

**SECOND AMENDMENT**  
TO THE  
**SUBSIDY AGREEMENT**  
FOR A  
**COMBINED CLINIC AND HOSPITAL FACILITY**

**RECITALS**

- A. On May 6, 2009, **PeaceHealth**, a Washington nonprofit corporation that is qualified as exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended ("PeaceHealth"), and the **San Juan County Public Hospital District No. 1** (the "District"), a Washington State Public Hospital District organized pursuant to the Revised Code of Washington Title 70, Chapter 44 (jointly referred to hereinafter as "the Parties") entered into a Subsidy Agreement for a Combined Clinic and Hospital Facility, as amended October 2010 (the "Agreement").
- B. The Parties have determined that it is in the best interest of each to further modify the Agreement as set forth in this document (the "Second Amendment") in order to transition certain practitioners at the District's InterIsland Medical Center ("IIMC") to PeaceHealth prior to the opening of PeaceHealth's combined clinic/hospital facility to be known as Peace Island Medical Center ("PIMC")

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the mutual benefits to be derived, the adequacy of which is acknowledged, and intending to be legally bound, the Parties agree as follows:

1. The current language of Section 1.1.25 of the Agreement shall be stricken and the following language shall be substituted therefore:

1.1.25 Offers of Employment to IIMC Personnel.

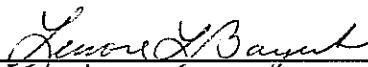
- a. Non-Practitioner Personnel. PeaceHealth shall offer employment to all non-practitioner staff who are employed by the District at the IIMC immediately prior to PeaceHealth's initiation of operations at PIMC; provided that each such individual shall meet PeaceHealth's established employment criteria and that PeaceHealth shall have a need for each person's skills at the combined hospital/clinic facility. Such offers of employment shall become effective at the time the combined clinic/hospital facility shall commence operations.
- b. Practitioner Personnel. After execution of this Second Amendment, PeaceHealth through its unincorporated operating division PeaceHealth Medical Group ("PHMG") shall offer employment to IIMC's employed physicians ("Practitioners") with a March 1, 2012,

anticipated effective date for employment by PeaceHealth; provided however, that the parties may mutually agree to a different effective date; and provided further, that each such Practitioner shall meet PeaceHealth's established employment criteria. Offers of employment will be made in accordance with the terms set forth on Exhibit A and PeaceHealth will provide the services of these individuals to IIMC pursuant to the terms on Exhibit B until the PIMC opens and the District discontinues IIMC operations.

2. Section 3.4 of the Agreement shall be amended by adding the following as the second sentence: "The District shall purchase tail coverage on behalf of the IIMC and all physicians for general liability and individual professional liability prior to any practitioners becoming employed by PeaceHealth."
3. All capitalized terms not otherwise defined in this Second Amendment shall have meanings set forth in the Agreement.
4. Except as explicitly set forth in the First Amendment and this Second Amendment, the Parties agree and acknowledge that all terms of the Agreement shall remain in effect and fully binding upon them.
5. Each party to this Second Amendment represents that the execution, delivery and performance by that party of this Second Amendment have been duly authorized.

**IN WITNESS WHEREOF**, the Parties have caused this Agreement to be executed in duplicate original:

**SAN JUAN COUNTY PUBLIC HOSPITAL  
DISTRICT No. 1**

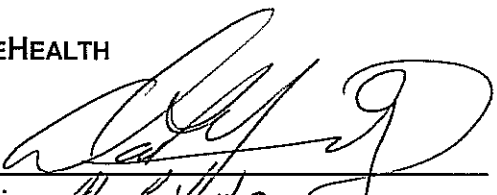
By:   
Name: Lenore L. Bayuk  
Title: Commission Chair

Dated: 3-21-2012

By:   
Name: J. MICHAEL EDWARDS  
Title: Secretary of the Commission

Dated: 3/21/2012

**PEACEHEALTH**

By:   
Name: Alan R. Yoder  
Title: President & Chief Mission Officer

Dated: 28 March 2012

Exhibit A to Second Amendment  
[PeaceHealth Employment Agreement]

## Exhibit A

### PHYSICIAN EMPLOYMENT AGREEMENT

This Physician Employment Agreement ("Agreement") is by and between PeaceHealth, a Washington non-profit corporation ("PeaceHealth") and [Name of Physician] ("Physician"). PeaceHealth and Physician may be referred to herein as "Parties."

#### 1. RECITALS

- 1.1 Whereas, PeaceHealth is qualified under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, as a tax-exempt corporation whose charitable mission includes the provision of healthcare, which it does through its medical group ("Medical Group") and other operations in the PeaceHealth Whatcom Region (the "Region"); and
- 1.2 Whereas, Physician is a Physician licensed to practice in the State of Washington (the "State"); and
- 1.3 Whereas, PeaceHealth desires to employ Physician to offer services to its patients, including Medicare and Medicaid beneficiaries.

Now, therefore, PeaceHealth and Physician have entered into this Agreement and agree to be bound according to its terms.

#### 2. TERMINATION OF PRIOR EMPLOYMENT AND CONFLICTING CONTRACTUAL AGREEMENTS

Except as set forth in Tab C, Physician: (1) agrees that as of the Start Date as set forth in Tab C of this Agreement, all prior employment or other conflicting contractual agreements bearing on the subjects set forth herein which Physician may have had with PeaceHealth shall be terminated and of no further force and effect; and (2) represents that he or she has no current employment or other conflicting contractual agreements related to his/her performance of professional services or other matters set forth herein with any other entity.

### **3. RELATIONSHIP OF THE PARTIES**

- 3.1 Employment. PeaceHealth hereby employs Physician, and Physician accepts employment with PeaceHealth commencing as of the Start Date, upon the terms and conditions set forth in this Agreement.
- 3.2 Independent Exercise of Professional Judgment. The employment relationship established by this Agreement shall not affect the independent exercise of Physician's professional judgment in the practice of medicine so long as it is consistent with the current standards of medical care in the State and complies with the rules, policies, and procedures approved by PeaceHealth pursuant to Section 5.5.
- 3.3 Authority. Physician shall have no authority to enter into any contracts binding upon PeaceHealth, or to create any obligations on the part of PeaceHealth, except as shall be specifically authorized by the Region's Chief Executive Officer ("CEO").

