firm (together, the “Project Team”) will ensure that the Project scope is defined so that it can be built within the Project Budget outlined in Section F. This phase will conclude with the delivery of the drawings for review and approval by DHSR Construction Section, as well as establishment of the final detailed construction budget for the Project.

Below is a “Ground Floor Plan Diagram” from the existing structure at the Hospital. Within the “Feasibility Study,” the Hospital plans the following external renovations and construction for the ground floor which would take place during Phase 3:

- Construction of a new patient intake area for dedicated access to the Behavioral Health Center

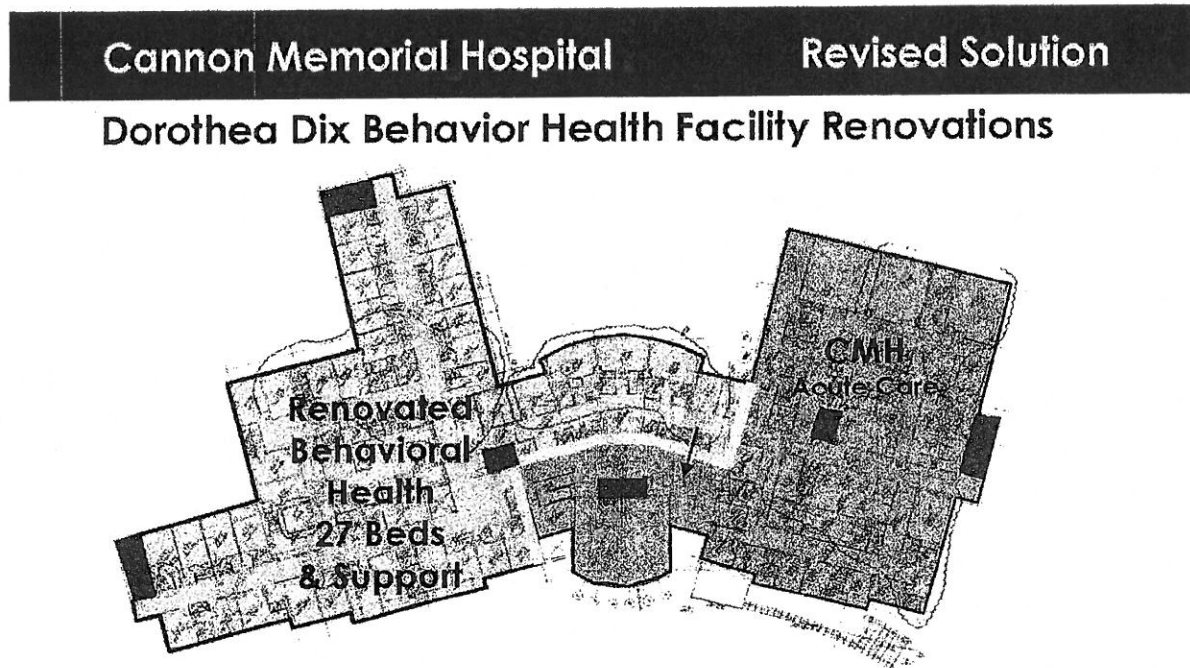
Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

- Construction of a new elevator
- Construction of a new public courtyard
- Expansion of existing outdoor activity space



1st Floor

- **Phase 4 - Starting with the Completion of Phase 2 to June 30, 2021.** With the completion of Phase 2 and once the acute care patients are moved into the new acute care wing of the Hospital, vacating the second floor, Phase 4 will commence. During Phase 4, renovations will begin in order to include converting the 17 acute beds and creating the 20 beds to become 27 behavioral health beds on the second floor (10 beds will remain on the first floor), and converting remaining spaces to “patient support” spaces on both the first and second floor. Below is a “**Second Floor Plan Diagram**” which details the layout of the new second floor:



2nd Floor

- **Phase 5 - January 1, 2020 to August 31, 2021.** In this Phase, the Hospital and the Behavioral Health Center will analyze the staffing plan and begin the process of recruiting for the necessary positions and conducting staff training. The Hospital has significant experience in behavioral health recruitment and recognizes that this may be the most difficult part of the process.
- **Phase 6 – June 1, 2021 to August 31, 2021.** During this final phase, the Hospital and the Behavioral Health Center will undergo various local, state and federal inspections prior to being certified. During this phase the Behavioral Health Center will assume the name, The Dorothea Dix Behavioral Health Center.

27-Bed BH Conversion Project Timeline

8/9/2018

| | 2018 | | | | 2019 | | | | 2020 | | | | 2021 | | | | | | | | | | |
|---------|--|---|---|---|------|---|---|---|-------------------------------------|---|---|---|-----------------------------|---|---|---|---|---|---|---|---|---|---|
| | S | O | N | D | J | F | M | A | M | J | J | A | S | O | N | D | J | F | M | A | M | J | J |
| Phase 1 | Continual Education of Staff and Community | | | | | | | | | | | | | | | | | | | | | | |
| Phase 2 | Relocating Acute Care Beds (N/R) | | | | | | | | | | | | | | | | | | | | | | |
| Phase 3 | Design of Behavioral Health Renovation | | | | | | | | | | | | | | | | | | | | | | |
| Phase 4 | | | | | | | | | Behavioral Health Renovations | | | | | | | | | | | | | | |
| Phase 5 | | | | | | | | | Recruiting of Staff for new BH Beds | | | | | | | | | | | | | | |
| Phase 6 | | | | | | | | | | | | | Approvals Certifications | | | | | | | | | | |

D. Project Milestones and Timeline

Dorothea Dix Behavioral Health Hospital Project
 at Cannon Memorial Hospital

8/9/2018

| PROJECT MILESTONES | Projected Month of Completion* | Estimated Project Capital |
|--|---------------------------------------|----------------------------------|
| Funding Agreement | 9/1/2018 | \$650,000 |
| Final Drawings and Specifications Sent to DHSR | 5/1/2019 | |
| Final drawings approved by Construction, DHSR | 7/1/2019 | |
| Final Detail Construction Budget | 12/1/2019 | \$200,000 |
| Construction Contract Executed | 3/1/2020 | \$600,000 |
| 25% completion of construction | 7/1/2020 | \$1,100,000 |
| 50% completion of construction | 11/1/2020 | \$1,300,000 |
| 75% completion of construction | 3/1/2021 | \$1,175,000 |
| Completion of construction | 6/1/2021 | \$950,000 |
| Ordering of Medical Equipment | 12/1/2020 | \$250,000 |
| Operation of Medical Equipment | 4/1/2021 | |
| Recruiting and Staff Training | 9/1/2020 | \$225,000 |
| Certification | 8/31/2021 | \$53,478 |
| Estiamted Total | | \$6,503,478 |

