

V. REPORT OF THE UNIVERSITY PRESIDENT

“University of Washington and Northwest Hospital & Medical Center Affiliation – Approval”

RECOMMENDED ACTION

The President, the CEO of UW Medicine/Executive Vice President for Medical Affairs, and the UW Medicine Board recommend that the Board of Regents:

- 1) approve the further affiliation of Northwest Hospital & Medical Center with the University of Washington through the University of Washington’s sole membership in the nonprofit corporation to be known as UW Medicine/Northwest, which corporation shall be organized exclusively to carry out charitable, scientific or educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code; and
- 2) authorize the President to delegate to the CEO of UW Medicine/Executive Vice President for Medical Affairs, with the review and advice of the UW Medicine Board and the UW Senior Vice President, authority to execute on behalf of the University the documents necessary to implement the affiliation, provided those agreements are consistent with the general terms as stated in the Preliminary Agreement (Attachment 1), which has been endorsed by the Health Resources Northwest Board, the Northwest Hospital & Medical Center Board, and the UW Medicine Board. The final documentation shall be subject to approval by the Finance, Audit and Facilities Committee of the Board of Regents.

BACKGROUND

Northwest Hospital & Medical Center ("Northwest") is a tax-exempt, not-for-profit corporation that owns and operates a full-service acute care hospital located approximately five (5) miles from the University of Washington on a thirty-three (33) acre campus and an eleven (11) acre outpatient medical center located proximate to the hospital. Northwest's mission is to raise the long term health and status of the community, and Northwest is dedicated and committed to providing high-quality healthcare services to meet the needs of north Seattle/King County and south Snohomish County residents.

Health Resources Northwest ("HRN"), a not-for-profit and tax-exempt management company, is the current sole corporate member of Northwest. HRN owns selected outpatient facilities, is the sole corporate member of a number of primary care and specialty medical practices, and is part owner of a number of shared-ownership and leased medical facilities, all of which are intended to assist Northwest in accomplishing its mission.

In January 1997, the Board of Regents approved a Cooperative Program Agreement (CPA) between the UW and Northwest to establish a long-term and durable relationship to collaborate on selected patient care, clinical research, and education activities. The initial Northwest/UW cooperative patient care activity was the development of a Northwest-based UW Medicine cardiac surgery program, which has been in place since 1998. UW Medicine and Northwest

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have engaged in a number of joint program planning efforts since the inception of the CPA, including discussions regarding care of patients with cancer and neonatal and obstetrical services. These discussions led to a proposal by Northwest to consider the integration of Northwest into UW Medicine. This proposal was stimulated by three key factors:

- The existing relationship and the compatibility of the Northwest and UW Medicine missions;
- The potential to enhance existing Northwest programs and initiate new clinical, teaching, and research programs on the Northwest campus; and
- The expectation that changes in the health care financing system will make it more difficult for stand-alone community hospitals to continue to meet their mission to their community.

PROCESS

UW Medicine formed a team to examine various approaches that could be taken to achieve integration, assess the feasibility of each approach, and conduct an initial due diligence review to identify any potential barriers to the integration of Northwest into UW Medicine.

APPROACH

UW Medicine and Northwest agreed that the most feasible approach to integration was to maintain most of the current legal structure of Northwest and HRN and make the UW the sole corporate member of Northwest. Northwest would join UW Medicine and be renamed UW Medicine/Northwest. UW Medicine/Northwest, in turn, would become the sole corporate member of HRN. This approach would minimize the change required (e.g., employee status, medical staff structure, relationships with the wholly-owned physician practices and the joint ventures, etc.) to achieve the integration and permit UW Medicine’s efforts to be focused on program development at the Northwest campus.

DUE DILIGENCE

The UW Medicine team conducted an initial review of documents and written analysis related to financial status and debt, risk management, land and buildings, physician relationships, and joint venture partnerships. We did not identify any issues in this review that would preclude continued consideration of the affiliation.