### **4. PHYSICIAN RESPONSIBILITIES**

- 4.1 Provision of Patient Services. Physician shall provide professional services within the scope of Physician's licensure and expertise to PeaceHealth patients at the facility specified by the Region. Physician shall conform to the direction and work schedule established by Region.
- 4.2 Charity Care, Medicare and Medicaid. Physician shall provide medical care, regardless of patients' ability to pay. Physician further agrees not to discriminate against Medicare or Medicaid patients who request professional medical services through PeaceHealth.
- 4.3 Disqualifications. In the discretion of the Region, Physician shall be disqualified from the provision of services pursuant to this Agreement, and

such Agreement shall terminate automatically pursuant to Section 7.2, if: (1) Physician is disqualified as a provider from Medicare, Medicaid or other government-funded health care program; or (2) Physician is disqualified as a provider or is disqualified from receiving payment from a third-party program; or (3) Physician commits an act of fraud, embezzlement, gross negligence, serious misconduct, or dishonesty in connection with his or her provision of services; or (4) is convicted of a crime of moral turpitude or any felony or any other law or regulation which disqualifies Physician from providing services under this Agreement. In addition, Physician agrees to indemnify and hold PeaceHealth harmless from any claims, losses, fines, penalties or damages it incurs, including all attorneys' fees and costs, which arise from or are related to Physician's disqualifying behaviors described in the preceding sentence.

Physician shall comply with the requirements set forth below in Sections 4.3.1 – 4.3.10. Should Physician fail to comply with such Sections, the Region, at its discretion, may disqualify the Physician from the provision of services pursuant to the Agreement, and such Agreement shall terminate pursuant to Section 7.2.

4.3.1 Licensure. Physician shall maintain a license to practice medicine in the State, which license shall not be materially restricted.

4.3.2 Board Certification. Unless waived by the Region in writing, Physician shall be board certified and shall maintain certification by the appropriate board of the American Board of Medical Specialties or other such other board permitted by the Medical Staff Bylaws applicable to the Region, or shall become so certified within the time specified in the Medical Staff Bylaws applicable to the Region or the initial time frame designated by the applicable specialty board after completion of residency, whichever is sooner. Provided, however,

the Region may require that Physician obtain such board certification on a shorter timeframe as determined by the Region.

4.3.3 Federal DEA. Physician shall maintain a U.S. Drug Enforcement Administration ("DEA") number without material restrictions.

4.3.4 Clinical Privileges. Physician shall maintain clinical privileges and certifications required by PeaceHealth (collectively, "Privileges") appropriate for the range of services provided by Physician's specialty at hospital(s) and/or clinic(s) designated by PeaceHealth (an "Approved Hospital/Clinic") and with all payors designated by PeaceHealth ("Required Payors"). In the event Physician has not yet been granted Privileges at an Approved Hospital/Clinic and by Required Payors, Physician shall immediately apply for, diligently pursue, obtain and maintain in good standing throughout the term of this Agreement Privileges as described above. Obtaining and maintaining such Privileges shall be a condition to Physician's employment hereunder, and PeaceHealth shall be entitled to terminate this Agreement immediately, without cost or penalty in the event Physician is denied any such Privileges.

4.3.5 Insurability. Physician shall satisfy qualifications for insurability under the professional liability policy, policies or program purchased or managed by PeaceHealth for Physician. Satisfying such qualifications shall be a condition to Physician's employment hereunder. Physician shall maintain a loss history and other PeaceHealth insurability requirements that do not substantially deviate from those of similarly trained and experienced physicians delivering services in Physician's specialty.

- 4.3.6 Compliance With Policies and Rules. Physician shall at all times comply with applicable PeaceHealth and Region rules, policies and procedures.
- 4.3.7 Compliance With Law. Physician shall comply with all rules, regulations, and requirements of federal, state, and municipal law now in force or which may hereafter come into force pertaining to the professional activities carried out by Physician pursuant to this Agreement.
- 4.3.8 Medical Standards. Physician shall perform all professional medical services in accordance with the current standards of care in the medical community and the credentialing practice parameters and quality criteria adopted by the Region.
- 4.3.9 Ethical Policies. While acting within this employment relationship, Physician shall not act in a manner inconsistent with PeaceHealth's ethical policies or standards currently applicable or as may hereafter be applicable to Region; nor engage in any new medical treatment or procedure nor utilize new technology as to which the Region CEO has raised an ethical concern until such time as the Ethics Council has approved the performance of such new medical treatment, procedure, or technology. Further, Physician shall comply with any provisions set forth in Appendix 1.
- 4.3.10 Continuing Medical Education. Physician shall remain in compliance with any applicable state licensing and/or specialty board requirements for continuing medical education.
- 4.4 Notification. Physician shall immediately notify his/her supervisor in the Region, upon becoming aware of the initiation or commencement of any of



the following events with respect to Physician, and shall periodically thereafter report to the Region regarding the status of each such event:

- 4.4.1 Any malpractice claim or lawsuit that is threatened or filed against Physician;
- 4.4.2 Suspension, revocation, termination, or restriction of Physician's license to practice medicine in the State;
- 4.4.3 The initiation of a disciplinary proceeding or inquiry before, or investigation by the State Medical Board or similar body;
- 4.4.4 Any investigation, sanction, or similar action by a peer review organization;
- 4.4.5 Any audit or similar proceeding by any federal, state, or local agency dealing with payment for medical services or any Medicare carrier or intermediary; or
- 4.4.6 Any criminal investigation or any civil investigation by any agency responsible for enforcement of health care related laws.

#### 4.5 Exclusivity.

- 4.5.1 Professional Services. Except as disclosed to and approved by the Region, and set forth in Tab C, Physician shall devote his or her full professional time and effort exclusively to the provision of professional services on behalf of PeaceHealth; provided that Physician shall be permitted to independently provide patient care of up to sixteen (16) hours per month so long as such activity neither interferes with Physician's obligations under this Agreement nor

competes with PeaceHealth. Physician shall notify the Region of the general nature of such activity. While independently providing patient care as permitted pursuant to this Section 4.5.1, Physician shall affirmatively disclose to the patient(s) that he/she is not at that time acting on behalf of or under direction of PeaceHealth or the Region, and Physician shall not be subject to PeaceHealth's rules, policies, procedures, and ethical standards, except to the extent Physician provides such services at a PeaceHealth facility. Physician acknowledges that while Physician is independently providing patient care as permitted pursuant to this Section 4.5.1, PeaceHealth shall have no obligation to provide Physician with insurance, or indemnity and the provisions of section 5.2, below, shall not apply; provided that if the independent patient care is provided for free by the Physician as a volunteer, furthers the charitable purpose of PeaceHealth, and has been approved in writing by the Region, the Region may agree to provide such insurance. Physician shall indemnify PeaceHealth from any and all losses that result from Physician's independent professional services not insured by PeaceHealth.