E. DHHS Requirements for Design and Construction Contracts

Dorothea Dix Hospital Property Fund Project Contract

**NC DHHS Requirements for
Community Hospital Behavioral Health Bed Design and Construction Contracts**

The Hospital shall utilize the American Institute of Architects (AIA) Contract Documents in contracting and working with the Hospital Designer of Record and Hospital Construction Contractor for the Project (as all of the foregoing capitalized terms are defined below). **For any conflict between wording contained in this document and wording in any AIA documents described below, the wording of the AIA document shall take precedence and be used for all documents for this Project.** AIA documents shall be used for this Project in order to ensure that appropriate terms and conditions addressing all industry standard requirements and practices applicable to the Project, including without limitation, the North Carolina Hospital Licensure Rules physical plant section 10A NCAC 13B.6000 et. seq. These licensure rules include the American Society of Healthcare Engineering's Facilities Guidelines Institute's Guidelines for Design and Construction of Hospitals Facilities (2018 ed.), and the following NC DHHS requirements:

Definitions

- a. For purposes of this Section E and the DHHS Requirements for Design and Construction Contracts, the **Project Contract Documents** consist of the Notice to Bidders; Instructions to Bidders; General Conditions of the Contract; special conditions if applicable; Supplementary General Conditions; the drawings and specifications, including all bulletins, addenda or other modifications of the drawings and specifications incorporated into the documents prior to their execution; the proposal; the contract; the performance bond; the payment bond; and insurance certificates. These items together form the contract.
- b. The **owner** is referred to within this contract as the "Hospital." The owner shall contract under separate contract with the State of North Carolina through the North Carolina Department of Health and Human Services to complete the Project including, but not limited to, completing design and construction services required for the Project.
- c. The **Hospital** shall mean the owner of the Project, Charles A. Cannon, Jr. Memorial Hospital, Incorporated.
- d. The **designer(s)** are those referred to within this contract as the "Hospital Designer of Record", or their authorized representatives. The designer(s), as referred to herein, shall mean architects and/or engineers. They will be referred to hereinafter as if each were of the singular number, masculine gender. The designer shall contract directly with the owner to provide all design, bidding, and construction administrative services required for the Project as the owner's representative on the Project.

- e. The **Hospital Contractor** shall mean any of the several contracting parties in any of the Project Contract Documents in connection with the Project. Where, in special instances hereinafter, a particular contractor is intended, an adjective precedes the word “contractor,” as “general,” “heating,” etc. For the purposes of a single prime contract, the term contractor shall be deemed to be the single contracting entity identified as the “Hospital Contractor” in the single Construction Contract. Any references or adjectives that name or infer multiple prime contractors shall be interpreted to mean the Hospital Contractor. The contractor shall contract directly with the Hospital to provide all construction services required for the Project.
- f. A **Subcontractor** shall mean any subcontractor who has entered into a direct contract with the Hospital Contractor, and includes one who furnishes materials worked to a special design in accordance with plans and specifications covered by the contract, but does not include one who only sells or furnishes materials not requiring work so described or detailed.

Design Contract

1. The **design contract** shall be the contractual agreement between the owner and designer for the designer to provide design, bidding, and construction administrative services required for the Project as the owner’s representative.
2. The design contract shall include provisions to address all industry standard design requirements for the Project type and size.
3. The design contract shall be the AIA Document B101 or B102, Owner – Architect Standard Agreement. B101 or B102 shall be used with AIA Document A201, General Conditions of the Contract for Construction. Also, B101 or B102 shall be used with Architect-Consultant agreements such as AIA Document C401. Any alternate Contract Documents comparable to these specified AIA documents which the Hospital may elect to utilize must meet or exceed the standards and requirements contained or reflected in these specified AIA documents.
4. Provide DHHS with a copy of the final executed design contract.

Construction Contract

1. The **construction contract** shall be the contractual agreement between the owner and contractor for the contractor to provide all construction services required for the Project.
2. The construction contract shall include provisions to address all industry standard construction requirements for the Project type and size.
3. The construction contract shall be the AIA Document A101 or A102, Owner - Contractor Standard Agreement. A101 or A102 shall be used with AIA Document A201, General Conditions of the Contract for Construction. Also, A101 or A102 shall be used with the A101 or A102, Exhibit A, Insurance and Bonds. Any alternate Project Contract Documents comparable to these specified AIA documents which the Hospital may elect to

utilize must meet or exceed the standards and requirements contained or reflected in these specified AIA documents.

4. The Hospital shall provide DHHS with a copy of the final executed construction contract.

General Requirements

The AIA construction contract and associated AIA documents shall include all industry standard construction requirements for the Project including, but not limited to, the following:

1. **Commencement of Work:** The Hospital Contractor shall commence work on the date specified in the written Notice to Proceed from the Hospital Designer of Record and shall complete all work within the time period specified in the construction contract.
2. **Payment Provisions:** The Hospital Contractor shall submit each pay request including Financial Status Reports (FSRs) and accompanying invoices of all itemized costs, as allowable by state and federal laws to the Hospital Designer of Record by the 5th day of each month following commencement of the construction work. The Hospital Designer of Record within five (5) days of receiving each contractor pay request, shall certify and provide the Hospital with a certificate for payment in the amount agreeable to both the contractor and designer. The Hospital shall pay to the Hospital Contractor within forty-five (45) days of receipt and approval by the Hospital of each certificate for payment.
 - a. **Lien Waivers:** The Hospital Contractor shall submit with each request for payment a **lien waiver** document from each subcontractor, materials supplier, equipment lessor, or other party to the construction project stating they have received payment and waive any future lien rights to the Hospital for the amount paid for all work completed.
 - b. **Retainage:** The Hospital shall retain five percent (5%) of the amount of each certificate of payment. The Hospital Contractor will be eligible to include all retainage in the request for Final Payment.
 - c. **Final Payment:** Upon completion by the Hospital Contractor of all work covered by the construction contract including obtaining all required final inspections and approvals of work from the local Authority Having Jurisdiction and from the NC DHHS Division of Health Service Regulation's Construction Section and after submitting all close-out documents required by the construction contract to the Hospital Designer of Record, the Hospital Contractor shall submit request for final payment to the Hospital Designer of Record. After the Hospital Designer of Record verifies that the contractor has complied with all requirements of the contract including meeting all close-out requirements including submitting subcontractor lien waivers verifying that all subcontractors have been paid in full and that all certificates of compliance from all required parties have been issued, the designer shall submit the contractor's final request for payment to the owner. The Hospital shall make the final payment to the Hospital Contractor within forty-five (45) days after receipt of the request for final

