

MID-STATE HEALTH NETWORK
OPERATING AGREEMENT

This Operating Agreement (this "Operating Agreement") is made as of this 18th day of December, 2013 by and among Mid-State Health Network, (the "Entity"), and Bay-Arenac Behavioral Health; Clinton-Eaton-Ingham Community Mental Health Authority; Community Mental Health for Central Michigan; Community Mental Health Authority, located in Gratiot County; Community Mental Health Authority, located in Tuscola County; Huron County Community Mental Health Authority; Ionia County Community Mental Health Authority; LifeWays Community Mental Health Authority; Montcalm County Community Mental Health Authority; Newaygo County Community Mental Health Authority; Saginaw County Community Mental Health Authority; and Shiawassee County Community Mental Health Authority; (collectively the "CMHSP Participants", individually the "CMHSP Participant").

RECITALS

A. The CMHSP Participants have formed the Entity, pursuant to MCL 330.1204b of the Mental Health Code, 1974 PA 258, to serve as the prepaid inpatient health plan ("PIHP") for the twenty-one (21) counties designated by the Michigan Department of Community Health ("MDCH") as Region 5, by filing Bylaws with the Secretary of State, Office of the Great Seal, and the Clerks of each County in which the CMHSP Participants are located and serve.

B. The Bylaws for the Entity set forth how the Entity will be governed and managed, and incorporate by reference an operating agreement which must be entered into by each CMHSP Participant to set forth specific terms and conditions as to how the Entity will be operated.

C. The CMHSP Participants desire to enter into this Operating Agreement to set forth the terms and conditions for the operation of the Entity.

NOW THEREFORE, in furtherance of the foregoing and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows.

ARTICLE I
DEFINITIONS

A. "**Administrative Load**" means the percentage of Medicaid capitation rate expected to cover administrative services to manage the Concurrent 1915(b)/(c) Medicaid Waiver Program.

B. "**Board of Directors**" or "**Board**" means the governing body of the Entity, appointed by the CMHSP Participants.

C. “**Community Mental Health Services Program (CMHSP)**” means a program operated under Chapter 2 of the Michigan Mental Health Code as a county community mental health agency, a community mental health authority, or a community mental health organization.

D. “**CMHSP Participants**” means the community mental health services programs named in first paragraph above that have entered into this Operating Agreement.

E. “**Entity**” means the regional entity named in the first paragraph above, which was formed pursuant to 1974 P.A. 258, as amended, MCL §330.1204b as a public governmental entity separate from the CMHSP Participants that established it. (MCL § 330.1204b(3).)

F. “**Mental Health Code**” means 1974 P.A. 258, as amended.

G. “**MDCH**” means the Michigan Department of Community Health.

H. “**Medicaid Contract**” means the annual contract between the Entity and MDCH to manage the Medicaid Managed Specialty Supports and Services Concurrent 1915(b)/(c) Waiver Program (“Concurrent 1915(b)/(c) Medicaid Waiver Program”).

I. “**Operating Agreement**” means this written agreement amongst the CMHSP Participants and the Entity that describes the terms and conditions of the operation of the Entity, as approved by the CMHSP Participants’ respective governing bodies. This Operating Agreement shall be incorporated in the Bylaws by reference.

ARTICLE II PURPOSE, OPERATING PHILOSOPHY, GUIDING PRINCIPLES, SCOPE AND AUTHORITY OF THE ENTITY

2.1 PURPOSE. The purpose of this Operating Agreement is to provide the terms and conditions for the operation of the Entity to serve as the PIHP under the Medicaid Contract with the MDCH for the following counties which have been designated by MDCH as Region 5:

Arenac, Bay, Clare, Clinton, Eaton, Gladwin, Gratiot, Hillsdale, Huron, Ingham, Ionia, Isabella, Jackson, Mecosta, Midland, Montcalm, Newaygo, Osceola, Saginaw, Shiawassee, and Tuscola

2.2 OPERATING PHILOSOPHY. The Entity is dedicated to ensuring that equality in voice and governance exists, and that the benefit to the citizens meets Medicaid standards while being provided in ways that reflect the needs and resources of the communities in which each CMHSP Participant operates. The Entity will foster each CMHSP Participants’ integration activities and locally driven work. The organization and operation of the Entity is based on a shared operating structure, using a committee-based system that creates many venues, allowing voices from across the region to be heard. It establishes certain checks and balances to ensure that governance remains balanced and equal and that the operation of the Entity is for service to the CMHSP Participants in achieving high levels of regulatory compliance, quality of service, and fiscal integrity. In these ways the Entity exists to serve in the best interest of and to the benefit of all CMHSP Participants and their consumers.