4.5.1.1 Coverage for Independent Professional Services. Unless PeaceHealth provides insurance for Physician's independent patient care services as specified in Section 4.5.1, Physician shall procure and maintain professional liability insurance covering such activities in a form acceptable to PeaceHealth with liability limits of not less than One Million Dollars (\$1,000,000) per occurrence and Three Million Dollars (\$3,000,000) in the aggregate. Physician shall provide System Risk Management with the certificate of insurance evidencing the insurance coverage required under this Section and providing for not

more than thirty (30) days notice to System Risk Management of the cancellation of such insurance. Physician shall promptly notify System Risk Management of any cancellation, reduction, or other material change in the amount or scope of any coverage required under this Section.

4.5.1.2 Tail Coverage for Independent Professional Services. If the professional liability coverage procured pursuant to Section 4.5.1.1 is on a "claims made" rather than "occurrence" basis, Physician shall, upon ceasing of independent professional services, obtain extended reporting malpractice insurance coverage ("tail coverage") for all claims relating to Physician's independent professional services in a form acceptable to PeaceHealth, with liability limits of not less than One Million Dollars (\$1,000,000) per occurrence and Three Million Dollars (\$3,000,000) aggregate. Physician shall provide System Risk Management with proof of such tail coverage, upon reasonable request.

4.5.2 All Fees and Revenues to Employer. Except for employment approved and disclosed in Tab C and services performed during the sixteen (16) hours per month noted in Section 4.5.1 above, all fees and revenues generated from Physician's professional services rendered during the term of this Agreement shall belong to PeaceHealth.

4.5.3 Use of Facilities. PeaceHealth's facilities, supplies, support personnel, equipment and management services shall not be used

by Physician for patients other than PeaceHealth patients nor to conduct any business other than that on behalf of PeaceHealth.

## 5. PEACEHEALTH RESPONSIBILITIES

5.1 General. Subject to the discretion of the Region and consistent with PeaceHealth's capital and operating budgets, PeaceHealth shall provide the following:

5.1.1 Facilities, Equipment, and Supplies. All facilities, equipment and supplies reasonably necessary for Physician to perform the professional services required by this Agreement (such facilities and equipment shall remain the property of PeaceHealth);

5.1.2 Support Personnel. All medical and clerical support personnel reasonably necessary to effectively and efficiently operate the facility in which Physician shall practice provided, however, Physician shall, at minimum, be consulted before any changes are made to those personnel who support or assist Physician;

5.1.3 Administrative and Management Services. All reasonably necessary administrative and management services for operation of the medical facility in which Physician shall practice;

5.1.4 Support Services. All janitorial, maintenance, utilities, and telephone service as are reasonably necessary for the proper operation of the Medical Group office in which Physician shall practice.

## 5.2 Insurance.

5.2.1 General and Professional Liability Insurance. PeaceHealth shall procure and maintain in force during the term of this Agreement comprehensive general liability insurance covering the facility in which Physician practices. PeaceHealth shall also procure and maintain during the term of this Agreement professional liability insurance specifically naming and covering Physician and all medical support personnel provided to Physician by PeaceHealth for work performed on behalf of PeaceHealth and independent professional services covered pursuant to Section 4.5.1 of this Agreement. In the event of a suit or claim against PeaceHealth alleging fault on the part of Physician, PeaceHealth agrees not to seek indemnity or contribution from the Physician; provided, however, that PeaceHealth reserves the right to seek indemnity or contribution for any claim involving intentional wrongdoing, activity outside the scope of the Physician's employment, or otherwise charging receipt of improper benefit by Physician, in accordance with PeaceHealth's Indemnification Policy.

### 5.2.2 Tail Insurance.

5.2.2.1 Change of Carriers. If during the term of this Agreement, PeaceHealth opts to change the professional liability insurance carrier for Physician as set forth in Section 5.2.1, it shall either secure a "retro" clause in such coverage (i.e., "nose" coverage) or shall purchase tail insurance with equivalent coverage to the prior policy for errors or omissions arising from professional services rendered by Physician under this

Agreement prior to the effective date of the new professional liability insurance policy.

5.2.2.2 Termination of Agreement. If this Agreement is terminated by PeaceHealth pursuant to Sections 7.2.2, or 7.3 due to a cause attributable to Physician, Physician agrees to reimburse PeaceHealth for the tail insurance premium and all reasonable costs related to securing tail insurance for Physician. If Physician's employment is terminated other than pursuant to Sections 7.2.2 or 7.3 due to a cause attributable to Physician, the Parties shall share cost of tail insurance that PeaceHealth procures for Physician as follows: (i) If termination occurs during the first year of Physician's employment, PeaceHealth shall pay 33 1/3% of the tail insurance premium, (ii) if during the second year, PeaceHealth shall pay 66 2/3% of the tail insurance premium, (iii) if during any subsequent year, PeaceHealth shall pay 100% of the tail insurance premium. Physician further agrees that PeaceHealth may set off such amounts Physician owes from any and all amounts due to Physician, including salary and bonuses. Physician shall reimburse PeaceHealth for any and all amounts remaining due following such set-off.

5.2.3 Self-Insurance. Throughout this Agreement, the term "insurance" shall include self-insurance arrangements maintained by PeaceHealth or its corporate affiliates. In the event that PeaceHealth self-insures all or a portion of the professional liability coverage for Physician and Physician disagrees with the proposed

settlement of a claim against Physician, Physician may appeal the matter to the PeaceHealth's Professional Liability Committee, whose determination as to settlement will be binding upon PeaceHealth's self-insured portion of the claim.