payment. The Hospital Contractor's request for final payment to the Hospital Designer of Record shall include the final FSR and accompanying invoices of all itemized costs as allowable by state and federal laws, and evidence satisfactory to the Hospital that all payrolls, material bills and other costs incurred by the Hospital Contractor in connection with the construction of the work have been paid in full.

3. **Surety Bonds:** If at any time after the execution of the construction contract and the surety bonds for its faithful payment and/or performance, the Hospital shall deem the surety or sureties upon such bonds to be unsatisfactory, or if, for any reason, such bonds cease to be adequate to cover the performance of the work, the Hospital Contractor shall, at its expense, within five (5) days after the receipt of notice from the Hospital so to do, furnish an additional bond or bonds in such form and amount, and with such surety or sureties as shall be satisfactory to the Hospital. In such event no further payment to the Hospital Contractor shall be deemed to be due under this agreement until such new or additional security for the faithful payment and/or performance of the work shall be furnished in manner and form satisfactory to the Hospital.
4. **Subcontractors Verification:** The Hospital Contractor shall attest that it and all of its subcontractors have fully complied with all requirements of applicable laws, including without limitation the requirements of Article 2 of Chapter 64 of the North Carolina General Statutes regarding E-Verification as required by N.C. Gen. Stat. § 143-129(j).
5. **Designer of Record and Project Design Team:** The Hospital's designer of record and Project design team shall consist of architects and engineers licensed to practice in the State of North Carolina.
6. **Licensed Contractors:** Any contractor or subcontractor working on the Project shall be a licensed contractor to practice in the State of North Carolina for the type of work each contractor or subcontractor is performing.
7. **Adherence to Most Stringent Requirements:** The Hospital Designer of Record, the Hospital Contractor and subcontractors shall adhere to the most stringent requirements of all applicable Federal, State, and Local building code, health care facility, and licensure requirements.
8. **Performance & Payment Bonds:** Before beginning construction work on the Project, the Hospital Contractor shall furnish a performance bond(s) and payment bond(s) executed by a surety company authorized to do business in North Carolina in an amount equal to the full anticipated cost of the Project. Bonds shall be executed in the form specified in the Construction Contract. All such bonds shall be countersigned by an authorized agent of the bonding company who is licensed to do business in North Carolina.
9. **Reviews and Approvals by State and Local Authorities Having Jurisdiction:** The Hospital or Hospital Representative shall be responsible for ensuring that all design and

construction services provided as part of this Contract meet all the design and construction requirements of the federal, State, and local authorities having jurisdiction over the Project including the North Carolina Department of Health and Human Services, Division of Health Service Regulation, and the local authority having jurisdiction for the location where the work is to be performed on the Project (collectively, Authorities Having Jurisdiction or AHJ). All design and construction shall comply with all applicable Federal, State, and local building, life safety, and zoning codes including, but not limited to, OSHA and ADA requirements, and all sections of the North Carolina State Building Codes, the North Carolina Hospital Licensure Rules physical plant section 10A NCAC 13B.6000 et. seq. These licensure rules include the Facility Guidelines Institute's (FGI) Guidelines for Design and Construction of Hospitals, current edition (presently 2018 ed.). The Hospital Contractor shall obtain all required permits and certificates of insurance for work to be performed. All design services are to be performed only by Professional Engineers and Architects licensed to practice in the State of North Carolina. The Hospital Designer of Record shall work with the AHJ and DHSR Construction Section to obtain all design reviews and approvals of construction documents and to solicit bids from contractors in accordance with the standard bidding policies and procedures of the AHJ. All construction shall only be completed by contractors and subcontractors licensed to practice in the State of North Carolina for the type of work to be performed. Hospital Representative shall work with the AHJ and all other appropriate parties to obtain all required inspections and approvals during the construction and licensure phases of the Project, to obtain final Certificate of Occupancy, and to complete all contractually required Project closeout requirements including, but not limited to, providing as-built construction documents and operation and maintenance documents, providing all warranties, and to complete all applicable State licensure requirements (Article 5 of Chapter §131E of the North Carolina General Statutes), and certification by the Centers for Medicare and Medicaid Services.

10. Insurance: The Hospital's Designer of Record and the Hospital's Contractor each shall provide, at its sole cost and expense, commercial insurance of such types and with such terms and limits as may be reasonably appropriate for the nature and scope of the services to be provided in connection with the design and/or construction services for the Project.

11. Design Phase of Project: The Hospital Designer of Record shall:

- a. Work and meet with the North Carolina Department of Health and Human Services (DHHS) identified representatives at regular intervals as needed to ensure that the needs of DHHS are being met.
- b. Submit design documents as required by and at appropriate intervals to the NC DHHS Division of Health Service Regulation's (DHSR) Construction Section for review and approval.
- c. Submit design documents as required by and at appropriate intervals to the local authority having jurisdiction for review and approval.

12. Bidding Phase of Project: Hospital's Designer of Record shall:

- a. Schedule and run pre-bid meeting to review the requirements of the Project with interested bidders.
- b. Answer contractor questions and issue addenda as needed.
- c. Receive and review bids and make recommendation of award to successful bidder to the Hospital for approval.

13. Construction Phase of Project: The Hospital Designer of Record shall:

- a. Schedule and run pre-construction meeting.
- b. Review and approve the Hospital Contractor's proposed construction schedule.
- c. Visit the Project site at appropriate intervals as needed to ensure that construction is progressing in general conformance with the intent of the Contract Documents.
- d. Review and approve all proposed changes in work.
- e. Schedule and run weekly job site progress meetings for the primary purpose of coordinating work to keep the Project on schedule. In addition to the general contractor and subcontractors, the Hospital Designer of Record shall extend a meeting invite to DHHS identified representatives to participate in the meetings if desired.
- f. Receive, review, and approve contractor proposed change orders prior to forwarding change orders to the owner for review and approval by AHJ and DHSR Construction Section.
- g. Perform all pre-final inspections of work, develop all punch lists, and shall perform all final inspections of work after the Hospital Contractor's work-off of punch list items prior to DHSR Construction Section inspections.

