



The attached Carteret County General Hospital Corporation (Carteret Health Care) Bylaws, Rules and Regulations have been approved by the Board of Directors.

Chairman

Secretary

CARTERET COUNTY GENERAL HOSPITAL

CORPORATION

3500 ARENDELL STREET

MOREHEAD CITY, NORTH CAROLINA

BYLAWS

RULES & REGULATIONS

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CARTERET COUNTY GENERAL HOSPITAL CORPORATION

3500 ARENDELL STREET

MOREHEAD CITY, NORTH CAROLINA

BYLAWS

ARTICLE I

STATEMENT OF PURPOSE

Carteret County General Hospital Corporation ("Corporation") is a North Carolina nonprofit corporation which operates Carteret Health Care, a community hospital located in Morehead City, Carteret County, North Carolina ("Hospital"), which is the focal point for the delivery of health care to the citizens of Carteret County. The Corporation's primary purpose is to provide the best possible comprehensive patient care, to facilitate the educational process in medicine and allied health, and to provide equitable health care service to the total community. The Hospital's medical staff provides key decisions in the needs and treatment of our patients. The Hospital's management team provides inspiration to the staff to contribute to the Corporation's success to the maximum of each individual's abilities. The Hospital's employees' commitment to patient care is essential to the successful health care network. We, the employees and Directors of the Corporation, are committed to the belief that each person who enters the doors of our Hospital is a guest who should be treated with respect and dignity.

Our patients are the reason we exist. Our services will be guided by a responsiveness to patient need and the highest possible care delivered within the limits of our resources. Our patients will be involved in the decision making process related to their care and will have their advance directives honored within the governing laws. The scope of patient care at the Hospital includes surgical care, medical care, pediatrics, orthopedics, urology, gastroenterology, obstetrics, gynecology, pulmonary medicine, otolaryngology, ophthalmology, oral/maxillofacial surgery, oncology, neurology, laboratory and pathology, radiology, nuclear medicine, emergency services, outpatient services, including satellite clinics, maternal/child health, critical care, progressive care, cardiopulmonary, rehab services, home health care, hospice care, joint & spine, weight loss, diabetes program, cardiac catheterization, wound care, dialysis services, pharmacy and other related services as from time to time deemed necessary to serve the medical needs of our community. The Corporation and the Hospital endeavor to continuously improve the quality of

the health care services provided to the citizens of Carteret County while focusing on the safety of the patients, employees, physicians, and visitors of the Hospital.

The Corporation recognizes its responsibility of stewardship and is dedicated to the conservative and judicious use of its resources. Our financial strength is the foundation for achieving our mission. To maintain financial strength, we will manage the budget in a cost effective manner, identify opportunities for improving efficiency, and carefully allocate our health care dollars to match the goals of the Hospital. Strategic planning is the key to a progressive, secure future. In planning, we must meet demands of changing technologies and patient needs, we must anticipate the impact of health care reform, and we must properly structure our Hospital's growth. Services shall be provided to all individuals without regard to race, creed, religion, national origin or ability to pay.

Recognizing the importance of continuing education, the Corporation is committed to fostering an environment which encourages continuing education for all personnel. Additionally, the Corporation is committed to utilizing any and all resources to promote health education to the patients we serve and the community and we will strive to access all resources needed to fulfill and strengthen organizational goals and objectives.

Our community responsibility will give validity to our intent to carry out our mission. We will continue interactive cooperative efforts with other health care agencies and community groups to facilitate the health care needs of the community. Our services will continue to be enhanced by the invaluable contributions of a strong community volunteer program. The Corporation shall establish cooperative efforts with other hospitals, planning agencies and community groups to facilitate the health care needs of the community. The scope of these efforts will be jointly established and coordinated by the Corporation's Board of Directors and members of the Hospital's Medical Staff and Administration.

The Corporation shall serve as a responsible employer through development and administration of progressive and equitable personnel policies and salary schedules which comply with applicable state and federal laws and regulations.

The Corporation, and its operation of the Hospital, shall comply in all material respects with all applicable state and federal laws and regulations.

ARTICLE II

CORPORATION

Section 1 - Structure

Corporation is a non-stock, non-profit corporation, incorporated to operate a public hospital and its related facilities.

Section 2 - Membership

The Corporation, as described in the Articles of Incorporation, as amended, shall be governed by a Board of Directors. The Corporation does not have any members.

Section 3 - Fiscal Year

The fiscal year for the Corporation is October 1 through September 30.

ARTICLE III

BOARD OF DIRECTORS

Section 1 - Membership

The number of directors constituting the Board of Directors of the Corporation shall be thirteen (13). The method of appointment, qualifications and tenure of the members of the Corporation's Board of Directors ("Director" or "Directors") shall be as set forth and contained in these Bylaws and consistent with the Articles of Incorporation. The Board of Directors shall consist of the following:

- A. Nine (9) members of the Board of Directors shall be appointed by the Board of Commissioners of Carteret County ("Board of Commissioners"). Each of said appointed Directors shall be a voting Director. The Board of Commissioners, in making appointments to the Board of Directors shall give representation to all sections of Carteret County, to the extent practicable, and shall select Directors who are fit for such office.
- B. Additionally, the Board of Commissioners shall appoint one (1) member of the Board of Commissioners to serve on the Corporation's Board of Directors as a voting Director.
- C. The Chief of the Medical Staff of the Hospital shall be an ex-officio member of the Board of Directors and shall be a voting Director.
- D. The Vice-Chief of the Medical Staff of the Hospital shall be an ex-officio member of the Board of Directors and shall be a nonvoting Director.
- E. The President of the Corporation shall be an ex-officio member of the Board of Directors and shall be a nonvoting Director.

All Directors shall be residents of Carteret County and at least 21 years of age.

Section 2 - Terms of Office

- A. Each of the nine (9) voting Directors appointed by the Board of Commissioners shall serve as a Director for a term of three (3) calendar years and until such Director's successor shall be appointed and shall qualify.

- B. The voting Director who also is a member of the Board of Commissioners shall serve as a Director for a term equal to his or her term as a member of the Board of Commissioners or until he or she is replaced by the Board of Commissioners.
- C. The Chief of the Medical Staff shall serve as a Director for a term equal to his or her tenure as Chief of the Medical Staff.
- D. The Vice-Chief of the Medical Staff shall serve as a Director for a term equal to his or her tenure as Vice-Chief of the Medical Staff.
- E. The President of the Corporation shall serve as a Director for a term equal to his or her tenure as President.

Notwithstanding the foregoing, no Director, except the President of the Corporation, shall be eligible to serve continuously for more than nine (9) consecutive years; however, a former Director shall be eligible for re-appointment to the Board of Directors, regardless of length of prior service, at any time after one (1) year has expired since the end of the former Director's last term as a Director. Also, in order to provide leadership continuity, either of the Chairman of the Board of Directors or the Vice-Chairman of the Board of Directors, but not both, shall be permitted to succeed himself or herself for more than nine (9) years provided he or she is so nominated by the Board of Directors and appointed by the Board of Commissioners or the Hospital's Medical Staff, as the case may be.

Section 3 - Resignation and Removal of Directors

A Director may resign at any time by giving written notice of such resignation to the Chairman of the Board of Directors. Further, any Director absent for three consecutive meetings of the Board of Directors without good cause shall be considered to have resigned. Good cause for this purpose shall be any reason for which absence is excused by the Chairman of the Board of Directors.