We also conducted an in-depth analysis of potential legal and regulatory risks and concluded that, with the proper safeguards, the proposed transaction would be consistent with all legal and regulatory requirements. The relevant safeguards focus on ensuring that the UW, as the sole corporate member, has appropriate control of the governance, management, and finances of Northwest. This work formed an important foundation for the development of the Preliminary Agreement (Attachment 1).

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KEY TERMS OF THE INTEGRATION

The UW will become the sole corporate member of Northwest through the execution of a definitive agreement and other documents necessary to effect the new structure. No cash or other assets will be exchanged to effect this transaction. The key terms that describe the process for program integration, governance, and business structure are summarized below:

Program integration

- UW Medicine and Northwest will develop a long-range strategic plan for the Northwest campus.
- UW Medicine will explore the enhancement of cardiac, oncology and obstetrical programs at Northwest as well as the increased use of Northwest to meet the secondary care needs of UW Medicine patients – subject to the availability of capital and operating funds.
- Opportunities for increased efficiency through integration of administrative programs will also be explored.

Governance

- The Northwest Board will have thirteen (13) trustees, nine (9) of whom will be current trustees of the HRN/Northwest Board and four (4) additional trustees. All thirteen (13) will be approved by the UW from a list of proposed trustees provided by the Northwest Board.
- Two existing seats on the UW Medicine Board will be filled by members of the UW Medicine/Northwest Board.
- The UW Medicine Board will have oversight of all UW Medicine/Northwest activities, including compliance programs.
- Northwest will be the sole corporate member of HRN.

Business structure

- Northwest’s legal name will become UW Medicine/Northwest, but the hospital will continue to operate under its current business name (Northwest Hospital & Medical Center) with the addition of references to UW Medicine consistent with the policies applicable to other UW Medicine component units.
- Northwest will continue to operate under its existing hospital license and provider number.

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- Northwest will continue to operate under an open medical staff model, with UW Medicine physicians’ presence at Northwest approved by the Northwest Board and the CEO of UW Medicine.
- The employment status of Northwest employees is not anticipated to change as a result of the execution of the affiliation.
- UW Medicine/Northwest will contract with HRN to provide hospital management services under a seven year contract.
- UW Medicine will approve the operating and capital budgets for UW Medicine/Northwest and the UW Medicine/Northwest and HRN financial results will be consolidated into the UW.

UW Medicine and Northwest have agreed to an internal dispute resolution process that provides the UW Medicine/Northwest Board with a method to resolve any disputes regarding UW Medicine’s fulfillment of the express commitments made in the affiliation agreement.

Preliminary Agreement

I. Recitals

Whereas, the University of Washington ("UW"), an agency of the State of Washington, is an institution of higher education that operates an academic medical center, UW Medicine; and

Whereas, UW Medicine is a component organization of the UW, and includes the UW School of Medicine ("UW SoM"); University of Washington Medical Center ("UWMC"); Harborview Medical Center ("HMC") as managed by the UW pursuant to that certain Management and Operations Contract between the HMC Board of Trustees and the UW Board of Regents; the faculty practice plan (University of Washington Physicians ("UWP")); and UW Physicians Network ("UWPN"); and

Whereas, UW Medicine's mission is to improve the health of the public and it pursues that mission through teaching, research, and patient care programs related to the prevention, causes, and cures of disease; and

Whereas, Northwest Hospital & Medical Center ("Northwest") is a tax-exempt, not-for-profit corporation that owns and operates a full-service acute care hospital, rehabilitation unit, geropsychiatric treatment unit, outpatient, and emergency healthcare provider located approximately 5 miles from the University of Washington on a 33 acre campus; and

Whereas, Northwest's mission is to raise the long term health and status of the community, and Northwest is dedicated and committed to providing high-quality healthcare services to meet the needs of north Seattle/King County and south Snohomish County residents; and

Whereas, UW Medicine and Northwest entered a Cooperative Program Agreement dated January 1997, between the UW Board of Regents and Northwest as the owner and operator of a licensed hospital to establish a long-term and durable relationship to collaborate on selected patient care, clinical research and education activities; and

Whereas, an initial Northwest/UW Medicine cooperative patient care activity was the development of a Northwest-based cardiac surgery program; and