This Operating Agreement sets forth the responsibilities of the Entity's Board of Directors, Chief Executive Officer and advisory councils.

It incorporates the belief that important decisions benefit from the thoughtfulness that results from a process that includes the collective knowledge of the CMHSP Participants' leadership and local knowledge to formulate plans, policies, and procedures that create a healthy Entity and healthy CMHSP Participants, and makes essential services readily available to their consumers.

2.3 SCOPE AND AUTHORITY. In addition to the authority granted to the Entity under the Mental Health Code and the Bylaws, the scope and authority of the Entity is to provide a framework for basic decision making, a structure for communicating among and between the Entity Board, administration and councils that is inclusive, collegial, equitable, and responsive. It directs the inclusion of CMHSP Participant representatives, provider representatives, appointed representatives, persons in service and stakeholders, and provides the means to address special needs as they present.

2.4 ASSURANCE OF LOCAL AUTONOMY. In fulfillment of the Entity's commitment to local autonomy and control, by the CMHSP Participants and their community stakeholders which make up the region, the Entity will not mandate, prohibit, nor overturn an action (policy, procedure, or practice) by a CMHSP Participant unless that action: violates Medicaid policy, or the requirements of the Medicaid Manual; violates state or federal law; violates the Entity's PIHP contract with MDCH; violates generally accepted accounting principles (GAAP); is projected to cause the Entity, as a whole, to over-run its budget; or is projected to cause the Entity, as a whole, to leave Medicaid funds unspent/lapsed in the region above the level of funds, if any, that were planned to be unspent or lapsed in the most recently Board-approved budget of the Entity.

ARTICLE III GOVERNANCE, MANAGEMENT, OPERATIONS

3.1 GOVERNANCE/MANAGEMENT. Subject to the powers reserved to the CMHSP Participants in the Bylaws of the Entity, the Board shall govern the business, property and affairs of the Entity. Attached as Exhibit A is the Regional Entity/Creation Governance Process diagram.

3.2 OPERATIONS COUNCIL. The Entity Board shall create an Operations Council to advise the Entity's Chief Executive Officer concerning the operations of the Entity. It will inform, advise and work with the Chief Executive Officer to bring local perspectives, local needs, and greater vision to the operations of the Entity.

3.2.1 Responsibilities and Duties. The responsibilities and duties of the Operations Council shall include the following:

3.2.1.1 Advise the Chief Executive Officer in the development of the long term plans of the Entity;

3.2.1.2 Advise the Chief Executive Officer in establishing priorities for the Board's consideration, make recommendations to the Chief Executive Officer on policy and fiscal matters and may make task force recommendations.;

3.2.1.3 Review recommendations from Finance, Quality Improvement, and Information Services Councils;

3.2.1.4 Shall undertake such other duties as may be delegated by the Entity Board.

3.2.2 Composition. The Operations Council shall be comprised of the Chief Executive Officers or Executive Directors of each CMHSP Participant and the Entity Chief Executive Officer who serves as Chair.

3.2.3 Meeting Frequency. The Operations Council shall meet at least monthly.

3.3 OTHER ADVISORY COUNCILS. The Entity Board shall create the following standing councils which shall provide advice on matters delegated to those councils by the Entity Board:

3.3.1 Consumer Advisory Council. The Consumer Advisory Council will be established to advise the Entity Board. Membership will include at least two (2), but not more than three (3), representatives from each CMHSP Participant, appointed by the respective CMHSP Participant board, unless otherwise required by contract or regulation. Representatives will reflect the regional population served and include those living with developmental disabilities, mental illness, substance use disorders and serious emotional disturbance.

3.3.2 Substance Use Disorder Oversight Policy Board. The Substance Use Disorder Oversight Policy Board will be constituted, if the Entity is a MDCH-Designated Community Mental Health Entity, in accordance with P.A. 500 of 2013 and shall advise the Entity Board on issues concerning services to persons with substance use disorders.

3.3.3 Quality Improvement Council. The Quality Improvement Council will be established to advise the Operations Council and the Chief Executive Officer concerning quality improvement matters. The Quality Improvement Council will be comprised of the Chief Compliance Officer and the CMHSP Participants' Quality Improvement staff appointed by the respective CMHSP Participant Chief Executive Officer/Executive Director. The Quality Improvement Council will be chaired by the Chief Compliance Officer. All CMHSP Participants will be equally represented on this council.