Any Director, except the Chief of the Medical Staff and the Vice-Chief of the Medical Staff, may be removed for cause by a two-thirds majority vote of the remaining voting Directors at a meeting called for that purpose at which a quorum is present. For this purpose, "cause" shall include any of the following:

- A. Any personal acts, habits, and usages of a Director that might injure in any way, directly or indirectly, the reputation of the Corporation.
- B. A Director's insolvency, making of an assignment for the benefit of creditors or the administration of a Director's assets in any kind or type of creditor's proceedings, voluntary or involuntary.
- C. A Director's habitual excessive use of alcohol or any illegal drug or other substance.

- D. A Director's engaging in, directly or indirectly, any activity or activities which are in conflict with the best interests of the Corporation or in which the Director receives an improper personal benefit.
- E. A Director's conviction of a crime involving moral turpitude.
- F. A Director's violation of the Conflict of Interest policy in Article XII hereof or, pursuant thereto, the determination by the Board of Directors that a Director is an "interested person" (within the meaning of the Conflict of Interest policy) and that appropriate corrective action is the removal of the Director.

The persons serving as Chief of the Medical Staff and Vice-Chief of the Medical Staff may be removed and replaced as Directors pursuant to the Medical Staff Bylaws, Rules and Regulations.

Section 4 - Meetings

All meetings of the Board of Directors shall be held at the offices of the Corporation unless reasonable notice of a change in location is given in accordance with applicable law to the Directors, to members of the news media, and others who have requested such notice.

Section 5 - Annual Meeting

The annual meeting of the Board of Directors shall be held in January of each year. At this meeting, the Board of Directors shall receive new Directors to succeed those Directors whose terms of office expired at the end of the immediately preceding year. The following officers of the Corporation, in the following listed priority, shall preside at the annual meeting until a new Chairman of the Board of Directors has been elected, provided that such officer is present and his/her term as a Director has not expired as of the annual meeting date: 1. The Chairman of the Board of Directors from the immediately preceding year; 2. the Vice-Chairman of the Board of Directors from the immediately preceding year; 3. the President of the Corporation; 4. the Secretary from the immediately preceding year; 5. the Treasurer from the immediately preceding year; 6. The Assistant Treasurer from the immediately preceding year; and 6. the Assistant Secretary from the immediately preceding year. Immediately upon the election of the Chairman of the Board of Directors for the current year, that person shall preside over the remainder of the annual meeting.

At the annual meeting, the Board of Directors shall appoint the Corporation's Auditor and Legal Counsel. The Board of Directors also shall appoint the financial institution to serve as the depository of the Hospital's funds at the annual meeting; provided, however, that the Board of Directors shall have the right at any time and from time to time to remove such funds and appoint a new financial institution or institutions as a depository of the Hospital's funds by written notice to such institution then holding funds of the Hospital.

Section 6 - Regular Meetings

Regular monthly meetings of the Board of Directors shall be held on the fourth Monday of each month except December beginning at 9:00 AM.

Section 7 - Meeting Cancellation

Meetings of the Board of Directors may be canceled if the cancellation permits at least five (5) days' notice to the news media and each Director. Meeting cancellation may be accomplished by majority vote of the Directors at a regular meeting, by the Executive Committee of the Board of Directors or by the Chairman of the Board of Directors.

Section 8 - Meeting Agenda

To facilitate the business of the Board of Directors, a meeting agenda shall be prepared by the Chairman of the Board of Directors and the President and distributed with the notice of each regular meeting. The agenda shall reflect: Call to Order, Approval of Minutes, Review of Old Business, Medical Staff Report, Management Reports, Board Committee Reports, New Business, and Adjournment. The agenda may also include additional items of business as may be necessary to the business of the Board of Directors.

Section 9 - Special Meetings

Special meetings of the Board of Directors may be called at such times as the Chairman or Vice-Chairman of the Board of Directors may deem necessary.

Section 10 - Notice of Meetings and Waiver of Notice

Annual meetings of the Board of Directors may be held without notice. Notice of regular meetings of the Board of Directors shall be mailed at least seven (7) days in advance of the date of the regular meeting. Notice of special meetings shall be given by personal notice, by mailing notice, or by any usual means of communication at least three (3) days prior to the date of such special meeting and shall be given in accordance with applicable law. Any duly convened regular or special meeting may be adjourned by the Directors to a later time without further notice except as required by applicable law.

Notwithstanding the foregoing provisions of this Section, notice of any meeting of the Board of Directors shall be made as may be required otherwise by the North Carolina Nonprofit Corporation Act, including without limitation, meetings of the Board of Directors where any of the following matters are to be approved: (a) amendment to the Corporation's Articles of Incorporation or Bylaws, (b) plan of merger or dissolution, or (c) a sale of assets other than in the regular course of the Corporation's activities.

Any Director may waive notice of any meeting before or after the meeting. The waiver must be in writing, signed by the Director entitled to the notice, and delivered to the Corporation for inclusion in the minutes or filing with the corporate records. The attendance by a Director at, or the participation of a Director in, a meeting shall constitute a waiver of any required notice of such meeting, unless the Director, at the beginning of the meeting (or promptly upon the Director's arrival thereat), objects to holding the meeting or to transacting any business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Section 11 - Quorum and Voting

At least six (6) Directors who are entitled to vote at a meeting of the Board of Directors shall constitute a quorum at any annual, regular or special meeting. If a quorum is not present at any meeting, those present will adjourn the meeting until such date and hour as a quorum may be present. Each voting Director shall be entitled to one (1) vote on all matters that come before the Board of Directors; provided, however, that the Chairman of the Board of Directors shall be entitled to an additional vote in the event of a deadlock in the vote of any matter before the Board of Directors. Unless a higher vote is required by the Corporation's Articles of Incorporation or these Bylaws or the North Carolina Nonprofit Corporation Act, the act of the majority of the voting Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 12 - Authority

The general powers of the Corporation shall be vested in the Board of Directors which shall have responsibility, control and management of the property, affairs, and funds of the Corporation; shall fill vacancies among the officers for unexpired terms; and shall have the power and authority to do and perform all acts and functions not inconsistent with these Bylaws or with any action taken by the Corporation.

Section 13 - Vacancy

In the event any voting Director (other than the Chief of the Medical Staff) dies, resigns, becomes disabled or is removed from the Board of Directors between annual meetings, the Board of Directors shall promptly notify the Board of Commissioners, and request the Board of Commissioners to fill the vacancy thus created, by appointment immediately thereafter of a replacement Director. While final authority for appointment to the Board of Directors of a replacement in the event of such a vacancy rests with the Board of Commissioners, the Board of Directors shall suggest potential replacements.

In the event the Chief of the Medical Staff or the Vice-Chief of the Medical Staff dies, resigns, becomes disabled or is removed from the Board of Directors between annual meetings, the Board of Directors shall promptly notify the Medical Staff and request the Medical Staff to fill the vacancy thus created by appointment immediately thereafter of a replacement Director.

In the event the President dies, resigns, becomes disabled or is removed from the Board of Directors between annual meetings, the voting Directors shall fill such vacancy.

The term of a Director filling a vacancy expires at the end of the unexpired term that such Director is filling.

Section 14 - Compensation

Directors shall not be compensated for their service as Directors. The Board of Directors shall be reimbursed for any out-of-pocket expenses incurred by Directors in attending regular or special meetings of the Board of Directors, participating in professional education activities, attending meetings of professional associations related to the business of the Corporation and

otherwise in handling the affairs of the Corporation at a rate prescribed from time to time (but in no event more frequently than once per fiscal year) by the Board of Directors. Directors shall be reimbursed for out-of-pocket expenses incurred in participation in professional education activities and attending meetings of professional associations in the same manner as other employees of the Corporation in accordance with the Administrative Travel Policy then in effect.