The Hospital Contractor and subcontractors shall obtain all permits, inspections, and certificates of compliance and occupancy and pay all fees required by the local authority having jurisdiction.

14. Reviews and Approvals: All required design documents shall be submitted to the Local Authority Having Jurisdiction and to the NC DHHS DHSR's Construction Section in a timely manner for review, including without limitation schematic design, design development, and construction documents and modified as required to obtain the necessary approvals. AHJ and DHHS DHSR's Construction Section shall inspect all construction work and approve it subject to its compliance with the requisite requirements.

15. Schedule: If the Hospital Contractor falls behind the agreed upon construction schedule, then the Hospital shall require the Hospital Contractor to submit a corrective action plan to

the Hospital for review and approval. The plan shall specify the corrective steps the Hospital Contractor plans to take to get back on schedule. The corrective plan shall be submitted to the Hospital within fourteen (14) calendar days from the date that the Hospital Contractor receives the Hospital's request for the corrective action plan. The Hospital Contractor shall be responsible for all costs associated with getting the Project back on schedule.

16. Annulment of Contract: If the Hospital Contractor fails to begin the work under the contract within the time specified, or the progress of the work is not maintained on schedule, or the work is not completed within the time specified in the contract, or fails to perform the work with sufficient workmen and equipment or with sufficient materials to ensure the prompt completion of said work, or shall perform the work unsuitably or shall discontinue the prosecution of the work, or if the Hospital Contractor shall become insolvent or be declared bankrupt or commit any act of bankruptcy or insolvency, or allow any final judgment to stand against him unsatisfied for a period of forty-eight (48) hours, or shall make an assignment for the benefit of creditors, or for any other cause whatsoever shall not carry on the work in an acceptable manner, the Hospital may give notice in writing, sent by certified mail, return receipt requested, to the Hospital Contractor of such delay, neglect or default, specifying the same, and if the Hospital Contractor within a period of thirty (30) calendar days after receipt of such notice shall not proceed in accordance therewith to cure the reasons for default, then the Hospital may declare this contract in default, and, thereupon, the Hospital may request that the Hospital Contractor reimburse the Hospital for the total amount of the contract balance paid to the Hospital Contractor up to the date of notice of default.

17. Termination for Convenience:

- a. The Hospital may at any time and for any reason terminate the Hospital Contractor's services and work at the Hospital's convenience, after notification to the Hospital's Contractor in writing via certified mail. Upon receipt of such notice, the Hospital's Contractor shall, unless the notice directs otherwise, immediately discontinue the work and placing of orders for materials, facilities and supplies in connection with the performance of this Agreement.
- b. Upon such termination, the Hospital's Contractor shall be entitled to payment only as follows: (1) the actual cost of the work completed in conformity with this Agreement; plus, (2) such other costs actually incurred by Hospital's Contractor as approved by the Hospital, (3) plus ten percent (10%) of the cost of the balance of the work to be completed for overhead and profit. There shall be deducted from such sums as provided in this subparagraph the amount of any payments made to Hospital's Contractor prior to the date of the termination of this Agreement. The Hospital's Contractor shall not be entitled to any claim or claim of lien against the Hospital for any additional compensation or damages in the event of such termination and payment.

18. Reserved.

19. Guarantee:

- a. The Hospital Contractor shall unconditionally guarantee materials and workmanship against patent defects arising from faulty materials, faulty workmanship or negligence for a period of twelve (12) months following the date of Certificate of Occupancy/ Final Acceptance of the work or beneficial occupancy and shall replace such defective materials or workmanship without cost to the Hospital.
- b. Where items of equipment or material carry a manufacturer's warranty for any period in excess of twelve (12) months, then the manufacturer's warranty shall apply for that particular piece of equipment or material. The Hospital Contractor shall replace such defective equipment or materials, without cost to the Hospital, within the manufacturer's warranty period.
- c. Additionally, the Hospital may bring an action for latent defects caused by the negligence of the Hospital Contractor which is hidden or not readily apparent to the Hospital at the time of beneficial occupancy or Certificate of Occupancy/Final Acceptance, whichever occurred first, in accordance with applicable law.

F. Project Budget

The Hospital is requesting \$6,503,478 in grant funds to implement the Project. The \$6,503,478 in grant funds requested is in order to cover capital costs of the bed conversion and start-up costs, such as provider recruitment costs, information technology costs and staff training costs.

The total amount of funding available to be paid by the Division to the Hospital under this contract shall not exceed the total amount of \$6,503,478 in accordance with the award to the Hospital in the RFA pursuant to North Carolina Session Law 2016-94, Section 12F.4. Below is a high level summary of the Hospital's Project Budget. As described above, during Phase 3 of the Project, the Project Team will develop the detailed drawings and detailed budget breakdown that will be presented in a final itemized Project Budget prior to October 31, 2019 for review and approval by the Division, such approval not to be unreasonably withheld or delayed.

The total amount of funding requested for the Project's capital construction costs was established at \$6,024,858. Additional funding for the Project's start-up expenses was established at \$478,620. The final itemized Project Budget will include an accurate and complete budget for all costs needed to develop the Project, including without limitation all design, construction, and start-up costs. Upon written acceptance and approval by the Division, the final itemized Project Budget submitted by the Hospital and approved by the Division will supersede and replace the budget set forth below in this Section F. In the event the final itemized Project Budget exceeds the total amount of \$6,503,478 available from the Dix Property Fund for the Project pursuant to this contract, on or before January 31, 2020, the

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project


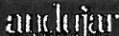
Hospital will provide to the Division proof of funds for any such additional budgeted amounts required to complete the Project.

Capital Costs

- Construction Costs - \$6,024,858

The Hospital will engage the services of an Architect and a General Contractor (“GC”) that meet the requirements of this Agreement. The Architect and GC will work together to design and price the renovations for the Behavioral Health Center.

