

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

RECITALS

1. 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 (the "**Agreement**").
2. Subsequently, the Parties have determined that it is the best interest of each to modify the Agreement as set forth in this document (the "**First Amendment**").

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. To amend the Agreement as follows:
 - A. The current language of Section 1.1.23 of the Agreement shall be stricken and the following language shall be substituted therefore:

"1.1.23 Use of District Payments. PeaceHealth shall utilize all payments from the District exclusively for the provision of the following healthcare services within the District: charitable healthcare services, emergency department services and the provision of physician services. "Charitable healthcare services" shall mean those services described in paragraph 1.1.20, above, including charity care, bad debt and the difference between allowed Medicare and Medicaid rates and the charges for all services rendered to patients covered by Medicare and Medicaid. "Emergency department services" shall mean those services described in paragraph 1.1.18(2), above, as attributed to the emergency department on the general ledger for Peace Island Hospital. "Physician services" shall mean those primary care physician services described in paragraph 1.1.18(1), above, as attributed to physician services in the general ledger for Peace Island Hospital and for the PeaceHealth Medical Group – San Juan Island."

- B. The current language of Section 1.1.24 of the Agreement shall be stricken and the following language shall be substituted therefore:

"1.1.24 Semi-Annual Reports to the District. PeaceHealth shall provide the District with semi-annual reports on the combined clinic/hospital facility and such reports shall be provided within one month prior to the dates on which the semiannual subsidy installment payments are due from the District pursuant to Section 2.1.2.2. The reports shall include the number of patient's served; the healthcare service lines provided; the number and types of clinical providers employed; the nature and results of quality initiatives implemented; the results of patient satisfaction surveys; the amount of charity care provided; and the financial viability of the operation, including all information required of the District by any state audit, applicable statutes and all publicly accessible information that PeaceHealth is required to provide to the State of Washington; provided that PeaceHealth shall not be required to provide any protected health information, except as in compliance with HIPAA, nor proprietary/confidential information of a competitively sensitive nature, including strategic plans and detailed financial information. Subject to the foregoing, PeaceHealth further agrees to maintain communications with the District Superintendent concerning information needed by the District to exercise its rights hereunder and specifically agrees that in the event the District shall communicate written concerns or inquiries to PeaceHealth regarding its services provided pursuant to this Agreement, PeaceHealth shall conduct a good faith investigation of the issue(s) and provide a written response within ninety (90) days or an alternative time that both parties agree is commercially reasonable."

- C. Section 1.2.2 of the Agreement shall be stricken and the subsequent paragraphs of section 1.2 shall be renumbered accordingly.

- D. The current language of renumbered Section 1.2.4 (former Section 1.2.5) of the Agreement shall be stricken and the following language shall be substituted therefore:

"1.2.4 Right of First Refusal to Provide Additional Healthcare Services. In the event the District shall decide to purchase healthcare services within the District, other than emergency medical response services, PeaceHealth shall have, and the District hereby grants, a right of first refusal to provide those services at the prices and on terms equal to or better than those offered to the District by any third party. This right of first refusal shall include, but not be limited to: home health, hospice, physician services, nursing services, physical therapy, occupational therapy, oncology services, dietary and the direct or indirect provision of ancillary services such as imaging or laboratory; provided, however, that this Right of First Refusal shall expire fifteen (15) years after PeaceHealth shall commence operation of the combined clinic/hospital facility."

- E. The current language of renumbered Section 1.2.5 (former Section 1.2.6) of the Agreement shall be stricken and the following language shall be substituted therefore:

"1.2.5 Non-Compete for Subsidized Services. The District shall not compete with PeaceHealth in the provision of those healthcare services that are provided in the combined clinic/hospital facility and for which the District has contracted in this Subsidy Agreement; provided, however, that this Non-Compete provision shall expire fifteen (15) years after PeaceHealth shall commence operation of the combined clinic/hospital facility. "

F. A new section numbered 2.1.2.6 shall be added, which shall read as follows:


"2.1.2.6 Nothing herein shall entitle PeaceHealth to payment from any subsequent levy increase that has been approved by the electors of the District unless such temporary levy increase shall have been specifically designated in support of the combined clinic/hospital facility."

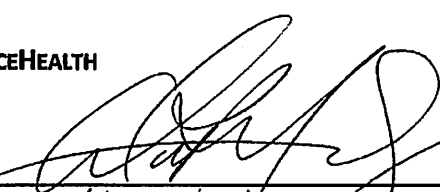
2. Except as explicitly set forth in this First Amendment, the Parties agree and acknowledge that all terms of the Agreement shall remain in effect and fully binding upon them.
3. Each party to this First Amendment represents that the execution, delivery and performance by that party of this First Amendment have been duly authorized by all necessary action of that Party's governing body. A copy of the resolution of the District commissioners is attached hereto as Attachment 1 and a copy of the resolution adopted by the PeaceHealth board of directors is attached hereto as Attachment 2.