Section 15 - Presumption of Assent

A Director who is present at a meeting of the Board of Directors or at a meeting of any committee of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (a) such Director objects at the beginning of the meeting (or promptly upon the Director's arrival thereat) to holding the meeting or to transacting any business at the meeting, or (b) such Director's contrary vote is recorded or such Director's dissent or abstention from the action taken otherwise is entered in the minutes of the meeting, or (c) such Director files written notice of dissent or abstention to such action with the person presiding at the meeting before the adjournment thereof or forwards such notice by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right of dissent or abstention is not available to a Director who voted in favor of the action taken.

Section 16 - Informal Action by Directors

Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all voting Directors and evidenced by one or more written consents signed by each voting Director before or after such action, describing the action taken, and delivered to the Secretary of the Corporation for inclusion in the minutes or filing with the corporate records.

ARTICLE IV

OFFICERS OF THE CORPORATION

Section 1 - Officers of the Corporation

The officers of the Corporation shall be a President, certain Vice-Presidents, Chairman of the Board of Directors ("Chairman"), Vice-Chairman of the Board of Directors ("Vice-Chairman"), Secretary, Assistant Secretary, Treasurer, Assistant Treasurer and such other officers as the Board of Directors from time to time may elect. Any person may serve as an officer of the Corporation; provided, however, that the Chairman and Vice-Chairman also must be voting Directors. All officers shall be elected or appointed by the voting Directors at the annual meeting of the Board of Directors held in January of each year and shall hold office for a period of one year or until their successors have been duly elected.

Section 2 - President

The President shall be the Chief Executive Officer of the Corporation with all the authority of such an officer of a non-profit corporation and shall be an ex-officio, nonvoting member of the

Board of Directors. The duties and responsibilities of the President shall be as outlined in Article VI of these Bylaws.

Section 3 - Vice-Presidents

The Vice-Presidents shall be appointed in accordance with and shall have such duties and responsibilities as are outlined in Article VII of these Bylaws.

Section 4 - Chairman

The voting Directors shall elect annually one of the voting Directors to serve as the Chairman. The Chairman shall preside at all meetings of the Board of Directors and shall be an ex-officio member of all committees of the Board of Directors. The Chairman shall:

- A. Exercise the general supervision of all affairs of the Corporation.
- B. See that all orders, decisions, and resolutions of the Board of Directors are carried into effect.
- C. Appoint all committees and their chairmen in accordance with Article V of these Bylaws.

Section 5 - Vice-Chairman

The voting Directors shall elect annually one of the voting Directors to serve as the Vice-Chairman. In the absence of the Chairman, the Vice-Chairman shall have all powers and shall perform all of the duties of the Chairman.

Section 6 - Secretary

The Secretary shall ensure that accurate records are kept of all meetings and proceedings of the Board of Directors and its committees. The Secretary shall perform all such acts and duties as may be prescribed by the Board of Directors or the Chairman and as are usually incident to the office of the Secretary of the Corporation.

Section 7 - Assistant Secretary

The Assistant Secretary shall have general custody of the corporate books and records and shall be responsible to the Secretary of the Board of Directors. The Assistant Secretary shall have custody of the corporate seal and shall attest the same when affixed by order of the Board of Directors. The Assistant Secretary shall receive and attend to all correspondence of the Board of Directors and shall ensure that proper notice is given of all meetings. The Assistant Secretary may be assigned other secretarial duties as may be required by the office of Secretary or the Chairman.

Section 8 - Treasurer

The Treasurer shall have custody of all funds and securities belonging to the Corporation and shall receive, deposit or disburse the same under the direction of the Board of Directors. The Treasurer shall maintain appropriate accounting records as may be required by law. In general,

the Treasurer shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned by the Chairman or by the Board of Directors.

Section 9 – Assistant Treasurer

The Assistant Treasurer shall perform all duties incident to the office of Treasurer as outlined in Section 8 – Treasurer in his/her absence and such other duties as from time to time may be assigned by the Chairman or by the Board of Directors.

Section 10 - Removal and Resignation

Any officer may be removed by the Board of Directors at any time with or without cause; but such removal shall be without prejudice to the contract rights, if any, of the person so removed. An officer may resign at any time by notifying the Corporation, orally or in writing, of such resignation. A resignation shall be effective upon receipt by the Corporation unless it specifies in writing a later effective date. An officer's resignation does not affect the Corporation's contract rights, if any, with such officer. In the event an officer dies, resigns, becomes disabled or is removed from office, the voting Directors shall fill such vacancy. In the event a resignation so specifies a later effective date, the Board of Directors may fill the pending vacancy prior to such date; however, the successor to the resigning officer may not take office until the effective date.

Section 11 - Compensation

The compensation, if any, of all officers of the Corporation shall be fixed by the Board of Directors. The election of an officer does not of itself create any contract rights.

ARTICLE V

COMMITTEES OF THE BOARD OF DIRECTORS

Section 1 - Standing Committees

Committees of the Board of Directors shall be standing or special. The standing committees of the Corporation shall be the Executive Committee; the Planning, Building and Grounds Committee; the Finance and Investment Committee; the Audit Committee; the Human Resources Committee; the Community Relations Committee; the Joint Conference Committee; and, the Board Safety & Quality Committee.

The Board of Directors, by a majority vote of the voting Directors then in office, from time to time may establish other standing committees of the Board of Directors, each of which shall have and may exercise, to the extent authorized by the North Carolina Nonprofit Corporation Act and as provided by the Board of Directors, the authority of the Board of Directors in the management of the Corporation. The Chairman, with the input and assistance of the President, shall appoint two (2) or more Directors to each standing committee, shall appoint other members (who need not be Directors) to each committee, and shall appoint the chairman of each standing committee. The Board of Directors shall approve all standing committee appointments made by the

Chairman. Only the members of each committee shall have the right to attend and vote on matters before such members' respective committee.

Section 2 - Executive Committee

The Executive Committee shall consist of the Chairman, the Vice-Chairman, the Secretary, the Treasurer, the Assistant Treasurer and the President. The Executive Committee shall meet quarterly or as called by the Chairman. The Executive Committee shall have power to transact all regular business of the Corporation during the period between meetings of the Board of Directors, subject to any prior limitation imposed by the Board of Directors and with the understanding that all actions taken by the Executive Committee will be reported to the Board of Directors, except that the Executive Committee shall not:

- A. Approve the dissolution or merger of the Corporation, or the sale, pledge or transfer of all or substantially all of the Corporation's assets.
- B. Elect, appoint, or remove Directors, or fill vacancies on the Board of Directors or on any of its committees.
- C. Adopt, amend, or repeal the Articles of Incorporation or the Bylaws of the Corporation.

Section 3 - Executive Compensation Committee

The executive compensation committee provides the Board with the information it needs to fulfill its fiduciary responsibility to safeguard the organization. It ensures that the board fully understands the process by which executive compensation decisions are made in relation to market practices, regulatory guidelines, and the established compensation philosophy. The compensation committee can be given authority by the full board to make executive compensation decisions. However, the full board should oversee the delegation of this function and bears the ultimate responsibility for ensuring sound decision making in this area.

The composition of the Executive Compensation Committee should consist entirely of independent directors (i.e., those who are free of any relationship with the corporation or its management that may impair, or appear to impair the director's ability to make independent judgments). The Board should use the organization's definition of an independent director to determine who can sit on this committee. The number of people on this committee may depend, therefore, on the number of independent directors on the board.

The CEO is a non-voting member or attends meetings of the Compensation Committee to participate in deliberations concerning the senior team, but is *not* present when his or her compensation is discussed, except to hear the results of the committee's evaluation of the CEO.