- 5.3 Staffing. The Region shall determine the appropriate number of full-time-equivalent physician positions, by specialty areas of practice, needed to properly staff and treat the Region's patients. The selection of individual physicians will be done at the Region level.
- 5.4 Establishment of Schedules. The Region shall establish reasonable office and call schedules for all the Region physicians employed by PeaceHealth, so as to provide twenty-four (24) hours-per-day, seven (7) days-per-week coverage or as otherwise scheduled by the Region. Schedule changes, vacation requests, continuing education requests, and similar administrative matters must be approved in accordance with the Medical Group's time off policy, in advance.
- 5.5 Establishment of Rules and Policies. PeaceHealth shall establish such rules, policies, and procedures as it determines to be necessary and appropriate for the Region. Such rules, policies and procedures are separate from and in addition to the medical staff bylaws of any hospital to which Physician may be subject, including bylaws concerning hospital privileges and medical staff admission processes.
- 5.6 Fee Schedules. The Region Board shall establish and revise fee schedules for services rendered by Physician pursuant to this Agreement.

## 6. COMPENSATION

- 6.1 Determination of Compensation. PeaceHealth shall pay compensation to Physician in accordance with the PeaceHealth Provider Compensation

Plan then in effect, as approved by the PeaceHealth Board of Directors. Physician acknowledges being provided a copy of the plan which is in effect as of the date hereof and as identified in Tab A (Compensation Plan) to this Agreement. Physician acknowledges and agrees that from time to time, PeaceHealth may make modifications to the Compensation Plan in its discretion, subject to approval of the PeaceHealth Board of Directors or its designated committee. Such modifications shall not be deemed amendments to this Agreement. PeaceHealth agrees to notify Physician of changes to the Compensation Plan (Compensation Plan Change Notice) and, if the changes would reduce Physician's compensation and the Compensation Plan Change Notice was sent less than 120 days before the changes become effective (Compensation Plan Implementation Date), the time period for Physician to provide notice to PeaceHealth of intent to terminate employment as specified in Section 7.4 will be the lesser of (i) 120 days or (ii) the time period between sending the Compensation Plan Change Notice and the Compensation Plan Implementation Date.

- 6.2 Determination of Benefits. PeaceHealth shall provide benefits to Physician consistent with those customarily provided to Physicians employed by the Region. The benefit program currently applicable to Physician is described in Tab B. Physician acknowledges and agrees that the benefit program is determined by PeaceHealth's System Benefits office, which may make changes to the benefit program from time to time in its discretion. Such changes shall not be deemed an amendment of this Agreement. PeaceHealth agrees to notify Physician of changes to the benefit program.
- 6.3 Full-Time, Part-Time or Shared Practice Status. Unless noted in Tab C, Physician will practice in a full-time status as defined by PeaceHealth's approved policy. Practice on a part-time or shared-practice basis shall be subject to salary, benefit and practice adjustments.

## 7. TERM AND TERMINATION



7.1 One Year Term With Automatic One Year Renewals. Subject to the termination provisions set forth below, the initial term of employment under this Agreement shall be for one (1) year beginning on the Start Date. Thereafter, this Agreement shall automatically renew for additional one (1) year terms unless PeaceHealth provides written notice of non-renewal to the Physician at least one hundred twenty (120) days prior to the expiration of an annual term; provided, however, that notwithstanding any provision of this Agreement to the contrary, if PeaceHealth provides such notice of non-renewal, the Physician's compensation during the final one hundred twenty (120) days of employment shall be calculated consistent with the Compensation Plan in proportion to Physician's reduction in full- or part-time employment hours worked, unless otherwise agreed by the Parties.

7.2 Automatic Termination. Physician's employment pursuant to this Agreement shall automatically terminate, effective immediately, on the occurrence of any of the following events:

7.2.1 Physician's death or inability to perform the essential functions of the job (even with reasonable accommodation as mandated by federal rules, regulations or guidelines that is not an undue hardship for the Medical Group) at the point of eligibility for long-term disability;

7.2.2 Upon the determination by PeaceHealth that Physician is disqualified from the provision of services because an event set forth above in Section 4.3 has taken place.

7.3 Termination With Cause. Employment may be terminated pursuant to this Agreement upon thirty (30) days written notice as follows:

7.3.1 By either party in the event the other party is in material breach of this Agreement and has failed within fifteen (15) days after receipt of written notice of such breach to have cured the breach or to have reasonably undertaken cure of the breach; or

7.3.2 By PeaceHealth: (a) in the event Physician's performance falls unacceptably below any review criteria established by the Region; or (b) in the event of disruptive behavior which interferes with the efficient operation of the Region; or (c) in any other event for which the Region determines there is just cause (i.e., a fair and honest reason that is determined in good faith and is neither arbitrary nor capricious) for termination of employment.

7.4 Termination With or Without Cause. Notwithstanding anything herein to the contrary, either Party may terminate employment pursuant to this Agreement at any time, with or without cause, upon one hundred and twenty (120) days written notice to the other Party, provided that the Parties may agree to a shorter termination period. Notwithstanding any provision of this Agreement to the contrary, if such notice shall have been provided, the Physician's compensation during the final one hundred twenty (120) days of employment shall be calculated consistent with the Compensation Plan in proportion to Physician's reduction in full- or part-time employment hours worked, unless otherwise agreed by the Parties.

7.5 Legal Prohibition or Tax Status Violation. If counsel selected by PeaceHealth should determine that it is more likely than not that applicable legislation, regulations, rules, court decisions, or action by any governmental or private agency or court, if implemented, would have the effect of jeopardizing PeaceHealth's tax exempt status, or would have an adverse effect on PeaceHealth's existing tax exempt financing or its ability to engage in tax exempt financing now or in the future, or would subject

either party to civil action or criminal prosecution under state or federal laws because of some feature or aspect of this Agreement or the relationship created by this Agreement, then the Parties shall attempt in good faith to amend this Agreement to the extent necessary in order to comply with such determination or law. If, within ninety (90) days of the determination by such counsel, the Parties are unable to mutually agree upon such amendment, then this Agreement shall terminate.

7.6 Continuation of Patient Care. In the event of termination of this Agreement, Physician agrees to cooperate with PeaceHealth to transfer to other PeaceHealth physicians the care of patients who choose not to continue being treated by Physician.