Whereas, Health Resources Northwest ("HRN") is a not-for-profit and tax-exempt healthcare management company that is the sole corporate member of Northwest. HRN owns selected outpatient facilities, is the sole corporate member of a number of primary care and specialty medical practices, and is part owner of a number of shared-ownership

and leased medical facilities, all of which are intended to assist Northwest in accomplishing its mission; and

Whereas, UW Medicine and Northwest share a common goal, to improve health, and the public would benefit through consolidation of business operations leading to reduction in costs, increased efficiency through shared administrative and technical support services and alignment of clinical programs;

Now, therefore, this document memorializes the key principles and expectations that will govern the relationship between UW Medicine, Northwest Hospital & Medical Center (herein "UW Medicine/Northwest"), and HRN post Affiliation. These principles are endorsed by both parties and reflect their mutual intent, with the recognition that they may need to be modified based on the results of further due diligence. This Preliminary Agreement reflects the non-binding intent of the parties. The parties will act in good faith to develop definitive agreements and other documents (i.e., a management contract) consistent with this Preliminary Agreement. When the definitive agreements and other documents have been approved and signed by the parties, the operational and managerial plans will be implemented as described in the definitive agreements. During the first five years of the Affiliation, a mediation and arbitration process will be in place to ensure that the transaction proceeds as described in the definitive agreements.

II. Description of the New Affiliation ("Affiliation")

UW Medicine and Northwest have reached an agreement to expand and supersede their Cooperative Program Agreement by integrating Northwest fully into UW Medicine and renaming Northwest to "UW Medicine/Northwest." At the time agreed upon by the parties in the definitive agreements, UW will become the sole corporate member of the renamed UW Medicine/Northwest. Currently, the UW Board of Regents and the President of the UW have delegated to the Chief Executive Officer ("CEO") of UW Medicine the responsibility for overseeing, planning and coordinating the resources of the entities referred to as UW Medicine, and for negotiating, executing and maintaining extramural affiliation and operating agreements involving those entities. UW Medicine/Northwest will become one of the entities comprising UW Medicine. The Board of Regents and the President of the UW will designate the CEO of UW Medicine to serve as the legal representative of the UW as sole corporate member of UW Medicine/Northwest.

A. *Key Principles*

1. UW Medicine Health System. Northwest and UW Medicine intend that the UW Medicine/Northwest campus will become an integral part of the UW Medicine health system with a principal focus on clinical care, clinical teaching, clinical trials, and translational research. The integration will foster and expand Northwest's current mission of serving the healthcare needs of north King County and south Snohomish County residents. UW Medicine/Northwest, as a significant component of UW Medicine, and UW

Medicine will explore expeditiously all opportunities for revenue enhancement (e.g., increased case mix index and service offerings) and cost savings.

2. UW Medicine/Northwest Mission. UW Medicine/Northwest will maintain Northwest's commitment to its healthcare mission, as the UW Medicine/Northwest Board may modify that mission from time-to-time subject to the review and advice of the UW Medicine Board and approval of the CEO of UW Medicine. UW Medicine/Northwest assets and programs will be dedicated to supporting and expanding the healthcare, medical education, and clinical research activities of UW Medicine/Northwest and UW Medicine, subject to the review and advice of the UW Medicine Board and approval of the CEO of UW Medicine. UW Medicine is committed to preserving and enhancing current clinical programs at Northwest subject to ongoing review of these programs in the setting of evolving health care delivery systems and reimbursement patterns.

3. Long Range Strategic Planning. UW Medicine and the UW Medicine/Northwest Board and management will work diligently to develop a long-range strategic program plan for the UW Medicine/Northwest campus by July 1, 2010. The plan will reflect substantial investment in program growth on the UW Medicine/Northwest campus over the next ten years. In order to promote the appropriate and necessary UW Medicine/Northwest campus growth and development plans, the UW Medicine/Northwest Board and management will participate in UW Medicine's comprehensive and ongoing strategic program and capital planning and budgeting processes. UW Medicine agrees to focus initially on the following areas of program development to be sited on the Northwest campus:
 - a) UW Medicine will work to develop a comprehensive outpatient cancer diagnostic and treatment center on the UW Medicine/Northwest campus. UW Medicine will coordinate with the Seattle Cancer Care Alliance (SCCA) on efforts to develop outpatient cancer services and the SCCA proton therapy facility on the UW Medicine/Northwest campus.