The responsibilities of the Executive Compensation Committee include:

- ❖ Recommend to the full board for approval a compensation philosophy and incentive plan that provides a framework for determining executives' base pay, incentives, and benefits.
- ❖ Periodically review the appropriateness of the compensation philosophy statement to determine whether it positions the organization at the "right point" in its relevant market.

- ❖ Establish, with the full board, a written policy specifying the committee's authority and any decisions that require approval/ratification by the full board.
- ❖ Identify procedures for committee function, including:
 - o Determine compensation for the CEO.
 - o Approve the CEO's recommendations for the compensation of key executives.
 - o Establish CEO performance objectives and evaluate CEO performance.
 - o Ensure the effective administration according to policy of incentive plans, SERPs, special benefits, and severance provisions.
 - o Educate the full board regarding its executive compensation responsibilities, including IRS Section 4958.
- ❖ Conduct/assist in succession planning.
- ❖ Make sure that the executive compensation program is administered in a manner consistent with the compensation philosophy.
- ❖ Review and approve executive compensation in a manner that qualifies for the rebuttable presumption of reasonableness under the IRS intermediate sanctions rules.
- ❖ Regularly update the board so that it understands executive compensation activities and is always aware of the committee's work.
- ❖ Consider how the public and public officials may interpret its compensation decisions in the context of its community benefit mission.
- ❖ Ensure that formal and timely performance assessments are conducted for the CEO and other senior executives.
- ❖ Engage an independent compensation firm to provide education, advice and comparability data.
- ❖ Engage other professional advisors (e.g., legal, accounting, and tax) as needed, and ensure that such advisors do not have any conflict as it relates to their work.
- ❖ Ensure that executives (the CEO and other members of the senior management team) do not have undue influence over the advisor selection process and resulting studies and recommendations.

Section 4 – Planning Building and Grounds Committee

The Planning Building and Grounds Committee shall consist of at least three Directors, one of whom shall be appointed chairman, and shall consult members of the Medical Staff as appropriate. The President and the Hospital's Plant Engineer shall serve as nonvoting ex-officio members. The Planning Building and Grounds Committee shall meet as needed, but not less than semi-annually, and shall provide oversight of strategic Hospital initiatives including those of any affiliated corporations or enterprises for development to meet community need, further the Hospital's mission and strategic plans, and help to enhance the population served by the Hospital. Particular focus will be upon the facilities and space needs of the Hospital operation including evaluation of proposals from management and needs for modernization or expansion of the Hospital. The committee shall receive or request reports from management to assure that facilities are responsive to patient needs, are compliant with all applicable federal, state and local statute and regulation, are contributing to institutional financial success and being operated on a cost-effective basis.

Section 5 - Finance and Investment Committee

The Finance and Investment Committee shall consist of at least three Directors, one of whom shall be appointed chairman. The President and the Vice-President for Fiscal Services shall serve as nonvoting ex-officio members. The Finance and Investment Committee shall be responsible for supervising the management of all endowment and trust funds of the Corporation. It shall arrange for all endowment and trust funds to be properly invested; shall require prompt reports concerning such investments and shall see that income, after reduction of expenses, is paid into the proper fund of the Corporation and that both principal and income are used in accordance with the terms of the trust. The Finance and Investment Committee shall also develop an investment policy and shall submit such policy to the Board of Directors for approval. The investment policy approved by the Board of Directors shall be reviewed by the Finance and Investment Committee not less than annually. The Finance and Investment Committee shall cause to be prepared, and shall submit to the Board of Directors, a budget showing expected income and expenses for the ensuing fiscal year. It further shall be the duty of the Finance and Investment Committee to examine monthly financial reports. The Finance and Investment Committee shall meet at least monthly.

The Finance and Investment Committee shall also exercise oversight responsibility for receiving, reviewing, monitoring and acting upon proposals and opportunities to reduce costs at the Hospital and to remain cost competitive while promoting safety and quality; shall monitor financial performance to achieve budget goals; shall review and make recommendations to the Board regarding pricing and health plan contracting; shall review capital budgets and evaluate other capital expenditure plans and make appropriate recommendations to the Board; and shall establish and recommend to the Board goals to enhance the financial health of the Hospital and its affiliates.

Section 6 - Audit Committee

The Audit Committee shall consist of at least three independent Directors, one of whom shall be appointed chairman. The Audit Committee shall have the responsibility of reviewing the financial statements with the independent accountants prior to recommending final approval to the Board of Directors. The purpose of such a review is to determine that the independent accountants are satisfied with the disclosure and content of the financial statements and to obtain sufficient information from the auditors to facilitate analysis of the financial statements submitted to the entire Board of Directors. The Audit Committee shall also evaluate the effectiveness of the overall audit process, including, without limitation, the efficiency of the exchange of information between the Hospital's personnel and the auditors, the sufficiency of the auditor's investigation of supporting documentation for the information provided and the adequacy of the scope of the audit conducted in providing meaningful results. The Audit Committee shall focus on those areas where either the Audit Committee or the independent accountants believe special emphasis is desirable. The Audit Committee shall determine through discussions with the independent accountants that no restrictions were placed by management on the scope of the examination or its implementation. The Audit Committee shall inquire into the effectiveness of the Corporation's management of financial and accounting functions, through discussions with the independent accountants and appropriate officers of the Corporation. The Audit Committee shall review reports prepared by the independent accountants discussing

weaknesses in internal control, organizational structure and operations and containing recommendations to improve such weaknesses.

Section 7 – Human Resources/Retirement Plan Investment Committee

The Human Resources Committee shall consist of at least two Directors, one of whom shall be appointed chairman. The President and the Director of Human Resources shall serve as nonvoting ex-officio members. The Human Resources Committee shall review and consider proposals regarding wage and salary administration including the evaluation of any incentive compensation program; benefit administration and other policies and procedures to help assure that the Hospital is able to recruit and retain high-quality, competent staff; advances including review of an annual staff competency plan; and shall assure that appropriate policies and procedures are in place to assure compliance with all applicable federal, state and local employment, labor and employment law. The Committee shall request and/or review other reports to help assure that vacancy and/or turnover is compatible with targeted benchmarks and to help advance a high-quality patient and customer-focused workforce is in place. The Human Resources Committee shall present the results of its review to the Board of Directors and shall make recommendations for addressing any identified deficiencies or achieving potential improvements in these areas to the Board of Directors.

The Retirement Plan Investment Committee, a sub-committee of the Human Resources Committee shall consist of at least two members of the Board of Directors, the President, Vice-President of Finance, Human Resources Director and no fewer than four members-at-large who are participants in the plan. The committee shall be the investment fiduciary responsible for the prudent management of the Carteret County General Hospital Corporation Money Purchase Pension Plan, Tax Deferred 403b Savings Plan and the 457b Savings Plan. The committee will comply with all applicable fiduciary, prudence, and due diligence requirements experienced investment professionals would utilize; and with all applicable laws, rules, and regulations from various local, state, federal, and international political entities that may impact the portfolio. The committee shall have the authority to establish, execute and interpret an investment policy statement for the portfolio with subsequent approval by the Board of Directors. The committee shall be responsible for the selection and retention of professional advisors to the portfolio, which may include, but not be limited to, investment managers, investment consultants and custodians with subsequent approval by the Board of Directors. This committee is not responsible for decisions related to plan design as this responsibility lies with the Plan Sponsor.

The Human Resources/Retirement Plan Investment Committee shall meet as may be needed, but not less than semi-annually.