3.3.4 Finance Council. The Finance Council will be comprised of the Chief Financial Officer and the Chief Financial Officer of each CMHSP Participant. The Finance Council will be chaired by the Chief Financial Officer. The Finance Council shall make recommendations to the Operations Council and the Chief Executive Officer to establish all funding formulas not otherwise determined by law, allocation methods, and the Entity's budgets. The Finance Council may also advise and make recommendations on contracts for personnel, facility leases, audit services and software. This council will also

regularly study the practices of the Entity to determine if there are any economic efficiencies to be considered.

3.3.5 Information Technology Council. The Information Services Council will be established to advise the Operations Council and the Chief Executive Officer and will be comprised of the Chief Information Officer and the CMHSP Participants' information technology staff appointed by the respective CMHSP Chief Executive Officer/Executive Director. The Information Technology Council will be chaired by the Chief Information Officer. All CMHSP Participants will be equally represented.

3.3.6 Appointments. Each member of the Operations Council, except as otherwise noted above, shall appoint representatives from their respective CMHSP to serve on other councils, with equal voting authority for each CMHSP Participant.

3.3.7 Additional Councils. Additional councils may be created from time to time, as determined by the Entity Board.

3.4 COMMUNICATIONS.

The Chief Executive Officer or his/her designee shall regularly provide the following:

3.4.1 Provide the Entity Board and all CMHSP Participants with copies of correspondence of a substantive nature concerning the Entity within the time periods identified in the Entity's procedures;

3.4.2 Provide copies of minutes from meetings attended by the Entity's staff as representatives of the Entity and provide timely reports to the Operations Council as requested;

3.4.3 Provide the Entity Board and all CMHSP Participants with timely and accurate financial reports containing detail at the level necessary to provide the CMHSP Participants and the Entity Board a full understanding of fiscal operations and status of the Entity;

3.4.4 Provide data to the Entity Board and CMHSP Participants in a complete and timely manner and provide additional detail as requested by CMHSP Participants;

3.4.5 Inform the Entity Board and the Operations Council in advance, wherever possible, of engaging in any meaningful discussion with other entities that may impact the operations or decision of the Entity Board or CMHSP Participants; and

3.4.6 Establish and sustain a regular schedule for standing council meetings.

3.4.7 Provide an update to the Entity Board on the Operation Council's activities.

3.5 COMPLIANCE WITH LAWS. The Entity and its CMHSP Participants, Entity Board, officers and staff shall fully comply with all applicable laws, regulations and rules, including without limitation 1976 P.A. 267 (the "Open Meetings Act") and 1976 P.A. 422 (the "Freedom

of Information Act”). The Entity Board will develop policies and procedures to address any noncompliance which shall be incorporated herein by reference.

ARTICLE IV FINANCIAL

4.1 ALLOCATION. The manner in which the Entity’s assets, liabilities and revenues shall be allocated to each CMHSP Participant is as follows:

4.1.1 Capital and Operating Costs. The initial start-up and capital costs for the establishment of the Entity are considered pre-award costs, and shall be the responsibility of the Entity. In the event these costs are necessary prior to January 2014, one or more CMHSP participants shall act as fiduciary in paying such expenses and will be reimbursed by the Entity. These costs, beginning January 1, 2014, will be drawn from the Entity Administrative Load for administering all Medicaid programs in Region 5.

4.1.2 Revenue Distribution. The primary source of the Entity’s revenue will be Medicaid capitation received on a monthly basis from MDCH. These payments will be for eligible enrollees of the Concurrent 1915(b)/(c) Medicaid Waiver Program, Autism Benefit, Substance Use Disorder Benefit and the Michigan Medicaid expansion program, if any.

The Entity will initiate actions to implement a uniform funding methodology on a sub-capitated, per member basis. The Entity acknowledges the legacy per capita Medicaid funding differences between the CMHSP Participants and will initiate collective actions to reduce this disparity. This includes efforts to revise Medicaid funding methodologies at the MDCH and legislative policy level and taking the following steps designed to provide for a purposeful, realistic, and planned transition to the funding methodology described below while preventing sudden reductions in funding and the associated Medicaid services to CMHSP Participants in Region 5.