7.7 Privacy and Security of Information and Other Property.

7.7.1 Medical Records. Physician and PeaceHealth shall comply with all applicable laws, regulations and PeaceHealth policies and procedures concerning the privacy and security of patient health information. All files, charts, and records electronic or otherwise generated by Physician in connection with services furnished pursuant to this Agreement shall remain property of PeaceHealth.

7.7.2 Proprietary Information. Physician acknowledges that he or she may receive proprietary data and confidential information pertaining to PeaceHealth that is not generally known and is of vital competitive importance to PeaceHealth. Such information includes, but is not limited to, the terms of this Agreement, confidential legal advice, financial data, cost information, sales or fee schedules, internal management reports, plans, programs, contracts and agreements, trade secrets, market reports, and customer or patient lists and files, in electronic or hard copy. Physician shall not make

use of the information, except in the course of Physician's employment at PeaceHealth, shall maintain such information in confidence, and shall not disclose such information, except pursuant to agreement of the Parties or order of a court of competent jurisdiction.

7.7.3 Return of Information and Property. Upon termination of Physician's employment, and at any other reasonable time upon PeaceHealth's request, Physician will deliver to PeaceHealth's authorized representative any and all records, information and other property of PeaceHealth (including the records and information identified in Sections 7.7.1 and 7.7.2) then in Physician's possession and control.

7.7.4 Survival of Covenant. The provisions of this Section 7.7 are intended to survive termination of this Agreement.

7.8 Injunctive Relief. The Parties recognize that irreparable injury will result to PeaceHealth and its business and property if Physician breaches his or her obligations under Section 7.7 or any non-solicitation or non-competition provision of this Agreement. In the event of any such breach, Physician agrees that PeaceHealth shall be entitled to: (i) temporary or permanent injunctive relief; and/or (ii) an order of specific performance to enforce this Agreement against the Physician or any of the Physician's partners, agents, employers and employees, or any persons acting for or with Physician; and (iii) an award of attorney fees, in addition to any other remedies PeaceHealth may have.

8. **DISPUTE RESOLUTION.** Except as specifically set forth in Appendix 1, the following procedures outlined in this Section 8 shall apply to disputes between the Parties related to this Agreement.

8.1 Good Faith Negotiations/Mediation. The Parties agree to meet and confer in good faith to resolve any claim or controversy arising out of or related to this Agreement. If the Parties are not able to resolve such claim or controversy, then at the request of either party they shall continue to negotiate with the assistance of a mutually acceptable mediator for a period of not less than thirty (30) days following the initial meeting.

8.2 Arbitration. In the event a disagreement has not been resolved pursuant to Section 8.1, then the matter will be determined by the Commercial Rules of the American Arbitration Association, or other mutually agreed organization, and with discovery being governed by the Federal Rules of Civil Procedure applicable in the U.S. District Court for the district of which the Region has the majority of its operations. The Parties will attempt to agree on a single arbitrator. If Parties cannot agree on a single arbitrator, the following process will occur. One (1) arbitrator will be named by each party, and a third arbitrator will be named by the two (2) arbitrators so chosen. Judgment upon the award rendered by the arbitrators may be entered into the judgment document of any court having jurisdiction thereof. The cost of arbitration, exclusive of attorney's fees, will be shared equally by the Parties.

The arbitrators may award injunctive relief or any other remedy available from a judge, including temporary restraining orders or injunctions. Pending appointment of the arbitrators, either party may apply to a court of competent jurisdiction for such interim order or relief as may be appropriate, including temporary restraining orders or injunctions, provided that once the arbitrators are appointed all further interim relief, including temporary restraining orders or injunctions, shall be awarded by the arbitrators, whose powers in that regard shall include the power to vary or dissolve any temporary order or relief granted by the court.

9. **GENERAL PROVISIONS**

- 9.1 Interpretation; Entire Agreement. Appendix 1 and Tabs A through C are incorporated by reference in this Agreement. In the event of any conflict between the provisions of the Appendix, the Tabs and this body of this Agreement (the "Body" or "Body of the Agreement") the terms set forth in the Tabs shall prevail; if none, then the terms in the Appendix shall prevail. The term "this Agreement" shall refer to the Body, the Appendix and the Tabs hereto. This Agreement constitutes the entire Agreement between the Parties pertaining to the subjects addressed in it and supersedes all prior and contemporaneous agreements, discussions, and understandings of the Parties that relate to the subject matter of this Agreement.
- 9.2 Nonassignment. PeaceHealth has entered into this Agreement in reliance on the specific skills of Physician, who shall be personally responsible for fulfilling the terms of this Agreement. Neither Party may assign this Agreement or the rights hereunder, nor delegate any of the duties to be performed hereunder without prior written consent of the other Party; provided, that PeaceHealth may, without Physician's consent, delegate its rights and duties hereunder to any qualified contractor, division, operating unit, or successor-in-interest of PeaceHealth.
- 9.3 Governing Law. This Agreement shall be governed by the law of the state in which the Region has the majority of its operations.
- 9.4 No Waiver. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute a waiver of any other provision, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the Party making the waiver.

9.5 No Third Party Beneficiaries. Other than as explicitly provided in Tab C, nothing in this Agreement is intended to confer any rights or remedies on any person other than the parties to it.

9.6 Subject Headings and Severability. The subject headings used in this Agreement are included for purposes of convenience only and shall not affect the construction or interpretation of any of the provisions of the Agreement. If any term of this Agreement is held unenforceable or invalid for any reason, the remaining portions or provisions shall continue in full force and effect.

9.7 Notices. All notices required under this Agreement shall be in writing and shall be deemed to have been fully given on the date of service, if served personally on the party to whom notice is to be given or provided via electronic mail (e-mail) to the party's e-mail address assigned by PeaceHealth, or on the third (3rd) day after mailing if mailed to the party to whom notice is to be given by first class mail, postage prepaid, and properly addressed as designated in Tab C of this Agreement. Each party may change its address by giving the other party written notice of the new address in the manner set forth above.

9.8 Execution. By their signatures below, the Parties indicate their agreement to all of the terms set forth in this Agreement.

This Agreement is effective as of the date on which the last party signs below.