Section 8 - Community Relations Committee

The Community Relations Committee shall consist of at least three Directors, one of whom shall be appointed chairman. The President shall serve as a nonvoting ex-officio member. The Community Relations Committee shall make recommendations to the Board of Directors for the purpose of developing programs which will acquaint the public with the aims, activities, and needs of the Hospital. The Committee shall coordinate and collaborate with the Foundation to promote an ongoing gifts and memorials program and make suggestions for changes and

improvements to the program. The Committee will work closely with members of the Finance and Investment Committee and the Foundation from time to time when capital fund drives are being considered for Hospital expansion or capital improvements. The Community Relations Committee will develop, with the assistance of the President, programs for the enhancement of the Hospital's image through mass media, annual reports and methods of a similar nature. The Community Relations Committee shall make recommendations for programs involving Hospital-related volunteer groups. Meetings of the Community Relations Committee shall be held at least semi-annually or as needed to address the communication, marketing and promotional advertising needs of the organization.

Section 9 – Board Safety & Quality Committee

The Board Safety & Quality Committee shall consist of at least two Directors, one of whom shall be appointed as Chairman. This committee shall be responsible for advancing an environment of safety and promoting optimal quality for all who are cared for by the Hospital, any of its affiliates such as the Carteret Medical Group and for helping to promote the health and well-being of the population served by the Hospital and its affiliated Medical Staff. The committee shall monitor all safety and quality data; receive reports from appropriate Hospital and Medical Staff committees addressing performance improvement, safety, risk management and mitigation activity, as well as all other actions to assure that there is a safe and secure environment for all Hospital patients, family, visitors, employed staff and physicians.

The Safety & Quality Committee shall evaluate and receive reports relating to performance improvement including review of performance against national and state benchmarks all in the interest of assuring that the organization shall be a leader in safety and quality. The Board Safety & Quality Committee shall meet at least monthly.

Section 10 - Special Committees

Special committees may be appointed from time to time by the Chairman for such special tasks as circumstances warrant. A special committee shall limit its activities to the accomplishment of the task for which it is appointed and shall have no power to act except as specifically conferred by action of the Board of Directors. Upon completion of the task for which appointed, a special committee shall stand discharged.

Section 11 – Council for Safety, Quality and Clinical Practice/Other Hospital Committees

Two (2) Directors shall be appointed to serve on the Hospital's Council for Safety, Quality and Clinical Practice and shall make regular reports to the Board of Directors regarding that committee's activities regarding performance improvement, opportunities for performance improvement, and review of the safety, security and well-being of all of the Hospital's patients, visitors, employees and physicians. Those Directors appointed to the Hospital's Council for Safety, Quality and Clinical Practice shall also evaluate and report on financial resources, process improvements and human resources necessary to achieve and sustain continued quality improvement and patient safety at the Hospital.

Members of the Board of Directors shall also serve on such other Hospital committees as directed by the Chairman. The appointed Directors shall participate in all aspects of the

respective Hospital committee and shall make regular reports to the Board concerning the activities of such committees.

Section 12 - Conduct of Meetings and Committee Minutes

At all committee meetings, a quorum shall be one-half of the number of members of the committee and the act of the majority of the committee members present at a meeting at which a quorum is present shall be the act of the committee. Unless otherwise provided in these Bylaws, each committee member shall be entitled to one (1) vote on all matters that come before the committee. Each committee meeting shall have an agenda.

The Executive Committee shall prepare and maintain minutes of its activities as well as a report of its actions since the last meeting of the Board of Directors. The Executive Committee shall forward the report of its actions to the Board of Directors, and the Board of Directors will then incorporate that report into its regular monthly meeting and shall make it a permanent part of the minutes of the Board of Directors. All other committees, whether standing or special committees, shall prepare minutes of any action taken by such committee which results in a recommendation by that committee to the Board of Directors and forward such minutes to the Board of Directors to be incorporated into and made a part of the minutes of the Board of Directors. All committee minutes should contain the time, date, place and attendance of the committee meeting.

ARTICLE VI

ADMINISTRATION

Section 1 - Selection and Appointment

The Board of Directors shall select and appoint a qualified President who shall be its representative in the management of the Hospital. The Board of Directors shall also establish a formal process for periodic evaluation of the President. The President shall be given the necessary authority and responsibility to operate the Hospital and all its activities and departments subject only to such policies as may be issued by the Board of Directors or by any of its committees to which it has delegated power for such action. The President shall act as the authorized representative of the Board of Directors in all matters in which the Board of Directors has not formally designated some other person to so act.

Section 2 - Authority and Responsibility

The authority and responsibility of the President shall include all items set forth from time to time in the employment agreement between the Hospital and the President, as well as the following:

- A. Carrying out all policies established by the Board of Directors and advising on the formation of these policies.

- B. Developing and submitting to the Board of Directors for approval a plan of organization for the conduct of Hospital operations and recommended changes when necessary.
- C. Preparing an annual budget showing expected revenue and expenditures as required by the Board of Directors or its Finance and Investment Committee.
- D. Selecting, employing, controlling and discharging Hospital employees and developing and maintaining personnel policies and procedures for the Hospital.
- E. Maintaining physical properties in a good and safe state of repair and operating condition.
- F. Supervising business affairs to assure that funds are collected and expended to the best possible advantage of the Hospital.
- G. Working continually with other health care professionals to the end that acceptable care may be rendered to the Hospital's patients at all times.
- H. Presenting the Board of Directors, or its authorized committee, periodic reports reflecting the professional services and financial activities of the Hospital and such reports as may be required by the Board of Directors.
- I. Attending all meetings of the Board of Directors and serving on the committees thereof.
- J. Serving as a liaison and channel of communication between the Board of Directors and the Medical Staff and assisting the Medical Staff with its organizational and medical-administrative responsibilities.
- K. Preparing a plan for the achievement of the Corporation's specific objectives and periodically reviewing that plan.
- L. Serving as a leader in the community promoting effective and economical working relationships with other health agencies.
- M. Representing the Hospital to the various public served by or related to the Hospital.
- N. Participating in local, state and national professional associations dedicated to improving personal and institutional confidence.
- O. Performing other duties that may be necessary in the best interest of the Hospital and/or the Corporation.

ARTICLE VII

VICE-PRESIDENTS

The President shall select and employ an administrative staff who may be designated as follows:

- A. Vice-President for Patient Care Services
- B. Vice-President for Finance
- C. Vice-President for Medical Affairs
- D. Vice-President for General Services/Chief Information Officer
- E. Vice-President for Clinical Support
- F. Other Vice-Presidents or Administrative Assistants as from time to time may be necessary and budgeted.

The Vice-Presidents shall carry out such duties and perform such functions as are assigned to them by the President. These duties shall be consistent with the organizational plan of the Hospital. They shall further serve as ex-officio, nonvoting members of such committees as provided by these Bylaws or as appointed by the Chairman. The Board of Directors shall review and approve the Vice-Presidents and Administrative Assistants on an annual basis.

ARTICLE VIII

MEDICAL STAFF

Section 1 - Organization

The Board of Directors, recognizing its responsibility with respect to the competency of professionals practicing within the Hospital, shall cause the physicians (M.D. or D.O.), dentists, oral and maxillofacial surgeons, podiatrists, and clinical psychologists granted membership and privileges to practice therein to establish a Medical Staff. The title of this organization shall be the Carteret Health Care Medical Staff.

Section 2 - Bylaws, Rules and Regulations

The Medical Staff shall develop and submit to the Board of Directors for approval Bylaws, Rules and Regulations ("Medical Staff Bylaws"). The Medical Staff Bylaws shall be reviewed and updated as necessary and all revisions shall be forwarded to the Board of Directors for final approval. The Medical Staff Bylaws and any amendments thereto or revisions thereof shall be effective upon approval by the Board of Directors.