 - b) UW Medicine is committed to developing a strong working relationship between the UW Medicine/Northwest campus and the existing UW Medicine hospitals and clinics. UW Medicine and UW Medicine/Northwest will work diligently to identify UW Medicine clinical care programs that focus on the use of the UW Medicine/Northwest campus for the provision of secondary specialty care. For example, UW Medicine expects that the UW Medicine/Northwest campus will be an appropriate site of service for secondary patient care for many patients from the UWPN clinics and other UW Medicine primary care sites. UW Medicine will work with the UW Medicine/Northwest Board to plan patient services that create the best use of resources and allow access to high quality, efficient patient care programs on the UW Medicine/Northwest campus.

- c) UW Medicine will work to develop the most comprehensive cardiac care and obstetrical care services in the Pacific Northwest by integrating the programs provided at the currently owned or managed UW Medicine sites and the UW Medicine/Northwest campus.
4. Expanded or New Programs. The UW Medicine/Northwest programs will be expanded and/or enhanced to develop new clinical, teaching, and clinical research programs as approved by the UW Medicine/Northwest Board, and the CEO of UW Medicine with the review and advice of the UW Medicine Board. All new programs to be located on the UW Medicine/Northwest campus will be based upon detailed business plans that are approved by the UW Medicine/Northwest Board and the CEO of UW Medicine.
5. Program and Capital Investments and Budget Approval. UW Medicine program and capital investments on the UW Medicine/Northwest campus will be based upon the long-range strategic program plan for the UW Medicine/Northwest campus and will be subject to the availability of the necessary capital and operating funds and approval by the UW Medicine/Northwest Board.
- a) UW Medicine/Northwest capital and operating budgets shall be prepared annually in accordance with the UW Medicine budget calendar and process and approved by the UW Medicine/Northwest Board and subsequently submitted to the CEO of UW Medicine for review and approval.
 - b) During the first five years of the Affiliation, the budget process for UW Medicine/Northwest will follow the same general criteria in place at Northwest pre-Affiliation and will (i) preserve and enhance all of the core clinical services provided on the Northwest campus pre-Affiliation, which are listed in Exhibit A, and (ii) assure that the core clinical services offered on the UW Medicine/Northwest campus are as comprehensive as those offered by other Puget Sound area community hospitals, such as Evergreen Hospital Medical Center, Overlake Hospital Medical Center, and Valley Medical Center. Core clinical services at UW Medicine/Northwest may be changed during the first five years of the Affiliation following concurrence by the UW Medicine/Northwest Board and the CEO of UW Medicine.
 - c) Review and approval of the UW Medicine/Northwest budgets by the CEO of UW Medicine will consider the soundness of the operating budget in light of the evolving health care delivery system and health care reimbursement methodologies; the needs of north Seattle/King County and south Snohomish County residents; short term and long term strategic plans; and the history of program development at the Northwest Hospital Campus.