Effective January 1, 2014 a revenue-based uniform regional per enrollee per month (“PEPM”) will be utilized to distribute funding to CMHSP Participants minus required withholds and entity administrative costs as defined in Section 4.1.2.2. For the initial period January 1, 2014 through September 30, 2014, Planned Funding Adjustments will be used to ensure each CMHSP Participant will receive funding at a level that is no less than their respective budgeted Medicaid expenditures for the same time period or the uniform regional PEPM, as defined in Section 4.1.2.1, whichever is greater. While, for any Participant, the actual Medicaid dollars spent during that partial fiscal year, FY 14, and subsequent years may be below the Medicaid revenues received by that Participant, as outlined in Sections 4.1.2.3 through 4.1.2.5, the right for each Participant to receive the uniform regional PEPM as defined in Section 4.1.2.1 is retained. During the five year period October 1, 2014 through September 30, 2019, Planned Funding Adjustments shall be used to ensure benefit stabilization for each CMHSP Participant. Planned Funding Adjustments are increases or decreases to a CMHSP Participant’s Medicaid funding

based on the difference between fiscal year 2014 funding and projected PEPM funding detailed in Section 4.1.2.1 below.

For the period October 2019 and forward, CMHSP Participants will receive funding at their respective capitated PEPM as defined in Sections 4.1.2.3 and 4.1.2.4 with benefit stabilization payments available as defined in Sections 4.1.2.5 and 4.1.2.6.

4.1.2.1 The Entity and the CMHSP Participants agree to a PEPM capitation payment methodology in distributing, to the CMHSP Participants, the revenues provided through the Concurrent 1915(b) and (c) Medicaid Waiver Programs, as well as those provided through the Medicaid Autism Benefit and the Michigan Medicaid expansion program, if any, that it receives from MDCH. This method will result in monthly Medicaid payments to each CMHSP Participant in Region 5 which will reflect the use of:

- (i) A single set of uniform, Region 5-wide PEPMs, by cell and geographic factors for all CMHSP Participants in Region 5;
- (ii) The Medicaid enrollment in each CMHSP Participant's community, by cell;
- (iii) The application of these variables will determine the gross level of capitated Medicaid funding due each CMHSP Participant;
- (iv) The gross funding will be adjusted by the Planned Funding Adjustments as stated above. This will determine the adjusted gross funding level; and
- (v) The Entity will also distribute the 1915 (c) Medicaid Waiver funds for each enrolled consumer on a monthly basis (less the Entity's Administrative Load) to the financially responsible CMHSP Participants in Region 5.

Beginning January 1, 2014, funding for Medicaid SUD benefits will be received by the Entity from MDCH and will be distributed to CMHSP Participants Bay-Arenac Behavioral Health, Clinton-Eaton-Ingham Community Mental Health Authority, Community Mental Health for Central Michigan and Saginaw County Community Mental Health Authority. These CMHSP participants will jointly plan SUD service coordination and vendor selection for each of the Entity's CMHSP Participants, prioritizing maintenance of the current SUD provider network infrastructure. Medicaid expansion funds, if applicable as well as other SUD dedicated funding will be distributed in accordance with MDCH or state statute requirements.

4.1.2.2 The net capitated payment to each CMHSP Participant will be gross funding level less MDCH required withholds and the Entity administrative costs

defined as Board-approved annual budget that the entity requires to operate the Entity's functions. This net payment, including any Planned Funding Adjustments, will be made to each CMHSP Participant monthly, by a date to be determined in policy, after the receipt by the Entity of the Medicaid revenue from MDCH.

The Entity will retain funding for its operating costs, as contained in the Entity's approved budget for the upcoming fiscal year.

4.1.2.3 Prior to each fiscal year, including the partial fiscal year which starts on January 1, 2014, the Entity will project Medicaid funding to be provided to each CMHSP Participant for the upcoming fiscal year using the net uniform capitation process described above, based on the Entity's best estimates of Medicaid rates and enrollments for the coming year. This information will include estimated gross capitated payments and the Entity administrative fees which result in the net Medicaid estimates for the coming year for each CMHSP Participant.

The actual Medicaid funding may vary from projection due to actual Medicaid enrollments for a given CMHSP Participant.

4.1.2.4 CMHSP Participants will submit a Medicaid spending plan for the coming year as defined in the Entity Financial Management Procedure. The Medicaid spending plan will be netted against each CMHSP Participant's projected uniform PEPM capitation payment for the coming year.

This detail is needed to allow for the sound determination, by the Entity, of the level of Medicaid revenue that will be spent by each CMHSP Participant and that which is projected to remain unspent by each CMHSP Participant, and by Region 5 as a whole, in the coming year.