The purpose of the Medical Staff structure is to provide a framework within which the Medical Staff may account to the Board of Directors for the quality of all professional services rendered within the Hospital by individuals privileged to render such services. The Medical Staff Bylaws additionally provide a structure for communication between the Medical Staff, Hospital Administration and the Board of Directors.

Each member of the Medical Staff shall have appropriate authority and responsibility for the care of his or her patients subject to limitations contained in these Bylaws and in the Medical Staff Bylaws as approved by the Board of Directors.

Section 3 - Chief of Staff

The Medical Staff shall elect from its active membership a chief who shall be entitled Chief of Staff. The Chief shall be elected by the Medical Staff subject to the approval of the Board of Directors at its regular meeting in September of each year. The Chief of Staff shall be a voting member of the Board of Directors as provided for in these Bylaws.

Section 4 - Vice-Chief of Staff

The Medical Staff shall elect from its active membership a vice-chief who shall be entitled Vice-Chief of Staff. The Vice-Chief shall be elected by the Medical Staff, subject to the approval of the Board of Directors, at its regular meeting in December of each year. The Vice-Chief of Staff shall be a nonvoting member of the Board of Directors as provided for in these Bylaws.

Section 5 - Medical Care and Its Evaluation

The Board of Directors hereby assigns to the Medical Staff responsibility for overseeing and ensuring the quality of all professional services rendered within the Hospital.

The Medical Staff shall conduct an ongoing review and appraisal of quality of professional care rendered in the Hospital and shall report such activities and the results to the Board of Directors.

The Medical Staff shall make recommendations to the Board of Directors concerning:

- A. Appointments, reappointments and other changes in staff status.
- B. Recommendation of clinical privileges to physicians and dentists.
- C. Recommendation of privileges to paramedical professionals.
- D. Quality improvement activities.
- E. Disciplinary actions.
- F. All matters relating to professional competency.
- G. Specific matters as may be requested by the Board of Directors.

The Board of Directors shall be the final authority on appointment and reappointment to the Medical Staff; the granting, renewal, termination or reduction of clinical, or in the case of paramedical professionals, practice privileges; termination or reduction of Medical Staff membership; and such other matters as may be reflected in the Medical Staff Bylaws.

Section 6 - Application

Application for membership on the Medical Staff for clinical privileges, or in the case of Advanced Practice Professionals (APPs) and Allied Health Professionals (AHPs) practice privileges, shall be made in writing on the prescribed forms, shall set forth such information as is

required by the Medical Staff Bylaws, and otherwise shall be evaluated and processed in accordance with procedures set forth in said Medical Staff Bylaws.

Section 7 - Appointment

Qualifications for Medical Staff membership, clinical privileges, and in the case of Advanced Practice Professionals (APPs) and Allied Health Professionals (AHPs) practice privileges, and the procedures for appointment to the Medical Staff and the granting of clinical and practice privileges, shall be as set forth in the Medical Staff Bylaws.

Section 8 - Credentialing

Applications for appointment and reappointment to the Medical Staff shall be processed as set forth in the Medical Staff Bylaws. However, in acknowledgement that on occasion expedited credentialing is necessary, it is expected that each applicant to be considered for expedited credentialing shall submit a completed application to include appropriate references and other information to support the appointment process. For the purpose of acting on expedited credentialing applications, at least two of the members of the Board of Directors identified in this Section 8 or one such member and the Chairperson of the Credentialing Committee shall review and approve the application. The members of the Board of Directors authorized to act on expedited credentialing decisions are the Chief of Staff and the Vice-Chief of Staff.

Section 9 - Confirmation of Officers and Chairman

Officers and chiefs of service elected by the Medical Staff shall be confirmed by the Board of Directors before such officers and chiefs of service take office.

Section 10 - Hearing and Appeal

In the event of an adverse action, as defined in the Medical Staff Bylaws, with regard to a practitioner's membership on the Medical Staff or clinical or practice privileges, the practitioner shall have such rights to a hearing and appeal as set forth in the Medical Staff Bylaws and addenda thereto.

Section 11 - Malpractice Liability Insurance

In addition to satisfying such qualifications for Medical Staff membership as set forth in the Medical Staff Bylaws, each physician (M.D. or D.O.), dentist, oral and maxillofacial surgeon, podiatrist, or clinical psychologist in order to initially obtain appointment to the Medical Staff and thereafter to maintain membership on the Medical Staff, shall procure and maintain in effect professional liability insurance in the minimum amount of one million dollars (\$1,000,000) and/or as required by the professional liability insurance carrier of the Hospital. The one million dollar (\$1,000,000) minimum coverage must be maintained in effect for each individual physician (M.D. or D.O.), dentist, oral and maxillofacial surgeon, podiatrist, or clinical psychologist and shall not be shared among members of the same group practice. A certificate of insurance evidencing the required coverage shall be submitted to the Board of Directors as from time to time is requested by the Board of Directors; provided, however, a certificate of insurance evidencing the required coverage shall in all events be included in applications for

initial appointment to the Medical Staff. Each physician (M.D. or D.O.), dentist, oral and maxillofacial surgeon, podiatrist, or clinical psychologist seeking or holding membership on the Medical Staff shall make reasonable efforts to require the insurance carrier issuing a professional liability policy on behalf of such physician (M.D. or D.O.), dentist, oral and maxillofacial surgeon, podiatrist, and clinical psychologist to include in such certificate of insurance a requirement that the insurance carrier notify the Hospital in writing at least thirty (30) days prior to any change in, or cancellation of, such policy. The Medical Staff membership and clinical privileges of a physician (M.D. or D.O.), dentist, oral and maxillofacial surgeon, podiatrist, or clinical psychologist who fails to maintain the required coverage shall be suspended until the member submits to the Board of Directors evidence in the form of a certificate of insurance that he or she has secured the required coverage. A failure to provide such evidence within six months after the effective date of the suspension shall be deemed a voluntary resignation from membership on the Medical Staff and a relinquishment of clinical privileges. In the event of any such suspension, resignation and relinquishment, the physician (M.D. or D.O.), dentist, oral and maxillofacial surgeon, podiatrist, or clinical psychologist shall not be entitled to a hearing and appeal pursuant to Article IX of the Medical Staff Bylaws. The provisions of this Section 11 additionally shall apply to Advanced Practice Professionals (APPs) and Allied Health Professionals (AHPs) practicing within the Hospital, with the terms hereof appropriately modified to refer to "practice privileges" or "the granting of practice privileges" rather than "Medical Staff membership", "clinical privileges" or "appointment" to the Medical Staff. In all cases, the insuring agency shall be licensed by the State of North Carolina or approved by the Insurance Commissioner of the State of North Carolina.

ARTICLE IX

VOLUNTEER SERVICES

There shall be established a volunteer service at the Hospital which shall be named the Carteret Health Care Volunteer Service ("Service"). The principal objective of the Service shall be to promote the usefulness of the Hospital and to contribute to the welfare of its patients and operating personnel by sponsoring such projects and activities as may be approved by the Hospital Administration and the Board of Directors.

The Service shall adopt and approve a written constitution and bylaws which shall be consonant with the objectives of the Hospital. The Service's constitution shall provide for the organization of the Service and the Service's bylaws shall set forth guidelines within which members of the Service shall operate. Such constitution and bylaws and any amendments thereto shall be submitted to the Board of Directors for approval.

ARTICLE X

CHAPLAINCY

The Chaplaincy shall adopt and approve a job description and policies and procedures which shall be consonant with the objectives of the Hospital. Such policies and procedures and any amendments thereto shall be submitted to the Board of Directors for approval.