- d) After the first five years of the Affiliation, these same considerations will apply but the budget process will be more fully integrated with the long range strategic plans and with the program and capital investment budget approval process for UW Medicine.
6. Financial Statements. The UW Medicine/Northwest financial statements will be integrated into the UW Medicine consolidated financial statements and the UW financial statements. All net earnings that are generated from existing facilities and programs at UW Medicine/Northwest shall be expended at the direction of the UW Medicine/Northwest Board, consistent with approved budgets, and shall be dedicated to the support of UW Medicine/Northwest programs. Funds flow from new UW Medicine and UW Medicine/Northwest developed programs on the UW Medicine/Northwest campus, shall be distributed in accordance with the business plans approved by the UW Medicine/Northwest Board and the CEO of UW Medicine with the review and advice of the UW Medicine Board
 7. Fundraising. All funds raised through UW and UW Medicine development efforts that are dedicated to or intended by the donor for use at UW Medicine/Northwest shall be available to the UW Medicine/Northwest Board for UW Medicine/Northwest program development.
 8. Service Contracts. UW Medicine/Northwest, HRN, and UW Medicine will reimburse each other for the costs of services provided to one other, including any applicable overhead. In the absence of a service contract, UW Medicine/Northwest will not contribute to the general overhead costs of UW Medicine (e.g., general support for the office of the CEO of UW Medicine).
 9. Cost Efficiencies. Subject to UW Medicine/Northwest Board approval and approval by the CEO of UW Medicine, UW Medicine and UW Medicine/Northwest will pursue opportunities to reduce costs and increase efficiency through shared administrative and technical support services as well as through alignment of clinical programs.
 10. License and Provider Number. It is assumed that UW Medicine/Northwest will maintain its separate not-for-profit corporate identity and license as a Washington state hospital and operate using Northwest's current provider number and federal employer identification number (EIN), unless, during the due diligence review this approach is infeasible or post-Affiliation becomes disadvantageous due to evolutions in the health care delivery system or health care reimbursement methodologies.
 11. Northwest Debt. UW Medicine/Northwest shall, subject to the approval of bondholders and/or trustees, retain responsibility for Northwest's current long-term debt. It is anticipated that the change in corporate membership will not trigger the recall of the current Northwest debt.

12. UW Medicine/Northwest Medical Staff. The UW Medicine/Northwest hospital-based and community-based medical staff will be governed by the UW Medicine/Northwest Board, under Northwest's current medical staff organization bylaws, policies, and procedures. The assignment of UW Medicine physicians to practice at UW Medicine/Northwest will be based on program plans developed in the UW Medicine/Northwest strategic plan approved by the UW Medicine/Northwest Board, the CEO of UW Medicine, with review and advice of the UW Medicine Board, or at the request of the UW Medicine/Northwest Board.
13. UW Medicine/Northwest Employees. During the first five years of the new Affiliation, it is assumed that the employment status of UW Medicine/Northwest employees will not change as a result of this transaction, i.e., UW Medicine/Northwest will continue the Northwest employment practices and policies. However, it is envisioned that as UW Medicine and UW Medicine/Northwest further integrate the clinical, education, and research programs based at the UW Medicine/Northwest campus, the employees of UW Medicine/Northwest may become UW employees.
14. HRN Management Contract. During the first five years of the new Affiliation and for the term of the Management Services Contract, whichever is longer, HRN will continue to exist as a not-for-profit corporation dedicated solely to the support of UW Medicine/Northwest. HRN will manage UW Medicine/Northwest under a new Management Services Contract approved in conjunction with the definitive agreements by the UW Medicine/Northwest Board and the CEO of UW Medicine with the review and advice of the UW Medicine Board.
 - a) The HRN hospital management team (currently, President/CEO, Vice President for Clinical Services and Chief Nursing Officer, Vice President and Chief Quality Medical Officer, Senior Vice President for Operations and Finance, and Vice President for Business Development) will be accountable to the HRN and UW Medicine/Northwest Boards and the CEO of UW Medicine for the management of UW Medicine/Northwest service contracts with HRN and/or other service contracts.
 - b) It is anticipated that HRN will retain sufficient funds to provide for normal business variations in HRN's equipment and working capital needs, including funds sufficient to support HRN's role in recruiting physicians for UW Medicine/Northwest and fund new ventures approved by the HRN and UW Medicine/Northwest Boards and the CEO of UW Medicine. Any excess revenues as determined by the HRN and the UW Medicine/Northwest Boards will be retained by HRN for the benefit of UW Medicine/Northwest or transferred to UW Medicine/Northwest. HRN net losses shall be the responsibility of HRN.