4.1.2.5 Based on the above budgets, the Medicaid revenue projected to be unspent across Region 5 (projected lapse dollars) and portions of the Entity's Medicaid Savings and/or Medicaid Internal Service Fund will be allocated, as Benefit Stabilization payments, to those CMHSP Participants for whom Medicaid revenues for the coming year are projected to be lower than those received in the current year – at a level to prevent the sudden loss of Medicaid funding and the associated Medicaid services to these CMHSP Participants.

4.1.2.6 The level of this Benefit Stabilization payment will be reduced, over time, to the point at which only Medicaid revenue expected to be unspent (projected lapse dollars) for the upcoming year are used to fund these Benefit Stabilization payments – and the use of accumulated Medicaid Savings and the Internal Service Fund will halt.

4.1.3 Risk Management/Transition Fund. The Entity will establish an account for purposes of risk management and CMHSP Participant transition to new funding mechanism. The Risk Management/Transition Fund will receive and hold the initial and future Entity Medicaid Savings generated year to year and may be used to insulate CMHSP Participants from any financial harm during the transition to the new funding mechanism.

This fund will also serve as the first line risk pool available as an alternative and supplement to the Internal Service Fund (as defined in the Medicaid Contract). This allows some flexibility for the Entity, particularly during the early stages of Michigan Medicaid expansion, if any. Any interest earned on this account will be distributed to the CMHSP Participants on a proportional basis as local revenue to the maximum extent allowed by Medicaid and/or MDCH.

Any funds distributed to the CMHSP Participants will be used at their discretion for the purpose of fulfilling the Entity's Medicaid service obligations (in particular, 42 CFR 438.206 Availability of Services) in their geographic areas. All CMHSP Participants will comply with OMB A-87 and other generally accepted accounting principles in the expenditure and accounting for funds.

4.1.4 Surplus Funds (Fund Transfers). Any surplus Medicaid funds generated by the Entity will be allocated to one of the following: (1) offset the Entity's capital and operating costs, including payments to CMHSP Participants for service operations; (2) retained as Medicaid Savings; and/or (3) the Entity's Internal Service Fund. Any non-Medicaid funds generated by the Entity will be distributed to the CMHSP Participants on a proportional basis as local revenue to the maximum extent allowed by Medicaid and/or MDCH.

Any surplus Medicaid funds generated by CMHSP Participant service operations will be available for redistribution to other CMHSP Participants to meet their respective service needs during the current fiscal year or retained as Medicaid Savings in the subsequent fiscal year. The Entity's surplus funds may also be allocated to fulfill the Entity's unmet Internal Service Fund obligations. CMHSP Participants and the Entity budget monitoring process will be designed to identify such surplus funds as early as possible to avoid unnecessary service reductions in Region 5 or the risk of Medicaid fund lapse to MDCH.

It is expected that each CMHSP Participant will implement strategic actions to ensure that the PEPM allocation methodology will be sufficient to fund long term service operations after transition to the Entity.

Any non-Medicaid surplus funds generated by CMHSP Participants are retained exclusively by the CMHSP Participants as local revenue to the maximum extent allowed by Medicaid and/or MDCH.

4.1.5 Other Revenue Sources. In addition to the revenue sources identified above, the Entity may receive other revenue from the Michigan Department of Community Health

including mental health block grant revenue. Upon receipt, the Entity will forward these funds to the appropriate CMHSP Participant.

Separate procedures for substance abuse prevention and treatment services (block grant and PA2 funding) will be created in accordance with State requirements to ensure proper distribution, accounting and reporting related to these funds.

4.2 ACCOUNTABILITY OF FUNDS. The Entity Chief Financial Officer, with the assistance of the Chief Executive Officer, will provide the Entity Board with regular, detailed reports accounting for all the Entity's operations in accordance with Entity Board policy.

4.3 PURCHASED CENTRALIZED SERVICES. The Entity will be the manager of any centralized PIHP managed care services as provided in this Operating Agreement. The Entity may directly provide these services or arrange for provision by an outside vendor. The Entity may also choose to purchase its centralized services from a CMHSP Participant.

4.4 PURCHASED NON-CENTRALIZED SERVICES. The Entity will purchase all delegated (i.e. non-centralized) PIHP managed care services exclusively from the CMHSP Participants in Region 5, unless otherwise required by law. This ensures that the Entity remains a regional risk management entity only and encourages the continued development of administrative services imbedded in locally accountable care. Each CMHSP Participant will be the exclusive manager or provider for delegated managed care services in their geographic service areas and may subcontract as necessary to fulfill these obligations. Attached and incorporated herein by reference is the Delegated Functions Grid.