**PEACEHEALTH**

**PHYSICIAN**

By: \_\_\_\_\_  
Christopher D. Sprowl, M.D., M.M.M.  
Vice-President, PeaceHealth Medical Group

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

TAB A

Physician was provided a copy of the PeaceHealth Provider Compensation plan currently in place:

**System-wide Provider Compensation Plan Summary  
For Eligible Physicians and Allied Health Professionals Employed by PeaceHealth  
(New to PeaceHealth)**



TAB B

Physician was provided a copy of the following PeaceHealth Benefits Summary Description currently in place:

**Physician Benefit Plan PeaceHealth Whatcom Region – 2012**

## Exhibit B to Second Amendment

### AGREEMENT FOR PRACTITIONERS' SERVICES

This Agreement is entered into by and between PeaceHealth Medical Group ("PHMG"), an unincorporated operating division of PeaceHealth, a Washington nonprofit corporation that is qualified as exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended ("PeaceHealth") and the San Juan County Public Hospital District 1, a Washington State Public Hospital District organized pursuant to the Revised Code of Washington Title 70, Chapter 44 (the "District");

WHEREAS, On May 6, 2009 PeaceHealth and the District entered into a Subsidy Agreement for a Combined Clinic and Hospital Facility as amended October 2010 (the "Subsidy Agreement"); and

WHEREAS, the Parties have determined that it is in the best interest of each to further modify the Subsidy Agreement to transition physicians ("Practitioners") currently employed by InterIsland Medical Center ("IIMC") to PHMG's employment prior to the opening of the combined clinic/hospital facility to be known as Peace Island Medical Center ("PIMC"); and

WHEREAS, after the Practitioners become employed by PHMG, the District desires to engage PHMG to furnish Practitioners' professional services ("Services") to IIMC and PHMG is willing to provide such in accordance with the terms and conditions set forth below.

In consideration of the mutual covenants contained herein, the parties agree as follows:

#### SECTION 1 OBLIGATIONS AND RIGHTS OF PHMG

In consideration of the mutual covenants contained herein, the parties agree as follows:

##### **1. Obligations and Rights of PHMG.**

- 1.1 Professional liability insurance will be provided for Services provided under this Agreement after the Practitioners start working for PHMG ("Start Date") pursuant to PeaceHealth's self-insurance program.
- 1.2 Practitioner work schedules in place at the time of this Agreement remain in effect until PIMC is opened, unless PeaceHealth and District mutually agree to changes in schedules and hours of service.
- 1.3 As necessary, PHMG will arrange for locums practitioner coverage for the current IIMC Practitioners.
- 1.4 As necessary, the Parties will cooperate in recruiting physicians to provide Practitioner Services and the District will provide assistance to PHMG in accordance with provider recruitment guidelines and applicable law.

- 1.5 PHMG practitioner role descriptions, performance expectations and accountabilities will apply to the Practitioners.
- 1.6 PHMG will provide medical director services for IIMC to include physician supervision, quality assurance and peer review oversight, Practitioner performance management, including clinical coding training consistent with PHMG standards.
- 1.7 PHMG will provide administrative-operational liaison to the District Superintendent and Board and will report regularly on matters relating to the performance of the services described in this Agreement.
- 1.8 PHMG and Practitioners shall comply with all applicable laws and regulations regarding the security, confidentiality, and privacy of information, including without limitation the Health Insurance Portability and Accountability Act.

## **SECTION 2 OBLIGATIONS OF THE DISTRICT**

### **2. Obligations and Rights of the District.**

- 2.1 As of the Start Date, the District will discontinue employment of Practitioners and agrees that PHMG will provide the services of these Practitioners to the District hereunder until the PIMC opens and the District discontinues IIMC operations ("Term").
- 2.2 During the Term, District shall have the exclusive right to all fees and revenues generated from the operation of the IIMC and will continue to operate and maintain the IIMC in a manner consistent with operations in place on the effective date of this Agreement, including without limitation:
  - a. the employment and supervision of all non-Practitioner staff;
  - b. purchasing of all equipment and supplies required for the provision of patient care;
  - c. management and maintenance of payor contracts, provider credentialing and professional fee schedules;
  - d. billing and collections of all professional fees;
  - e. operation and maintenance of the Practice Partner EMR and clinic management system; and
  - f. operation and maintenance of the facility.

The District shall have the right to bill patients and payers for its services during the Term, including Services performed on the District's behalf by Practitioners. The District is solely responsible to provide or arrange for provision of all billing services required in connection with services provided at IIMC. Under no circumstances shall the District use PHMG personnel to perform its billing function. The District shall be fully responsible for accurate billing in compliance with applicable laws and shall indemnify PHMG and PeaceHealth from and against any and all claims arising out of such billing.

- 2.3 The District shall be responsible for compliance with all health and safety and right to know laws, regulations and rules regarding a safe environment at its workplace and represents that it currently meets all OSHA/WSHA standards and will be responsible for any violations at its workplace. PHMG disclaims any responsibility for the safety of the District's workplace, and the District agrees to assume the risk of any injury or damage to persons or property arising out of or related to the services contemplated under this Agreement.
- 2.4 Upon request, the District agrees to cooperate with PHMG with respect to the performance of Practitioners, including providing documentation and timely notifying PHMG and assisting it in any reports that may be required by licensing or regulatory authorities or, if appropriate, insurance carriers. The District may request that Practitioners be removed from providing services at IIMC hereunder. PHMG, after consultation with the District, reserves the right to discipline, replace, or terminate the employment of a Practitioner. Notwithstanding anything to the contrary herein, the District retains sufficient direction and control over services provided by Practitioners hereunder to comply with applicable licensure, regulatory and statutory requirements with respect to the provision of services.
- 2.5 For all Services provided hereunder, District shall compensate PHMG for its expenses related to Practitioners' Services including, without limitation, salary, benefits, licenses, dues, CME, travel, malpractice coverage, locums coverage plus a five percent administrative overhead fee. PHMG shall provide the District with a monthly invoice itemizing the expenses incurred for Services furnished under this Agreement and payment shall be due by the District within 15 days of receipt. In addition, District will compensate PHMG for medical director services at One Hundred Dollars (\$100.00) per hour based on the expectation that PHMG shall provide medical director services an average of eight (8) hours per month throughout the term of this Agreement. After the first of each month, PHMG shall provide to District documentation of services performed and time incurred for providing medical director services under this Agreement during the preceding month. The parties mutually acknowledge and agree that the compensation has been negotiated at arm's length and represent the fair market value of the use of personnel being furnished hereunder and determined in a manner that does not take into account the volume or value of any referral or business otherwise generated between the parties.
- 2.6 District will support and cooperate with PeaceHealth in its efforts to plan, organize and lead an orderly transition and integration of the Practitioners employed under the terms of this Agreement leading up to the opening of PIMC.
- 2.7 District will maintain property and general liability insurance during the Term hereof on the operations and assets of the IIMC in commercially reasonable amounts.