ARTICLE XI

AMENDMENTS AND REVIEW

These Bylaws, Rules and Regulations and the Articles of Incorporation of the Corporation may be amended by affirmative vote of a two-thirds majority of the voting Directors present at an annual, regular or special meeting of the Board of Directors at which a quorum is present. At least annually, the Chairman shall direct the Directors to review these Bylaws, Rules and Regulations for the purpose of proposing appropriate deletions, additions, or revisions of their content. The Corporation shall provide at least five (5) days written notice of any meeting of the Board of Directors at which any such amendment is to be voted upon, and such notice shall state that the purpose, or one of the purposes, of the meeting is to consider the proposed amendment and shall contain or be accompanied by a copy or summary of the amendment or state the general nature of the amendment.

ARTICLE XII

CONFLICT OF INTEREST

Section 1 - Purpose

The purpose of this policy is to protect the interests of the Corporation when entering into a transaction or arrangement that might benefit the private interests of a Director or employee of the Corporation and to protect the interests of the Corporation if the Directors or employees of the Corporation are entering into transactions or arrangements that directly or indirectly conflict with the interests of the Corporation. The terms of this Article are intended to supplement any statutory conflict of interest provisions and are in no way intended to limit any applicable state laws governing conflicts of interest.

Section 2 - Applicability of Policy

- A. This policy shall apply to all Directors, employees of the Corporation, spouses of Directors and spouses of employees of the Corporation and interested persons, as herein defined.
- B. Unless otherwise specifically provided herein or in any applicable statute or regulation, no Director or employee of the Corporation or the spouse of a Director or the spouse of an employee of the Corporation shall:
 - i) acquire any interest, whether direct or indirect, in any facility of the Corporation or in any property included or planned to be included in any facility of the Corporation; or
 - ii) have a direct or indirect interest in any contract or proposed contract for materials or services to be furnished or used in connection with any facility of the Corporation other than a contract, undertaking, or other transaction with a bank or banking institution, savings and loan association or public utility in the regular course of its business provided that the contract, undertaking, or other transaction

shall be authorized by the Board of Directors by specific resolution on which no Director having direct interest shall vote.

- C. If a Director, an employee or such person's spouse owns or controls an interest, direct or indirect, in any property included or planned to be included in any hospital facility, such Director or employee shall immediately disclose such interest in writing to the Board of Directors and the disclosure shall be entered upon the minutes of the Board of Directors. Failure to disclose such interest shall constitute misconduct in office and shall be grounds for removal.
- D. For purposes of this provision, a Director or employee shall not be considered to have a "direct interest" as the result of such person or such person's spouse having an ownership interest of ten percent (10%) or less in a corporation or other business entity or being an employee of such corporation or business entity provided that the transaction in question is authorized by the Board of Directors by specific resolution on which no Director or employee having such an interest shall vote.
- E. The prohibitions contained in Paragraph B of this Section shall not apply:
 - i) if the Director or employee is not involved in making or administering the contract. For purposes of this Article, a Director or employee is involved in administering a contract if the Director or employee oversees the performance of or interprets the contract. A Director or employee is involved in making a contract if the Director or employee participates in the development of specifications or terms or in the preparation or award of the contract. A Director or employee is not involved in making or administering a contract solely because of the performance of ministerial duties related to the contract. A Director is also involved in making a contract if the Board of Directors takes action on the contract, whether or not the Director actually participates in that action, unless the contract is approved under an exception to this Section under which the Director is allowed to benefit and is prohibited from voting.
 - ii) to any Director if (a) the undertaking or contract or series of undertakings or contracts between the Corporation and a Director is approved by specific resolution of the Board of Directors adopted in an open and public meeting and recorded in its minutes; (b) the Director entering into the contract or undertaking with the Corporation does not in an official capacity participate in any way or vote; and (c) the amount does not exceed twelve thousand five hundred dollars (\$12,500) for medically related services and twenty-five thousand dollars (\$25,000) for other goods or services within a 12-month period, or the contract is for medically related or administrative services that are provided by a Director who serves on the Board of Directors as an ex officio representative of the Hospital Medical Staff, or that are provided by the spouse of such Director.
 - iii) to any employment relationship between the Hospital and the spouse of Director.

Section 3 - Interested Persons

Definitions: An "interested person" for the purposes of this Article shall be defined as a Director, member of any committee with Board-delegated powers, or officer of the Corporation if such person has a direct or indirect financial interest as defined below. If a person is an interested person with respect to any entity in the health care system of which the Corporation is a part, he or she is an interested person with respect to all entities in the health care system. For purposes of the definition of "interested person" above, a Director, officer, or member of a committee with Board-delegated powers has a financial interest in a transaction or arrangement if that person directly or indirectly has:

- A. an ownership or investment interest in any entity with which the Corporation has a transaction or arrangement; or,
- B. a compensation arrangement with the Corporation or with an entity or individual with which the Corporation has a transaction or arrangement; or,
- C. a potential ownership or investment interest in or compensation arrangement with any entity or individual with which the Corporation is negotiating a transaction or arrangement.

In addition, and for purposes of the definition of "interested person" above, a Director, officer or employee, or member of a committee with Board-delegated powers has a financial interest if such person has, or is considering entering into, an ownership or investment interest in, or compensation arrangement with, any entity or enterprise that is in competition with, or has the potential to compete with, the Corporation.

Compensation for the purposes of this Article shall be defined to include not only direct and indirect remuneration but also gifts or favors that are substantial in nature.

An interested person has a conflict of interest only if the Board or a committee determines that a conflict of interest exists pursuant to the paragraph below.

Procedures: Any interested person within the meaning of this Article shall immediately and fully disclose in writing the existence of such interested person's interest (as defined above) and all the material facts relating thereto, to the Board of Directors and, if applicable, members of any committee with Board-delegated powers considering the proposed transaction or arrangement. Such disclosure shall be made a matter of record. Upon disclosure of the interest and all material facts, and after any discussion with the interested person, he or she shall leave the Board of Directors or committee meeting while the determination of a conflict of interest is discussed and voted upon. In each case, the remaining disinterested Directors or committee members shall determine whether the financial interest gives rise to a conflict of interest.

Pursuant to the foregoing, and if a conflict of interest is determined to exist, the following procedures shall be followed:

- A. An interested person may make a presentation at the Board of Directors or committee meeting, but after such presentation, he or she shall leave the meeting during the

discussion of, and the vote on, the transaction or arrangement that results in the determination of a conflict of interest.

- B. If a conflict of interest is determined in the context of a proposed or existing transaction or arrangement with the Corporation, the following procedures shall apply:
- i) The chairman of the Board of Directors shall appoint, if appropriate, a disinterested person or committee to investigate alternatives to the proposed or existing transaction or arrangement.
 - ii) After exercising due diligence, the Board or committee shall determine whether the Corporation can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interest.
 - iii) If a more advantageous transaction or arrangement is not reasonably attainable by the Corporation under the circumstances that would not give rise to a conflict of interest, the Board or committee shall determine by a majority vote of the disinterested Directors or committee members whether the transaction or arrangement is in the Corporation's best interest and for its own benefit and whether the transaction is fair and reasonable to the Corporation and shall make a decision as to whether to enter into, or continue (as applicable), the transaction or arrangement in conformity with such determination. Any determination of directors' fees shall be made by unanimous consent of the Board of Directors, and any such fees approved shall be fair and reasonable to the Corporation.
- C. If a conflict of interest is determined based on actual or potential competition with the Corporation, the following procedures shall be followed:
- i) The chairman of the Board of Directors shall appoint, if appropriate, a disinterested person or committee to investigate appropriate corrective action regarding the conflict of interest.
 - ii) After exercising due diligence, the Board or committee shall determine by a majority vote of the disinterested Directors or committee members appropriate corrective action to take regarding the conflict of interest, which may include without limitation, removing the interested person as a Director, member of any committee with Board-delegated powers, or officer of the Corporation or excluding such interested person from those portions of Board or committee meetings in which matters involving such competition based conflict of interest are addressed.