4.5 RISK OBLIGATIONS (INSURANCE, REINSURANCE, INTERNAL SERVICE FUND). The Entity will establish an Internal Service Fund to manage its primary risk exposure under the Medicaid Contract. The Internal Service Fund will be developed in a manner to comply with applicable MDCH Contract requirements. The Internal Service Fund will be sufficient to manage the Region 5 Medicaid risk and will not exceed the amount of the shared risk corridor financing in the Medicaid Contract. The initial Entity Internal Service Fund will be capitalized through accumulated transfers of any existing service funds of the current CMHSP Participants that have been designated as PIHPs through FY2013, in accordance with MDCH guidelines.

4.6 LOCAL MATCH OBLIGATIONS. The Entity will comply with local match obligations for Medicaid as required by the MDCH Medicaid Contract. .

4.7 ACCESS TO ACCOUNTING RECORDS. The Entity shall maintain all pertinent financial and accounting records and evidence pertaining to this Operating Agreement based on financial and statistical records that can be verified by the CMHSP Participant and/or its auditors. Financial reporting shall be in accordance with generally accepted accounting principles and OMB Circular A-87, as applicable to state and local governments, and as promulgated by the Governmental Accounting Standards Board (GASB).

The CMHSP Participants, the Entity Board, the Federal government, the State of Michigan, or their designated representatives shall be allowed to inspect, review, copy, and/or audit all financial records pertaining to this Operating Agreement.

4.8 SECURE AND UNSECURED BORROWING LIMITS. The Entity may incur debt in general, but approval from two-thirds (2/3rd) vote of the CMHSP Participants shall be obtained prior to the Entity incurring debt in excess of \$ 60,000.

ARTICLE V MISSION, VISION, PLANNING, POLICY

5.1 MISSION/VISION. The Entity Board, in collaboration with the Chief Executive Officer, will develop and publish a Mission Statement and Vision Statement, congruent with the purpose of the Entity, and consistent with the Operating Philosophy under Section 2.2.

5.2 PLANNING. As necessary or required, the Chief Executive Officer will facilitate a planning process involving the Entity Board and other advisory councils to create, update, or modify the Strategic Plan of the Entity. In preparation, the Chief Executive Officer may facilitate focus groups and needs assessments, using if possible the work of the CMHSP Participants and advisory councils of the Entity to inform the process. The Entity Board will approve the Strategic Plan prior to publication.

ARTICLE VI CONTRACTING

6.1 CONTRACTS. The Entity's first priority shall be to contract with the CMHSP Participants for services. The Entity Board must approve the execution of any contract exceeding \$25,000 in value. This includes any contract involving the acquisition, ownership, custody, operation, maintenance, lease, or sale of real or personal property and the disposition, division or distribution of property acquired through execution of the contract.

The Entity, based on the recommendations of the Chief Executive Officer and with the approval of the Entity Board, may contract with CMHSP Participants to provide pilot or start up program funding to meet local needs. Nothing herein prohibits the CMHSP Participants from participating in opportunities to provide local services.

**ARTICLE VII
HUMAN RESOURCES**

7.1 HUMAN RESOURCES. With the exception of any limitations noted in the Bylaws, the Entity, where practical, shall directly employ the Entity staff. By exception, the Operations Council may advise to the Chief Executive Officer the use of a contract or lease arrangement to secure professional services for established positions.

The Personnel Manual of the Entity shall be reviewed at least bi-annually by the Chief Executive Officer and Operations Council with recommendations for modifications presented to the Entity Board for approval. Additional recommendations for modifications in policy may be suggested by the Operations Council to address changes necessitated by law or regulation.

**ARTICLE VIII
DISPUTE RESOLUTION**

8.1 DISPUTE RESOLUTION PROCESS. Occasionally disputes may arise that cannot be resolved through amicable discussion. Any dispute related to the Bylaws of the Entity or to this Operating Agreement must be resolved in accordance with the Bylaws. Any other disputes between CMHSP Participants or CMHSP Participant/s and the Entity will be resolved as follows:

8.1.1 The Chief Executive Officer/Executive Director of the CMHSP Participants will attempt to resolve the dispute through discussion with each other, as the case may be, and the Entity Chief Executive Officer, as needed.

8.1.2 If the dispute remains unresolved, the Chief Executive Officer/Executive Director of the CMHSP Participant or the Chief Executive Officer of the Entity, as the case may be, will bring the matter to the Operations Council who will discuss the matter and render a written decision.