**SECTION 3**  
**TERM & TERMINATION OF THE AGREEMENT**

- 3.1 The term of this Agreement will expire on the date the PIMC opens and the District discontinues IIMC operations, currently anticipated to be approximately December 1, 2012.
- 3.2 Either party may terminate this Agreement in the event the other party has failed to perform any material term or condition of this Agreement if such failure has continued for 90 days after the party seeking termination has delivered formal written notice.
- 3.3 In the event the performance by either party of this Agreement should be determined by a state or federal court or governmental agency to be in violation of any statute, ordinance, or be otherwise deemed illegal ("Jeopardy Event"); or, in the event that counsel to either party opines that this Agreement or any provision of it is in violation of any statute or ordinance or otherwise illegal ("Jeopardy Event"); or in the event that counsel to PeaceHealth shall opine that this Agreement or any provision of it would place PeaceHealth's tax-exempt status or the tax-exempt status of any current or future PeaceHealth debt instruments in jeopardy ("Jeopardy Event"); then the Parties shall use their best efforts to meet and attempt to negotiate an amendment to this Agreement to remove or negate the effect of the Jeopardy Event. In the event the Parties are unable to negotiate such an amendment, despite their best efforts to do so, within thirty (30) days following written notice by either party of the Jeopardy Event, then either party may terminate this Agreement; provided that the Parties will use best efforts to transition the responsibilities under this Agreement so as to maintain the continuity of patient care.
- 3.4 In the event the District anticipates a funding deficit during the term of this Agreement, the District shall notify PHMG of the anticipated deficit as soon as reasonably possible. The parties agree to mutually consider remedies for addressing the District deficit, including changes to the terms of the Agreement within 90 days of District's notification. In the event the parties cannot agree to new terms during this 90 day period, the Agreement may be terminated by either party upon 90 days notice.

**SECTION 4**  
**MISCELLANEOUS PROVISIONS**

- 4.1 In performing the responsibilities described in this Agreement, the parties are at all times acting and performing as independent contractors. Nothing in this Agreement is intended to create an employer/employee relationship, an agency relationship or a partnership or joint venture between PeaceHealth and the District. Neither party has the authority to bind the other or represent to any person that it is an agent of the other. PeaceHealth shall be responsible for all applicable state and federal payroll taxes, social security withholding, workers' compensation, employment insurance taxes, employee benefits and other taxes, expenses, or deductions related to services performed by practitioners hereunder. Practitioners shall have

no claim against the District for vacation pay, sick leave, social security, or employee benefits of any kind.

- 4.2** Each Practitioner providing services under the terms of this Agreement shall exercise medical judgment free of any direction or control by PeaceHealth. The Parties acknowledge and agree that while the professional clinical personnel at IIMC will, as medically necessary and appropriate, recommend referrals to other medical specialists and facilities, including practitioners within the PeaceHealth Medical Group-Whatcom Region and PeaceHealth St. Joseph Medical Center, all such determinations shall be made in the exercise of such professional's independent medical judgment and shall at all times honor patient choice concerning physician selection, hospital selection and treatment modality. Nothing in this Agreement requires (directly or indirectly) any party to refer or direct patients or business to the other party or use the other party's facilities as a condition under this Agreement. The compensation paid by PeaceHealth to Practitioners will not take into account the volume or value of referrals to IIMC or PeaceHealth St. Joseph Medical Center.
- 4.3** Each party shall, in connection with this Agreement, cooperate fully by, among other things, generating, maintaining and making available all necessary records, in order to assure that the other party will be able to meet all requirements for participation and payment associated with public and private third party payment programs including, but not limited to, matters covered by Section 1861(v)(1)(I) of the Social Security Act. If a party carries out the duties of this Agreement through a subcontract worth Ten Thousand Dollars (\$10,000) or more over a twelve (12) month period with a related organization, the subcontract shall also require the subcontractor to comply with this Section. The parties shall continue to comply with this Section 4.3 following expiration or termination of this Agreement.
- 4.4** Regardless of when they arise, neither party shall have an obligation for expenses or claims of any nature, past, present or future, that relate to the other party's operations. This provision shall apply to all claims of any nature whatsoever, including, but not limited to, liability claims, claims arising from operations prior to the opening of PIMC, workers compensation, unemployment compensation, sick leave, vacation pay, retirement benefits, Social Security benefits, or any other employee benefits payable for employees of the other party. Each party agrees to defend, indemnify and hold the other party harmless from all such claims.
- 4.5** Each of the Parties hereto agrees to be liable for its own conduct and its obligations under this Agreement. In the event that loss or damage results from the conduct of more than one party, each party agrees to be responsible for its own proportionate share of the claimant's damages under the laws of the State of Washington.

**SECTION 5  
INCORPORATE BY REFERENCE**

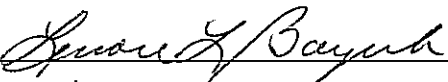
6.1 The provisions of Sections, 5, 6, and 7 of the Subsidy Agreement as amended by the First and Second Amendment are incorporated by reference herein. If there is any conflict between the provisions thereof and the provisions of this Agreement, this Agreement will control.