- c) HRN will be paid a management services fee for the management of UW Medicine/Northwest. The HRN management fee shall be based upon HRN's costs of providing the services, as described in the annual budget process, and reviewed and approved by the UW Medicine/Northwest Board and the CEO of UW Medicine. The Management Services Contract will also include performance criteria and expectations, it being understood that such performance criteria and expectations will take into consideration economic and other issues that will arise during the early phases of the Affiliation with UW Medicine and criteria and expectations utilized historically by the Northwest Board to evaluate management. HRN shall be reimbursed for any additional fees and services provided to UW Medicine/Northwest, based upon service contracts approved by their respective Boards.
 - d) Any material change in the scope or purpose of HRN's activities will be subject to the approval of the UW Medicine/Northwest Board and the CEO of UW Medicine with the review and advice of the UW Medicine Board.
 - e) The HRN and UW Medicine/Northwest Management Services Contract and other contracts may be terminated at the end of the first 5 year term, with an ensuing 2-year transition term during which time the Management Services Contract will remain in effect. While the Management Services Contract may be renewed at the end of its term, it is understood by all parties that this may be a one-term contract.
 - f) In the event that HRN becomes in default of the HRN and UW Medicine/Northwest Management Services Contract, as default is defined and described therein and not cured within a time frame to be described, the UW Medicine/Northwest Board and/or the CEO of UW Medicine may terminate the HRN Management Services Contract during the contract term in accordance with the terms of such Contract.
 - g) When HRN's Management Services and other contracts are terminated, by default or through non-renewal of the management services arrangements, or after five (5) years following the closing of the Affiliation, whichever is longer, HRN shall be dissolved and all HRN operations, assets, and liabilities shall become the property of UW Medicine/Northwest unless otherwise agreed between the UW Medicine/Northwest Board and the HRN Board and approved by the CEO of UW Medicine with review and advice of the UW Medicine Board. On dissolution, appropriate continuing insurance coverage will be provided for current and former officers and trustees of HRN.
15. Coordinated Quality Improvement Program. Subject to Northwest's due diligence, and agreement on financial terms and conditions, UW Medicine/Northwest clinical operations and quality improvement activities will

be integrated into the UW Medicine Coordinated Quality Improvement Program and report to the UW Medicine/Northwest Board.

16. Integrated Compliance Program Structure. All components of UW Medicine have established compliance offices that are coordinated through the Chief Compliance Officer for UW Medicine. UW Medicine/Northwest's compliance office will be integrated into the existing UW Medicine structure, including attendance and reporting to the UW Medicine Board Compliance Committee and reporting to the UW Medicine/Northwest Board.
17. Loss Prevention and Claims Management. Subject to Northwest's due diligence, and agreement on financial terms and conditions, UW Medicine/Northwest's loss prevention and claims management programs for its facilities and employees will be integrated into the UW's loss prevention and claims management programs with reporting to the UW Medicine/Northwest Board.
18. Financial Emergency. In the event that UW Medicine/Northwest experiences a Financial Emergency, as that term is defined and described in the definitive agreements between Northwest and UW Medicine, (e.g., UW Medicine/Northwest fails to meet its debt covenants and the bond trustees are initiating the bond default provisions, or UW Medicine/Northwest is experiencing significant negative cash flows that cannot be resolved in the near-term, or UW Medicine/Northwest is requesting or forecasting a need for substantial cash infusions from UW Medicine), the CEO of UW Medicine may take whatever actions are deemed appropriate and necessary to resolve the Financial Emergency, provided that (i) the action taken is not inconsistent with the terms of this Agreement and the other definitive agreements developed in connection with the Affiliation, and (ii) UW Medicine/Northwest and HRN will not be dissolved, and (iii) UW Medicine/Northwest and HRN will continue to deliver the services contemplated pursuant to this Agreement and the other definitive agreements developed in connection with the Affiliation.
19. Dissolution. In the event of UW Medicine/Northwest's dissolution, all UW Medicine/Northwest operations, assets, and liabilities shall become the property of UW. On dissolution, appropriate continuing insurance coverage will be provided for current and former officers and trustees of UW Medicine/Northwest.