8.1.3 If the dispute continues to be unresolved to the satisfaction of the CMHSP Participant or the Entity, the parties will provide a written description of the issue in dispute and propose a solution to the Entity Board. The Entity Board will have thirty (30) calendar days to provide a written decision.

8.1.4 If the CMHSP Participant or the Entity remains dissatisfied, the CMHSP Participant may seek mediation, arbitration or legal recourse as provided by law.

**ARTICLE IX
INTERFACE WITH PUBLIC AND PRIVATE ENTITIES**

9.1 ENTITY REPRESENTATION. It is the intent of the Entity to operate an efficient and well managed organization, keeping cost reasonable, thus allowing a maximum flow of funding

to services. Representation of the Entity at meetings and on committees at the regional, state, federal, and Michigan Association of Community Mental Health Board levels, will be determined by the Entity Chief Executive Officer or his/her designee. CMHSP Participants may send their own representatives, but they may not speak on behalf of the Entity in an official capacity. All staff representatives appointed to represent the Entity will provide a written summary of proceedings, or make available minutes, which will be distributed to all CMHSP Participants by the Entity administration.

ARTICLE X TERM, TERMINATION

10.1 TERM. The term of this Operating Agreement shall commence on the last date upon which all parties hereto have executed this Operating Agreement and shall continue until terminated as provided in Section 10.2.

10.2 TERMINATION. This Operating Agreement shall terminate upon the written agreement of two-thirds (2/3) of CMHSP Participants and the Entity; provided that all outstanding indebtedness of the Entity shall be paid and no contract of the Entity shall be impaired by said termination. As soon as possible after termination of this Operating Agreement, the Entity shall wind up its affairs as provided in the Bylaws.

10.3 WITHDRAWAL. Any CMHSP Participant may withdraw from the Entity effective upon approval of MDCH and provision of written notice of a minimum of 90 (ninety) days to the remaining CMHSP Participants. As of the effective date of the withdrawal from the Entity, the CMHSP Participant will have no further rights or benefits in the Entity. The withdrawal does not absolve the CMHSP Participant from any other service, performance or any other contractual obligations related to separate agreements established between the CMHSP Participant and the Entity. In addition, all CMHSP Participant claims to Entity assets or risk pools shall be pro-rated upon withdrawal as negotiated with MDCH. The members of the Entity Board appointed by the withdrawing CMHSP Participant terminate as well, and no replacements will be appointed or vacancy be deemed to have occurred.

ARTICLE XI AMENDMENTS

Any modifications, amendments or waivers of any provision of this Operating Agreement may be made only by the written consent of two-thirds (2/3) of CMHSP Participants and the Entity.

**ARTICLE XII
MISCELLANEOUS**

12.1 ASSIGNMENT. No party may assign its respective rights, duties or obligations under this Operating Agreement.

12.2 NOTICES. All notices or other communications authorized or required under this Operating Agreement shall be given in writing, either by personal delivery or certified mail (return receipt requested).

12.3 ENTIRE AGREEMENT. This Operating Agreement, together with the Bylaws, including the Exhibits attached hereto and the documents referred to herein, embody the entire agreement and understanding between the parties hereto with respect to the subject matter hereof. Except for the Entity's Bylaws, there are no other agreements or understandings, oral or written, between the parties with respect to the subject matter hereof and this Operating Agreement supersedes all previous negotiations, commitments and writings with respect to the subject matter hereof.

12.4 GOVERNING LAW. This Operating Agreement is made pursuant to, and shall be governed by, and construed, enforced and interpreted in accordance with, the laws and decisions of the State of Michigan.

12.5 BENEFIT OF THE AGREEMENT. The provisions of this Operating Agreement shall not inure to the benefit of, or be enforceable by, any person or entity other than the parties and any permitted successor or assign. No other person shall have the right to enforce any of the provisions contained in this Operating Agreement including, without limitation, any employees, contractors or their representatives.

12.6 ENFORCEABILITY AND SEVERABILITY. In the event any provision of this Operating Agreement or portion thereof is found to be wholly or partially invalid, illegal or unenforceable in any judicial proceeding, then such provision shall be deemed to be modified or restricted to the extent and in the manner necessary to render the same valid and enforceable, or shall be deemed excised from this Operating Agreement, as the case may require, and this Operating Agreement shall be construed and enforced to the maximum extent permitted by law, as if such provision had been originally incorporated herein as so modified or restricted, or as if such provision had not been originally incorporated herein, as the case may be.