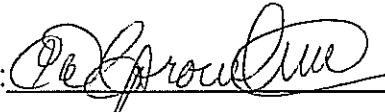
IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed in duplicate original:

SAN JUAN COUNTY PUBLIC HOSPITAL

PEACEHEALTH MEDICAL GROUP

DISTRICT NO. 1

By: 

By: 

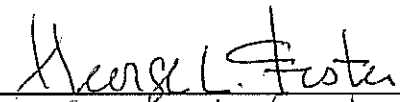
Name: Lenore L. Bayuk


Name: CHRISTOPHER D. SPRAWL

Title: Commission Chair

Title: VP PHMO

Dated: 1-25-2012

By: 

  
J. Michael Edwards  
3/21/2012

Name: George L. Foster

Title: Secretary of the Commission Pro Tem

Dated: 1/25/2012

PUBLIC HOSPITAL DISTRICT NO. 1  
SAN JUAN COUNTY, WASHINGTON

RESOLUTION NO. 12-375

A RESOLUTION of the Commission of Public Hospital District No.1, San Juan County, Washington, approving and authorizing the execution and delivery of the Second Amendment to the Subsidy Agreement for a Combined Clinic and Hospital Facility.

BE IT RESOLVED BY THE COMMISSION OF PUBLIC HOSPITAL DISTRICT NO. 1, SAN JUAN COUNTY, WASHINGTON, as follows:

Section 1. Recitals. The Commission (the "Commission") of Public Hospital District No. 1, San Juan County, Washington (the "District"), hereby makes the following findings and determinations:

(a) The District, doing business as Inter Island Medical Center and San Juan Island Emergency Medical Services, is a public hospital district and a municipal corporation duly organized and existing under the laws of the State of Washington (the "State").

(b) The District presently owns and operates Inter Island Medical Center ("IIMC") and the San Juan County Public Hospital District No. 1 emergency medical services facility located in Friday Harbor.

(c) RCW 70.44.003 authorizes the District to provide hospital and other health care services for the residents of the District and other persons.

(d) RCW 70.44.060(2) authorizes the District to provide hospital and other health care services of the District by contract or in any other manner the Commissions may deem expedient or necessary under the existing conditions.

(e) RCW 70.44.240 authorizes the District to contract or join with any other nonprofit hospital to operate or provide any hospital or other health care facilities or hospital services or other health care services to be used by the residents of the Districts or other persons.

(f) RCW 70.44.060(10) authorizes the District to make all contracts useful or necessary to carry out the provisions of the public hospital district chapter of the Revised Code of Washington, Chapter 70.44 RCW.

(g) Pursuant to Resolution No. 09-326 of the Commission, dated March 18, 2009, the Commission approved and authorized the execution and delivery of the Subsidy Agreement for a Combined Clinic and Hospital Facility, by and between PeaceHealth and the District, which agreement was made and entered into as of May 6, 2009 (the "Subsidy Agreement").




(h) PeaceHealth and the District have determined that it is in the best interest of each to further modify the Subsidy Agreement to transition physicians ("Practitioners") currently employed by Inter Island Medical Center ("IIMC") to PHMG's employment prior to the opening of the combined clinic/hospital facility to be known as Peace Island Medical Center ("PIMC"). After the Practitioners become employed by PHMG, the District desires to engage PHMG to furnish Practitioners' professional services ("Services") to IIMC and PHMG is willing to provide such in accordance with the terms and conditions set forth in the Second Amendment Agreement for a Combined Clinic and Hospital Facility attached hereto and as Exhibit A (Physician Employment Agreement) and Exhibit B (Agreement for Practitioners' Services) also attached hereto.

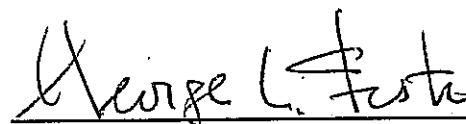
ADOPTED and APPROVED by the Commission of Public Hospital District No. 1, San Juan County, Washington, at a regular open public meeting thereof this 25th day of January, 2012, the following Commissioners being present and voting in favor of the resolution.

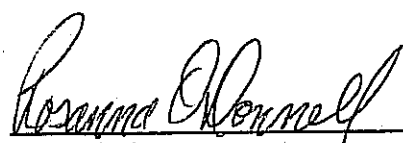
PUBLIC HOSPITAL DISTRICT NO. 1  
SAN JUAN COUNTY, WASHINGTON

  
Chairperson and Commissioner

\_\_\_\_\_  
Secretary and Commissioner

  
Commissioner

  
Commissioner

  
Commissioner

12:35pm	CONSENT ITEMS (1- 8) (5")	Sr. Andrea Nenzel
	<p><b>1. Board Meeting Minutes Dated November 11, 2011.</b></p> <p>RESOLVED, that PeaceHealth approves the Board meeting minutes dated November 11, 2011, as submitted.</p>	Attachment 2
	<p><b>2. Executive Committee Meeting Minutes Dated November 11 and December 16, 2011.</b></p> <p>RESOLVED, that PeaceHealth approves the Executive Committee minutes dated November 11 and December 16, 2011, as submitted.</p>	Attachment 3
	<p><b>3. Second Amendment to the Subsidy Agreement for a Combined Clinic and Hospital Facility.</b></p> <p>WHEREAS, PeaceHealth and the San Juan County Public Health District 1 ("the District") entered into a Subsidy Agreement for a Combined Clinic and Hospital Facility on May 6, 2009 as amended October 2010 ("Subsidy Agreement"); and</p> <p>WHEREAS, the parties originally contemplated that the physicians employed by the District at the Interisland Medical Center ("IIMC") would become employees of PeaceHealth upon the opening of the combined clinic/hospital facility to be known as Peace Island Medical Center ("PIMC") which is currently anticipated to be December, 2012; and</p> <p>WHEREAS, the parties have determined it is desirable to transition physicians currently employed by IIMC to PeaceHealth's employment prior to the opening of the PIMC; and</p> <p>WHEREAS, after the physicians become employed by PeaceHealth, the District desires to contract with PeaceHealth to furnish the physicians' professional services to IIMC until PIMC opens; and</p> <p>WHEREAS, a Second Amendment to the Subsidy Agreement has been prepared which provides for PeaceHealth offering employment to the IIMC physicians with a March 1, 2012, anticipated effective date for employment by PeaceHealth and for IIMC to contract with PeaceHealth to furnish the physicians' professional services until the PIMC opens; and</p> <p>WHEREAS, the PeaceHealth St. Joseph Medical Center Board approved the Second Amendment to the Subsidy Agreement at its January 3, 2012, Board meeting;</p> <p>NOW, THEREFORE, BE IT RESOLVED, that the Board approves the Second Amendment to the Subsidy Agreement and the Agreement for Practitioner Services.</p>	Attachment 4