- Per Section G, subsection 3 below, after the design by the Architect, the Hospital will have the Project priced and will submit final itemized Project Budget that will not exceed the \$6,024,858 in Construction Costs.
- The summary of the Hospital’s Project Budget is as follows:

| | | | | | |
|---|---|---|--|--|--|
|   | | Cannon Memorial Hospital Psychiatric Bed conversion Control Budget | | | |
| | | SUMMARY: Subtotal Directs 4,905,637 Profit & Overhead 490,564 Grand Total \$ 5,396,201 Payment & Performance Bond 89,037 Contingency, 10% 539,620 Project Total \$ 6,024,858 | | Pre-Construction 457,700 General Requirements 413,165 Site Work 329,745 Concrete 32,834 Masonry 137,457 Metals 96,836 Wood and Plastic 207,575 Thermal & Moisture 49,953 Doors and Windows 580,770 Finishes 387,857 Specialties 132,738 Equipment 194,500 Furnishings 350,100 Conveying Systems 135,500 Mechanical 839,618 Electrical 559,300 Sub Total Directs 4,905,637 | |
| Project: | Cannon Memorial Hospital 434 Hospital Dr. Linville, NC Preliminary Design 3/6/17 Psychiatric Bed Conversion Study CONTROL BUDGET 3/7/2017 | | | | |
| Bid Date: | | | | | |

- Start-up Costs - \$478,620
 - The Hospital will submit a final itemized Project Budget for Start-Up Costs, once the Project is closer to Occupancy and Operations. The following is the basis for what the Grant funds for Start-Up Costs were requested.
 - Recruitment Costs - \$200,000
 - \$150,000 - In order to staff the larger facility, the Hospital will need to hire 3 additional psychiatrists, 1 additional nurse practitioner and 1 PhD psychologist. The Hospital estimates the cost of recruiting each of the psychiatrist positions to be \$50,000, to include potential signing bonuses and/or relocation costs of \$25,000 –

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

The Hospital estimates the cost of recruiting the nurse practitioner position and the PhD psychologist position to be \$25,000 each, to include potential signing bonuses and/or relocation costs.

- Information Technology Costs — \$253,620
 - \$200,000 - IT costs for hardware and software installation, licensing is expected to be \$200,000.
 - \$53,620 - Based on the new staff, the Hospital will need to purchase computers and multifunction office machines at a cost of \$53,620.
 - \$49,300 - 34 computers @\$1,450—\$49,300
 - \$4,320 - 8 printers @\$540=\$4,320
- Staff Training Costs - \$25,000
 - One-time, two-week intensive training in the new physical environment to take place before the first patient is accepted in the Behavioral Health Center. This training will assure an understanding of and adherence to evidence-based practices, policies, de-escalation techniques, and team building.

G. Payment Schedule and Final Settlement

Payment Schedule and Final Settlement

This Project is funded pursuant to a special appropriation by the North Carolina General Assembly from monies in the Dix Property Fund, and RFA award made by DHHS pursuant to N.C. Session Law 2016-94, Sec. 12F.4. In consideration of construction and development of the Project in accordance with the Contract, **the Hospital shall receive payments in accordance with the following schedule, not to exceed a total amount of \$6,503,478.00. All payments are contingent upon fund availability.**

1. **Startup Payment.** Ten percent (10%) upfront payment for startup costs in the amount of \$650,347.80 (Startup Payment) within thirty (30) days after final execution of this Contract by both parties and submission by the Hospital to the Division Contract Manager of a signed invoice for this initial payment detailing the expenses it is anticipated to fund.
2. **Expense-Based Draw Down of Startup Payment.** Subsequently, the Hospital shall submit to the Division Contract Manager monthly reports of expenses actually incurred for the Project along with supporting Certified Pay Requests and invoices for any costs and expenses for items other than design or construction work (collectively, Monthly Expense Report). The Startup Payment made to the Hospital shall be applied against the expenses included in such Monthly Expense Reports.

- 3. Monthly Payments for Expenses Incurred.** Following the Hospital's submission of Monthly Expense Reports which exceed the total amount of the Startup Payment and the Hospital's submission to the Division Contract Manager and the Division's written acceptance and approval of any additional information or documents pertaining to completion or implementation of the Project that is required pursuant to this Contract – including without limitation, the Hospital's final itemized Project Budget, the Hospital will receive payments in the amount of the total design expenses and ninety-five percent (95%) of the construction expenses set forth in the Monthly Expense Report within forty-five (45) days after the Division's receipt and approval of the Monthly Expense Report, including all supporting Certified Pay Requests, invoices for any expenses incurred for items other than construction or design services, and any additional information or documents pertaining to completion. The Hospital's Contractor will be eligible to include the retainage of five percent (5%) of construction expenses in its request for final payment pursuant to this contract.
- 4. Final Payment.** The Hospital shall submit a final expense report along with supporting final Certified Pay Request and invoices for any expenses incurred for items other than construction or design services to the Division Contract Manager upon completion of all work required and funded by this contract, including obtaining all required final inspections and approvals of work from the local Authority Having Jurisdiction and the N.C. DHHS Division of Health Service Regulation's Construction and Licensure Sections. The Hospital will receive final payment within forty-five (45) days after the Division's receipt and approval of the Final Expense Report, including the final Certified Pay Request, any invoices for items other than construction or design services, copies of all required close-out documents – including the certificate of occupancy and licensure approval, and any additional information or documents pertaining to completion or implementation of the Project that is required pursuant to this contract.
- 5. Settlement and Return of Funds Upon Termination.** If this contract is terminated prior to completion of the Project or the end of the contract term, the Hospital must settle or refund any State funds disbursed within thirty (30) days of the termination date.

H. Sustainability Plan



**SUSTAINABILITY PLAN FOR
37-BED BEHAVIORAL HEALTH FACILITY AT
CHARLES A. CANNON, JR. MEMORIAL HOSPITAL**

Background

Charles A. Cannon, Jr. Memorial Hospital (Cannon), located in Avery County, NC is a member of Appalachian Regional Healthcare System (ARHS), a nonprofit healthcare system. Cannon currently operates as a 25-bed Critical Access Hospital (CAH), with a 10-bed inpatient behavioral health unit (BH). In the future - as a recipient of \$6.5 million in grant funding from the Dorothea Dix Property Fund - Cannon will shift its current operational model to instead become a 8-bed CAH and a separately licensed 37-bed inpatient BH facility.