III. Governance

With the exception of two members of the UW Medicine/Northwest Board designated as part of the definitive agreements to serve on the UW Medicine Board and two members of the UW Medicine/Northwest Board who will serve on the HRN Board, there will be distinct membership between the UW Medicine Board, the UW Medicine/Northwest Board, and the HRN Board. Currently, the Northwest and the HRN Boards have substantially the same membership. The parties plan to divide the current Northwest and

HRN Board members between the two surviving entities (UW Medicine/Northwest and HRN). Then the full complement of UW Medicine/Northwest Board members will be created using the principles below.

A. *UW Medicine/Northwest Board*

1. Initial Board Composition. UW Medicine/Northwest will be governed by a thirteen (13) member Board of Trustees (the "UW Medicine/Northwest Board").
 - a) The UW Medicine/Northwest Board will include nine (9) Board members remaining after the division of the pre-Affiliation Northwest and HRN Boards. These nine (9) Board members will be nominated by the Northwest Board to the CEO of UW Medicine. These nine (9) members will serve initial five (5) year terms.
 - b) In addition, the Northwest Board will nominate to the CEO of UW Medicine four (4) Board members from the northwest community with the skills necessary to serve initial three (3) year terms on the UW Medicine/Northwest Board.
 - c) The CEO of UW Medicine will act on the nominations presented with the review and advice of the UW Medicine Board.
 - d) All of the initial thirteen (13) UW Medicine/Northwest Board members will be identified in the definitive Affiliation agreements, and approval of those members by the CEO of UW Medicine will be a condition precedent to Northwest's obligation to close the Affiliation transaction.
 - e) Following completion of their terms, the initial thirteen (13) UW Medicine/Northwest Board members will be eligible to serve for two (2) additional successive three (3) year terms with the understanding that the UW Medicine/Northwest Board needs to stagger terms for continuity and succession. No Board member may serve more than three (3) successive terms.
2. Removal. The CEO of UW Medicine has the authority to remove individual UW Medicine/Northwest Board members with the review and advice of the UW Medicine Board. Any Board member considered for removal will be notified in advance and have an opportunity to meet with the UW Medicine Board and CEO of UW Medicine to discuss the proposed removal. If there is more than one Board Member considered for removal in any calendar year, the second and subsequent Board Members proposed for removal will be further considered by the UW Board of Regents, whose decision on removal shall be final. The UW Board of Regents shall take action at any meeting by two-thirds vote of the entire Board, following an opportunity for the Board

Member(s) considered for removal to be heard and to explain to the UW Board of Regents why he/she should not be removed.

3. Vacancies. During the first five (5) years of the Affiliation and as needed to replace retiring Board members or address other Board vacancies, the UW Medicine/Northwest Board will nominate Board members to the CEO of UW Medicine who will act on the nominations with the review and advice of the UW Medicine Board. If the CEO of UW Medicine does not appoint the nominees, the CEO will request additional nominations from the UW Medicine/Northwest Board. All nominations will be made in furtherance of the UW Medicine/Northwest mission, and assuring that the UW Medicine/Northwest Board remains committed to the interests of the community historically served by Northwest.
4. Process. The process for appointment and removal of Trustees will be further defined in the bylaws of UW Medicine/Northwest and will include a consultative role for the UW Medicine/Northwest Board.

B. HRN Board

The post-Affiliation HRN Board will consist of current Board members remaining after the division of the current Northwest and HRN Boards, and two (2) such members will be members of the UW Medicine/Northwest Board designated to also serve on the HRN Board. The members of the post-Affiliation HRN Board will be nominated by the HRN and Northwest Boards and identified in the definitive Affiliation agreements. Additional HRN Board members will be appointed by the UW Medicine/Northwest Board or in such other manner as necessary to maintain HRN's IRC § 501(c)(3) tax exempt status.

C. Oversight Process of the New Affiliation

During the first five years of the new Affiliation, if the UW Medicine/Northwest Board believes UW Medicine has defaulted on express commitments identified in the definitive agreements as subject to mediation/arbitration, the UW Medicine/Northwest Board may seek mediation of their concerns upon majority vote (i.e., 7 of the 13 board members) of the UW Medicine/Northwest Board. In-person consultation with the CEO of UW Medicine and the Executive Committee of the UW Medicine Board must occur before such a vote is taken. Such vote may only occur if this in-person consultation fails to resolve the issue. The mediation process will depend on the nature of the issue at hand and will be mutually agreed upon by representatives from the UW Medicine Board and the UW Medicine/Northwest Board.