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

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 1

PEACEHEALTH

By: 
Name: HONORE L. BAYUK
Title: Commission Chair

By: 
Name: Alan Yordy
Title: President & CEO

Dated: Oct 14, 2010

Dated: 9/16/2010

By: 
Name: M. Michael Edwards
Title: Secretary of the Commission

Dated: Oct. 11th 2010

PUBLIC HOSPITAL DISTRICT NO. 1
SAN JUAN COUNTY, WASHINGTON

RESOLUTION NO. 10-356

A RESOLUTION of the Commission of Public Hospital District No. 1, San Juan County, Washington, approving and authorizing the execution and delivery of the First 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 for residents of the District by contract or in any other manner the Commissioners 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 interests of both parties to amend the Subsidy Agreement in the form of the First Amendment to the Subsidy Agreement for a Combined Clinic and Hospital Facility attached hereto as Exhibit A (the

"Amendment") to: (i) limit the use by PeaceHealth of the payments made to PeaceHealth by the District; (ii) clarify PeaceHealth's reporting obligations to the District; (iii) eliminate PeaceHealth's right to approve tenants in property purchased by the District from PeaceHealth; (iv) limit the term of PeaceHealth's right of first refusal and the noncompetition agreement between the parties; and (v) clarify the use of tax levies by the District.

Section 2. Approval of Amendment and Authorization of Execution and Delivery.

The Commission hereby approves the Amendment and authorizes and directs the Chairperson and Secretary of the Commission to execute and deliver the Amendment to PeaceHealth on behalf of the District.

Section 3. Execution and Delivery of Additional Documents.

The Chairperson and the Secretary are hereby directed, and granted the discretionary authority, to execute and deliver any and all other certificates, documents, agreements and instruments that are necessary or appropriate in their discretion to give effect to this resolution and to consummate the transactions contemplated herein.

Section 4. Authorization of Future Acts.

The Board further authorizes and directs the Chairperson and Secretary, and all other proper officers, agents, attorneys and employees of the District to carry out, or cause to be carried out, all obligations of the District under the Agreement; and to perform or cause to be performed such other acts as they shall consider necessary or advisable in order to give effect to this resolution and the transactions contemplated herein.

Section 5. Effective Date.

This resolution shall become effective immediately upon its adoption.

ADOPTED and APPROVED by the Commission of Public Hospital District No. 1, San Juan County, Washington, at a regular open public meeting thereof this 15th day of September, 2010, 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

CERTIFICATION

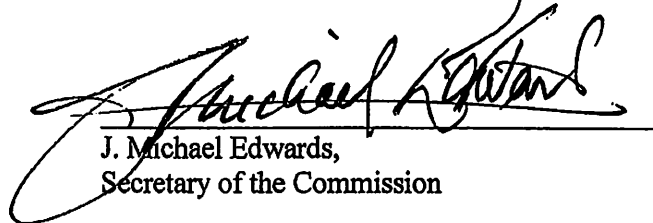
I, J. Michael Edwards, Secretary of the Commission of Public Hospital District No. 1, San Juan County, Washington (the "District"), hereby certify as follows:

1. The foregoing Resolution No. 10-~~356~~ (the "Resolution") is a full, true and correct copy of the Resolution duly adopted at a regular meeting of the Commission of the District (the "Commission") held at the regular meeting place thereof on September 15, 2010, as that Resolution appears on the minute book of the District, and the Resolution is now in full force and effect; and

2. A quorum of the members of the Commission was present throughout the meeting and a sufficient number of members of the Commission present voted in the proper manner for the adoption of the Resolution.

IN WITNESS WHEREOF, I have hereunto set my hand this 15th day of September, 2010.

PUBLIC HOSPITAL DISTRICT NO. 1
SAN JUAN COUNTY, WASHINGTON



J. Michael Edwards,
Secretary of the Commission

EXHIBIT A

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

Recitals

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

San Juan County Public Hospital District PeaceHealth
No. 1

By: *Ledore L. Bayuk*
Name: LEDORE L. BAYUK
Title: Commission Chair
Dated: 9-15-2010

By: *Michael Edwards*
Name: M. Michael Edwards
Title: Secretary of the Commission
Dated: 9/15/2010

By: *Bessie Talbot*
Name: Bessie Talbot
Title: _____
Dated: 9/15/10

CERTIFICATE OF ASSISTANT SECRETARY

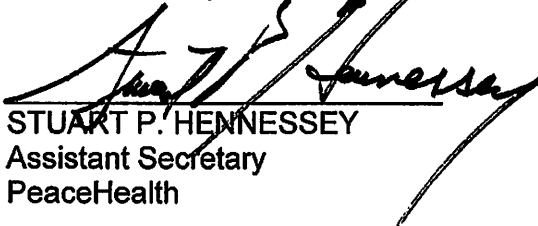
RE: CORPORATE RESOLUTION

The undersigned Assistant Secretary of PeaceHealth (the "Corporation") hereby certifies that set forth below is a true, correct, and complete copy of that certain resolution adopted by the Board of Directors of the Corporation on September 10, 2010. Such resolution has not been modified or repealed and remains in full force and effect in the form attached hereto.

RESOLVED, the PeaceHealth approves the First Amendment to the Subsidy Agreement for a Combined Clinic and Hospital Facility, as proposed.

FURTHER RESOLVED, that the President or the Senior Vice President for Strategy, Innovation and Development is authorized and directed to execute all documentation necessary to effect the First Amendment to the Subsidy Agreement for a Combined Clinic and Hospital Facility.

Dated as of September 16, 2010.


STUART P. HENNESSEY
Assistant Secretary
PeaceHealth