Sustainability - Five Factors

In January 2017, when applying for grant funding from NCDHHS, ARHS determined five (5) compelling factors which it believed would allow it to successfully operate and sustain a 37-bed inpatient BH facility located at Cannon. Those factors include:

1. Cannon's experience in successfully operating its existing 10-bed inpatient BH unit since 2008.
2. Cannon's positive history and relationship with its local management entity, Vaya Health.
3. Thorough pro forma analysis which indicated that ARHS and Cannon's overall financial position will significantly improve with the 37-bed BH expansion as proposed.
4. ARHS's current financial strength, which will allow the BH facility to operate amidst reimbursement uncertainty and fluctuations in patients and payer mix.
5. ARHS's successful history of raising public and private financial support through its nonprofit foundation; Appalachian Regional Healthcare Foundation.

Financial Considerations

Attached is a document, titled, "*Charles A. Cannon, Jr. Memorial Hospital / Behavioral Health Expansion Pro Forma*" (Analysis) which illustrates the current finances and future financial projections for Cannon's CAH and the proposed affiliated BH facility. It shows current and future revenues, expenses, and net income.

Highlights of the Analysis are as follows:

- When Cannon expands to a 37-bed BH facility and downsizes to a 8-bed CAH, the combined entities will have an operating income improvement of **\$925,305**. This improvement significantly strengthens Cannon's future sustainability.

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

- The reallocation of overhead expense (which is allocated on the basis of percentage of total gross revenue) represents a **\$1,201,631** improvement to Cannon’s CAH. This reallocation of expenses significantly strengthens the financial position not only for Cannon, but for all other ARHS entities.
- The Net Revenue for the combined entities (CAH and BH facility) will increase significantly by **\$6,182,811**.

Patient and Payer Mix Assumptions

In order to best meet the needs of our region and our state, ARHS developed the analysis based upon the following beds per payer mix:

| #Beds/Type | Days | Payer Mix | | | | |
|-------------------|---------------|------------|------------|----------|----------|----------|
| | | Blue Cross | Commercial | Medicaid | Medicare | Self-Pay |
| 20 Adult Psych | 7,300 | 13% | 56% | 24% | 7% | 0% |
| 10 Medical Psych | 3,650 | 7% | 30% | 13% | 50% | 0% |
| 7 Substance Abuse | 2,555 | 0% | 0% | 0% | 0% | 100% |
| Total | 13,505 | | | | | |

Notes:

- Vaya Health reimbursement included in Commercial and Medicaid
- Inpatient Revenue uses current 2018 day rates with 100% census
- Contractuals were calculated in detail by Bed Type

Staffing Plan

The creation of the new BH facility affiliated with Cannon through the conversion of 17 acute care beds currently licensed by Cannon, and the creation of 20 new beds pursuant to the Dorothea Dix grant program, thereby creating a 37 bed BH facility to be located at Cannon, will necessitate a major increase in staffing from Cannon’s current 10-bed BH unit, which unit will be closed at the time that the BH facility begins admitting patients. The current 10 bed BH unit is staffed with a total of 28 employees. The future 37-bed Dorothea Dix Behavioral Health Center will be staffed with a total of 86 employees. Organization charts which demonstrate current and future staffing plans titled are attached and titled **“CMH Expansion OrgChart.pdf”**. The salary and wage expense for these new positions is estimated to be \$2,696,190 as follows:

| Position | Employees | Salary | Total |
|--------------------|-----------|------------|------------|
| Physiatrists | 3 | \$ 230,000 | \$ 690,000 |
| Registered Nurses | 18 | \$ 50,900 | \$ 916,200 |
| Nursing Assistants | 30 | \$ 25,733 | \$ 771,990 |
| Psychologist | 1 | \$ 73,000 | \$ 73,000 |
| Nurse Practitioner | 1 | \$ 95,000 | \$ 95,000 |

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

| Position | Employees | Salary | Total |
|---------------------------------|-----------|-----------|--------------|
| UR Case Manager | 1 | \$ 30,000 | \$ 30,000 |
| Social Worker/Discharge Planner | 1 | \$ 30,000 | \$ 30,000 |
| Recreation & Leisure Technician | 1 | \$ 30,000 | \$ 30,000 |
| Intake & Assessment Coordinator | 2 | \$ 30,000 | \$ 60,000 |
| | 58 | | \$ 2,696,190 |

ARHS and Cannon will provide administrative oversight for the future Dorothea Dix Behavioral Health Center. Chuck Mantooth holds the title of President and Chief Executive Officer for ARHS, as well as CEO of Cannon. Carmen Lacey, RN, President and Nursing Administrator for Cannon, manages Cannon's daily operations. Stephanie Greer, ARHS' Director of Behavioral Health Services, will manage the daily operations of The Dorothea Dix Behavioral Health Center.

Summary of Advantages

The shift to become a 8-bed CAH and a 37-bed inpatient BH facility located at Cannon has numerous advantages, including:

1. Increasing access to mental health and substance use services in western NC and across the state.
2. Reducing psychiatric boarding from area hospital emergency departments.
3. Reducing law enforcement involvement in caring for and transporting mental health and substance abuse patients.
4. Sustaining the operation of a fading rural hospital - which in turn will allow ARHS to continue meeting the medical needs of the community.
5. Serving as an economic development catalyst by creating 58 new jobs in rural Avery County, NC.

Charles A. Cannon, Jr. Memorial Hospital: Dorothea Dix Hospital Property Fund Project