If the Board of Directors or committee has reasonable cause to believe that an interested person has failed to disclose a conflict of interest, whether actual or potential, it shall inform the person of the basis for such belief and afford the person an opportunity to explain the alleged failure to disclose. If, after hearing the response of the person and making any necessary investigations, the Board of Directors or committee determines that the person has in fact failed to disclose a conflict of interest, whether actual or potential, it shall take appropriate disciplinary and

corrective action, including without limitation, removing an interested person as a Director, member of any committee with Board-delegated powers, or officer of the Corporation.

The minutes of all meetings of the Board of Directors and any committee with Board-delegated powers shall contain the names of all interested persons who disclosed or otherwise were found to have any financial interest (potential or otherwise) to which this policy is applicable, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the Board's or committee's decision as to whether a conflict in fact existed, if applicable. The minutes shall also contain, as applicable, the names of all persons present for the discussion and vote on the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection therewith.

Section 4 - Policy Administration

Periodic Review: The Corporation periodically shall review prior transactions and arrangements in order to ensure that the Corporation is operating in a manner consistent with its purposes and this policy. At a minimum, periodic reviews shall include inquiries into:

- A. whether transactions, including any compensation arrangements and benefits, have been the result of arm's-length bargaining;
- B. whether acquisitions of physician practices and other provider services result in inurement or impermissible private benefit;
- C. whether partnership and joint venture arrangements and arrangements with management service organizations and physician hospital organizations conform to written policies, are properly recorded, reflect reasonable payment for goods and services, further the Corporation's charitable purposes and do not result in inurement or impermissible private benefit; and,
- D. whether all agreements to provide health care and agreements with other health care providers, employees and third party payors further the Corporation's charitable purposes and do not result in inurement or impermissible private benefit.

In conducting periodic reviews provided for herein, the Corporation may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the Board of its responsibility for ensuring that periodic reviews are conducted.

Annual Statements: Each new Director, each new member of a committee of the Board of Directors (if applicable), and each new officer of the Corporation shall be advised of this conflict of interest policy upon entering on the duties of his or her office. Each Director, each member of a committee of the Board of Directors (if applicable), and each officer of the Corporation shall sign an annual statement which confirms that such person has received a copy of this policy, has read and understands this policy, agrees to comply with this policy, and understands that the Corporation is a charitable organization which must engage primarily in activities which accomplish one or more of its purposes.

In addition, the Board of Directors shall require each Director to submit, in writing, to the President a list of all businesses or other organizations of which he/she or his/her spouse is an officer, member, owner, director, trustee or employee or for which he/she acts as an agent and to disclose whether any such relationship creates a potential conflict of interest pursuant to the terms of this policy. It shall be the responsibility of each Director to submit any changes to this list and to reaffirm that a potential conflict of interest does not exist pursuant to the terms of this policy on an annual basis. The Chairman and President shall become familiar with the statements of all Directors in order to guide the conduct of the Board of Directors should a conflict of interest transaction arise. The Vice-Chairman shall be familiar with the statement filed by the Chairman.

Compensation Decisions: This policy shall apply to all transactions or arrangements either engaged in or contemplated by the Corporation, including any compensation decisions made by the Corporation. A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that person's compensation. Physicians who receive compensation, directly or indirectly, from the Corporation, whether as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

Contracts in Violation of this Article: A contract entered into in violation of this Article is void. A contract that is void under this Article may continue in effect until an alternative can be arranged when: (i) immediate termination would result in harm to the public health or welfare, and (ii) the continuation is approved as provided in this subsection. The Corporation may request approval to continue contracts entered in violation of this Article from the Chairman of the Board of Commissioners. Approval of continuation of contracts under this subsection shall be given for the minimum period necessary to protect the public health or welfare.

ARTICLE XIII

INDEMNIFICATION

The Corporation shall indemnify, to the fullest extent permitted by law and this Article, any person who is or was a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding (and any appeal therein), whether civil, criminal, administrative, arbitrative, or investigative and whether or not brought by or on behalf of the Corporation, by reason of the fact that such person is or was a Director or officer of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, partner, trustee, employee, or agent of another business or nonprofit corporation, partnership, joint venture, trust, or other enterprise or as a trustee or administrator under an employee benefit plan, or arising out of such party's activities in any of the foregoing capacities, against all liability and litigation expense, including reasonable attorneys' fees; PROVIDED, however, that the Corporation shall not indemnify any such person against liability or expense incurred on account of such person's activities which were at the time taken known or believed by such person to be clearly in conflict with the best interests of the Corporation or if such person received an improper personal benefit from such activities. The Corporation likewise shall indemnify any

such person for all reasonable costs and expenses (including attorneys' fees) incurred by such person in connection with the enforcement of such person's right to indemnification granted herein.

The Corporation shall pay all expenses incurred by any claimant hereunder in defending a civil or criminal action, suit, or proceeding as set forth above in advance of the final disposition of such action, suit, or proceeding upon receipt of an undertaking by or on behalf of such claimant to repay such amount unless it ultimately shall be determined that such claimant is entitled to be indemnified by the Corporation against such expenses.

The Board of Directors of the Corporation shall take all such action as may be necessary and appropriate to authorize the Corporation to pay the indemnification required by this Bylaw, including without limitation, a determination by a majority vote of disinterested Directors (i) that the activities giving rise to the liability or expense for which indemnification is requested were not, at the time taken, known or believed by the person requesting indemnification to be clearly in conflict with the best interests of the Corporation and (ii) that the person requesting indemnification did not receive an improper personal benefit from the activities giving rise to the liability or expense for which indemnification is requested.

Any person who at any time after the adoption of this Bylaw serves or has served as a director or officer of the Corporation shall be deemed to be doing or to have done so in reliance upon, and as consideration for, the right of indemnification provided herein. Such right shall inure to the benefit of the legal representatives of any such claimant hereunder and shall not be exclusive of any other rights to which such claimant may be entitled apart from the provision of this Bylaw.

CARTERET COUNTY GENERAL HOSPITAL CORPORATION

BOARD OF DIRECTORS

RULES AND REGULATIONS

1. In accordance with North Carolina General Statutes Section 90-14.13, the President shall report to the North Carolina Medical Board any revocation, suspension or limitation of a physician's privileges to practice at the Hospital. The President shall also report to the North Carolina Medical Board any resignation from practice at the Hospital by physicians licensed under Article 1 of Chapter 90 of the North Carolina General Statutes.

According to law, the President shall be immune from any criminal prosecution or civil liability resulting therefrom.

2. In fulfillment of its responsibility to develop an annual budget, the Board of Directors is committed to establishing fair and equitable charge structures which reflect the needs of the Hospital to meet its expenses.
3. The President shall implement and oversee an annual employee evaluation for each and every employee whether in a part-time or full-time capacity. The President shall direct the Director of Human Resources to create a form necessary to facilitate employee evaluations and cause evaluations to be conducted on all Hospital personnel in a timely manner.
4. The Corporation shall ensure that all contracts and business arrangements made with individuals or businesses comply with Public Law 96-499. (Omnibus Reconciliation Act of 1980).
5. The President shall implement and oversee periodic reviews (in no event less than every three (3) years) by the Medical Staff and Hospital Administration of all departmental policies and procedures for the purpose of proposing appropriate deletions, additions, or revisions of their content.