12.7 CONSTRUCTION. The headings of the Sections and paragraphs contained in this Operating Agreement are for convenience and reference purposes only and shall not be used in the construction or interpretation of this Operating Agreement.

12.8 COUNTERPARTS. This Operating Agreement may be executed in one or more counterparts, each of which shall be considered an original, but together shall constitute one and the same agreement.

12.9 EXPENSES. Except as is set forth herein or otherwise agreed upon by the parties, each party shall pay its own costs, fees and expenses of negotiating and consummating this Operating

Agreement, the actions and agreements contemplated herein and all prior negotiations, including legal and other professional fees.

12.10 REMEDIES CUMULATIVE. All rights, remedies and benefits provided to the parties hereunder shall be cumulative, and shall not be exclusive of any such rights, remedies and benefits or of any other rights, remedies and benefits provided by law. All such rights and remedies may be exercised singly or concurrently on one or more occasions.

12.11 BINDING EFFECT. This Operating Agreement shall be binding upon the successors and permitted assigns of the parties.

12.12 RELATIONSHIP OF THE PARTIES. The parties agree that no party shall be responsible for the acts of the employees, agents and servants of any other party, whether acting separately or in conjunction with the implementation of this Operating Agreement. The parties shall only be bound and obligated under this Operating Agreement as expressly agreed to by each party and no party may otherwise obligate any other party.

12.13 NO WAIVER OF GOVERNMENTAL IMMUNITY. The parties agree that no provision of this Operating Agreement is intended, nor shall it be construed, as a waiver by any party of any governmental immunity or exemption provided under the Mental Health Code or other applicable law.

ARTICLE XIII

CERTIFICATION OF AUTHORITY TO SIGN THIS OPERATING AGREEMENT

The persons signing this Operating Agreement on behalf of the parties hereto certify by said signatures that they are duly authorized to sign this Operating Agreement on behalf of said parties, and that this Operating Agreement has been authorized by said parties pursuant to formal resolution(s) of the appropriate governing body(ies).

IN WITNESS WHEREOF, the parties hereto have entered into, executed and delivered this Operating Agreement as of the dates noted below.


MID-STATE HEALTH NETWORK



Nancy A. Miller
Chief Executive Officer

Date: 12-18-13

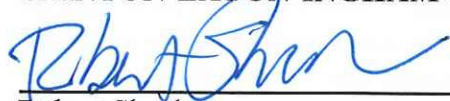
BAY-ARENAC BEHAVIORAL HEALTH



Christopher Pinter
Chief Executive Officer, Bay-Arenac Behavioral Health

Date: 12-18-13

CLINTON-EATON-INGHAM COMMUNITY MENTAL HEALTH AUTHORITY



Robert Sheehan
Executive Director, CMH Authority of Clinton-Eaton-Ingham

Date: 12/18/13

COMMUNITY MENTAL HEALTH FOR CENTRAL MICHIGAN



Linda Kaufmann
Executive Director, CMH for Central Michigan

Date: 12-18-13


COMMUNITY MENTAL HEALTH AUTHORITY, located in Gratiot County



Carolyn Hilley
Chief Executive Officer, Gratiot County CMH Services

Date: 12-18-13

HURON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY




Suzanne Prich
Executive Director, Huron Behavioral Health

Date: 12-18-2013


IONIA COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

 Date: 12/18/13
Robert Lathers
Chief Executive Officer, Ionia County CMH

LIFEWAYS COMMUNITY MENTAL HEALTH AUTHORITY

 Date: 12-18-13
Maribeth Leonard
Chief Executive Officer, LifeWays CMH

MONTCALM COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

 Date: 12/18/13
Tammy Quillan
Executive Director, Montcalm Center for Behavioral Health


NEWAYGO COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

 Date: 12/18/13
Greg Snyder
Chief Executive Officer, Newaygo County Mental Health Center

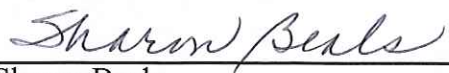
SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

 Date: 12-18-13
Sandra Lindsey
Chief Executive Officer, Saginaw County CMH Authority

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

 Date: 12.18.2013
Joseph Sedlock
Chief Executive Officer, Shiawassee County CMH Authority

COMMUNITY MENTAL HEALTH AUTHORITY, located in Tuscola County

 Date: 12-18-13
Sharon Beals
Chief Executive Officer, Tuscola Behavioral Health Systems

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EXHIBIT A Regional Entity Creation/Governance Process