CHARLES A. CANNON MEMORIAL HOSPITAL/BEHAVIORAL HEALTH EXPANSION PROFORMA

| | CURRENT STATE - FY 2017 | | | FUTURE STATE | | | VARIANCE TO CURRENT |
|---------------------------------|-------------------------|--------------|----------------|---------------|--------------|----------------|---------------------|
| | CMH BH ONLY | CAH PIECE | CMH TOTAL | TOTAL BH | CAH PIECE | CMH TOTAL | |
| OPERATING REVENUE | | | | | | | |
| INPATIENT REVENUE | \$ 5,809,741 | \$ 9,161,858 | \$ 14,971,599 | \$ 23,657,465 | \$ 9,161,858 | \$ 32,819,323 | \$ 17,847,724 |
| OUTPATIENT REVENUE | 1,371,555 | 17,303,685 | 18,675,240 | 1,412,702 | 17,303,685 | 18,716,387 | 41,147 |
| ER REVENUE | 9,237 | 12,909,783 | 12,919,020 | 9,514 | 12,909,783 | 12,919,297 | 277 |
| TOTAL REVENUE | 7,190,533 | 39,375,326 | 46,565,859 | 25,079,681 | 39,375,326 | 64,455,007 | 17,889,148 |
| REVENUE DEDUCTIONS | 3,994,579 | 22,861,043 | 26,855,622 | 14,700,916 | 23,861,043 | 38,561,959 | 11,706,337 |
| NET PATIENT REVENUE | 3,195,954 | 16,514,283 | 19,710,237 | 10,378,766 | 15,514,283 | 25,893,048 | 6,182,811 |
| OTHER OPERATING REVENUE | 191 | 627,735 | 627,926 | 191 | 627,735 | 627,926 | - |
| TOTAL OPERATING REVENUE | 3,196,145 | 17,142,018 | 20,338,163 | 10,378,956 | 16,142,018 | 26,520,974 | 6,182,811 |
| OPERATING EXPENSES | | | | | | | |
| SALARIES & WAGES | 1,843,138 | 6,908,401 | 8,751,539 | 4,669,217 | 6,908,401 | 11,577,618 | 2,826,079 |
| FRINGE BENEFITS | 123,194 | 495,989 | 619,183 | 321,020 | 495,989 | 817,009 | 197,826 |
| SUPPLIES & OTHER EXPENSE | 554,526 | 6,156,812 | 6,711,338 | 714,911 | 6,156,812 | 6,871,723 | 160,385 |
| INTEREST EXPENSE | - | 258,580 | 258,580 | - | 258,580 | 258,580 | - |
| DEPRECIATION & AMORTIZATION | 7,446 | 1,707,485 | 1,714,931 | 308,688 | 1,707,485 | 2,016,174 | 301,243 |
| OVERHEAD ALLOCATIONS | 2,100,000 | 2,516,606 | 4,616,606 | 5,073,605 | 1,314,975 | 6,388,580 | 1,771,974 |
| TOTAL OPERATING EXPENSES | 4,628,304 | 18,043,873 | 22,672,177 | 11,087,441 | 16,842,242 | 27,929,684 | 5,257,507 |
| NET OPERATING INCOME (LOSS) | \$ (1,432,159) | \$ (901,855) | \$ (2,334,014) | \$ (708,485) | \$ (700,224) | \$ (1,408,709) | \$ 925,305 |
| NON-OPERATING (EXPENSE)/REVENUE | - | 819,454 | 819,454 | - | 819,454 | 819,454 | - |
| NET INCOME | \$ (1,432,159) | \$ (82,401) | \$ (1,514,560) | \$ (708,485) | \$ 119,230 | \$ (589,255) | \$ 925,305 |

I. Reporting Requirements

Reporting Requirements

Monthly Project Development and Construction Reports

Beginning the first month following final execution of this contract, the Hospital shall submit to DMHDDSAS by the 14th day of each month a monthly report detailing the recent progress and status of development and construction of the Project, including without limitation:

1. Progress in design and/or construction phases of the Project, including specific work initiated, in progress and completed;
2. Status of Project milestones and associated timelines; and
3. Whether the Project is on schedule in accordance with the Project milestones, and if not, plans to bring the Project back on schedule.

Project Sustainability Reports

Following completion and licensure of the Project, the Hospital shall submit to DMHDDSAS quarterly reports providing the following information regarding the implementation of the Project:

1. Bed days paid and patient census (by month);
2. County of origin for patients served;
3. Primary diagnosis of patients served;
4. Length of stay for patients served;
5. Number and percentage of inpatient admissions of patients served who were under Involuntary Commitment;
6. Discharge disposition for patients served.

The fourth quarter report for each calendar year shall include the following additional information:

7. Staffing, including specific clinical staff positions serving the beds funded pursuant to the contract;
8. Impact on wait times in emergency departments in area hospitals for patients in need of psychiatric or substance use services.

J. Certifications

[APPLICABLE CONTRACT CERTIFICATIONS TO BE COMPLETED AND INSERTED]



**APPALACHIAN REGIONAL
HEALTHCARE SYSTEM**

Charles A. Cannon, Jr., Memorial Hospital, Inc.

Conflict of Interest Verification (Annual)

We, the undersigned entity, hereby testify that our Organization's Conflict of Interest Acknowledgement and Policy adopted by the Board of Directors/Trustees or other governing body, is on file with the North Carolina Department of Health and Human Services (DHHS). If any changes are made to the Conflict of Interest Policy, we will submit a new Conflict of Interest Acknowledgment and Policy to the Department (DHHS).

Charles A. Cannon, Jr., Memorial Hospital, Inc

Name of Organization

Charles Cannon

May 30, 2018

Contractor's Authorized Agent

Date

Chuck Mantooth

CEO

Printed Name of Contractor's Authorized Agent

Title

JoLynn Mahoney

May 30, 2018

Signature of Witness

Date

JoLynn Mahoney

Executive Assistant

Printed Name of Witness

Title



**APPALACHIAN REGIONAL
HEALTHCARE SYSTEM**

Charles A. Cannon, Jr., Memorial Hospital, Inc.

IRS Tax Exemption Verification Form (Annual)

We, the undersigned entity, hereby testify that the 501 (c) (3) status is on file with the North Carolina Department of Health and Human Services and is still in effect.

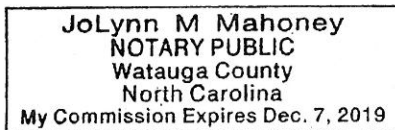
Name of Agency Charles A. Cannon, Jr., Memorial Hospital, Inc.

Chairman, Executive Director, or other Authorized Official

Sworn to and subscribed before me, this 30th day of May, 2018.

Notary Public

My Commission expires: Dec. 7, 2019





APPALACHIAN REGIONAL
HEALTHCARE SYSTEM

Charles A. Cannon, Jr., Memorial Hospital, Inc.

State Grant Certification – No Overdue Tax Debts

May 30, 2018

To: State Agency Head and Chief Fiscal Officer

Certification:

We certify that the Charles A. Cannon, Jr., Memorial Hospital, Inc., does not have any overdue tax debts, as defined by N.C.G.S. 105-243.1, at the federal, State, or local level. We further understand that any person who makes a false statement in violation of N.C.G.S. 143C-6-23(c) is guilty of a criminal offense punishable as provided by N.C.G.S.) 143C-10-1b.

Sworn Statement:

Kim Miller and Kevin May being duly sworn, say that we are the Board Chair and Chief Financial Officer, respectively, of Charles A. Cannon, Jr., Memorial Hospital, Inc. of Linville, in the State of North Carolina; and that the foregoing certification is true, accurate and complete to the best of our knowledge and was made and subscribed by us. We also acknowledge and understand that any misuse of State funds will be reported to the appropriate authorities for further action.

Kevin May
Board Chair
Kim Miller
Chief Financial Officer

Sworn to and subscribed before me on the day of the date of said certification.

JoLynn M Mahoney
(Notary Signature and Seal)

JoLynn M Mahoney
NOTARY PUBLIC
Watauga County
North Carolina
My Commission Expires Dec. 11, 2019

My Commission Expires: Dec 9, 2019

If there are any questions, please contact the state agency that provided your grant. If needed, you may contact the North Carolina Office of State Budget and Management:
NCGrants@osbm.nc.gov-(919)807-4795

¹ G.S. 105-243.1 defines: Overdue tax debt. – Any part of a tax debt that remains unpaid 90 days or more after the notice of final assessment was mailed to the taxpayer. The term does not include a tax debt, however, if the taxpayer entered into an installment agreement for the tax debt under G.S. 105-237 within 90 days after the notice of final assessment was mailed and has not failed to make any payments due under the installment agreement.”

State Certifications
Contractor Certifications Required by North Carolina Law


Instructions: The person who signs this document should read the text of the statutes and Executive Order listed below and consult with counsel and other knowledgeable persons before signing. The text of each North Carolina General Statutes and of the Executive Order can be found online at:

- Article 2 of Chapter 64: http://www.ncga.state.nc.us/EnactedLegislation/Statutes/PDF/ByArticle/Chapter_64/Article_2.pdf
- G.S. 133-32: <http://www.ncga.state.nc.us/gascritps/statutes/statutelookup.pl?statute=133-32>
- Executive Order No. 24 (Perdue, Gov., Oct. 1, 2009): <http://www.ethicscommission.nc.gov/library/pdfs/Laws/EO24.pdf>
- G.S. 105-164.8(b): http://www.ncga.state.nc.us/EnactedLegislation/Statutes/PDF/BySection/Chapter_105/GS_105-164.8.pdf
- G.S. 143-48.5: http://www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_143/GS_143-48.5.html
- G.S. 143-59.1: http://www.ncga.state.nc.us/EnactedLegislation/Statutes/PDF/BySection/Chapter_143/GS_143-59.1.pdf
- G.S. 143-59.2: http://www.ncga.state.nc.us/EnactedLegislation/Statutes/PDF/BySection/Chapter_143/GS_143-59.2.pdf
- G.S. 143-133.3: http://www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_143/GS_143-133.3.html
- G.S. 143B-139.6C: http://www.ncga.state.nc.us/EnactedLegislation/Statutes/PDF/BySection/Chapter_143B/GS_143B-139.6C.pdf

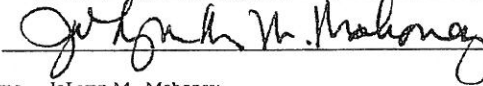
Certifications

- (1) Pursuant to G.S. 133-32 and Executive Order No. 24 (Perdue, Gov., Oct. 1, 2009), the undersigned hereby certifies that the Contractor named below is in compliance with, and has not violated, the provisions of either said statute or Executive Order.
- (2) Pursuant to G.S. 143-48.5 and G.S. 143-133.3, the undersigned hereby certifies that the Contractor named below, and the Contractor's subcontractors, complies with the requirements of Article 2 of Chapter 64 of the NC General Statutes, including the requirement for each employer with more than 25 employees in North Carolina to verify the work authorization of its employees through the federal E-Verify system." E-Verify System Link: www.uscis.gov
- (3) Pursuant to G.S. 143-59.1(b), the undersigned hereby certifies that the Contractor named below is not an "ineligible Contractor" as set forth in G.S. 143-59.1(a) because:
- (a) Neither the Contractor nor any of its affiliates has refused to collect the use tax levied under Article 5 of Chapter 105 of the General Statutes on its sales delivered to North Carolina when the sales met one or more of the conditions of G.S. 105-164.8(b); and
- (b) [check one of the following boxes]
- Neither the Contractor nor any of its affiliates has incorporated or reincorporated in a "tax haven country" as set forth in G.S. 143-59.1(c)(2) after December 31, 2001; or
- The Contractor or one of its affiliates has incorporated or reincorporated in a "tax haven country" as set forth in G.S. 143-59.1(c)(2) after December 31, 2001 but the United States is not the principal market for the public trading of the stock of the corporation incorporated in the tax haven country.
- (4) Pursuant to G.S. 143-59.2(b), the undersigned hereby certifies that none of the Contractor's officers, directors, or owners (if the Contractor is an unincorporated business entity) has been convicted of any violation of Chapter 78A of the General Statutes or the Securities Act of 1933 or the Securities Exchange Act of 1934 within 10 years immediately prior to the date of the bid solicitation.
- (5) Pursuant to G.S. 143B-139.6C, the undersigned hereby certifies that the Contractor will not use a former employee, as defined by G.S. 143B-139.6C(d)(2), of the North Carolina Department of Health and Human Services in the administration of a contract with the Department in violation of G.S. 143B-139.6C and that a violation of that statute shall void the Agreement.
- (6) The undersigned hereby certifies further that:
- (a) He or she is a duly authorized representative of the Contractor named below;
- (b) He or she is authorized to make, and does hereby make, the foregoing certifications on behalf of the Contractor; and
- (c) He or she understands that any person who knowingly submits a false certification in response to the requirements of G.S. 143-59.1 and -59.2 shall be guilty of a Class I felony.

Contractor's Name: Charles A. Cannon, Jr., Memorial Hospital, Inc.

Contractor's Authorized Agent: Signature  Date May 30, 2018

Printed Name Chuck Mantooth Title Chief Executive Officer

Witness: Signature  Date May 30, 2018

Printed Name JoLynn M. Mahoney Title Executive Assistant to the CEO

The witness should be present when the Contractor's Authorized Agent signs this certification and should sign and date this document immediately thereafter.