If the mediation process fails to resolve the issues, and further in-person consultation with the CEO of UW Medicine and the Executive Committee of the UW Medicine Board also fails to resolve the issue, the UW Medicine/Northwest Board, upon majority vote, may seek arbitration of the alleged default of the definitive agreements. Such arbitration will take place in Seattle Washington with an arbitrator agreed upon by the UW Medicine Board and the UW Medicine/Northwest Board. In the event that an arbitrator cannot be

agreed upon within ten (10) business days, the arbitrator shall be designated by Judicial Dispute Resolution, L.L.C. ("JDR") based on qualifications outlined in the definitive agreements, or if JDR does not then exist, by a successor organization to be agreed upon by the parties, or if a successor organization cannot be agreed upon by the parties within ten (10) business days, by the Presiding Judge of the Superior Court of the State of Washington for King County. The arbitrator's decision will be considered to be a final and binding decision by the UW Medicine/Northwest Board, the CEO of UW Medicine, and the UW Medicine Board. The definitive agreements will include the parties' express commitment to be bound by and to comply with an arbitrator's decision so long as such decision is in compliance with state and federal law.

IV. Post-Affiliation General Scope of Responsibilities

The description of post-Affiliation responsibilities of UW Medicine/Northwest, HRN, and UW Medicine will be determined upon completion of due diligence.

EXHIBIT A CORE CLINICAL SERVICES

Emergency Services

- Emergency Department (Level IV trauma site)

Critical Care Services

- Critical Care Team
- Intensive Care Unit/Critical Care Unit
- Special Care (Telemetry)

Cancer Care Services

- Medical Oncology/Infusion
- Radiation Oncology - Linear Accelerator & Gamma Knife
- Seattle Breast Center
- Women's Cancer Care of Seattle (Gyn Oncology)
- Surgical Services
- Clinical Trials

Maternal & Children's Health

- Childbirth Center (Level 2 Nursery)
- Obstetrics & Gynecology
- Neonatology
- Pediatrics (outpatient)
- Perinatology (contingent upon physician recruitment)
- Reproductive Endocrinology & Infertility

Diagnostic Imaging

- X-Ray
- CT Scan
- MRI
- EKG/EEG
- Bone Densitometry (DEXA)
- Ultrasound
- Digital Mammography (Seattle Breast Center)
- Interventional Radiology
- Nuclear Medicine
- Vascular lab

Laboratory

- Acute lab
- Reference Lab
- Pathology
- Outreach Laboratory

Cardiac Care Services

- Cardiology
- Cardiovascular Surgery (UW Regional Heart Center Site) (to be discussed)
- 24-hour Cardiac Catheterization Lab
- Cardiac Rehabilitation

Surgical Services

- Cardiothoracic Surgery
- Colorectal Surgery
- Ear/Nose/Throat Surgery
- Eye Surgery
- General Surgery
- Gynecologic Surgery
- Gynecologic Oncology Surgery
- Hand Surgery
- Neurosurgery
- Oral Surgery
- Orthopaedic Surgery
- Plastic & Reconstructive Surgery
- Podiatric Surgery
- Robotic Surgery
- Thoracic Surgery
- Urologic Surgery
- Vascular Surgery

Other Medical Services

- Anesthesiology
- Care Management Services
- Dermatology
- Diabetes Management
- Education & Support Services
- Endocrinology
- Endoscopy
- Family Practice
- Gastroenterology
- Geropsychiatric Center
- Infectious Disease
- Inpatient Team
- Internal Medicine
- IV Team
- Nephrology
- Neurology
- Ophthalmology
- Pain Management
- Physical Medicine & Rehabilitation/Center for Medical Rehabilitation
- Preventative Health & Wellness

- Psychiatry
- Psychology
- Pulmonology
- Urology
- Respiratory Therapy
- Rheumatology
- Sleep Center
- Sports Medicine
- Stroke Program
- Wound Care Center/Hyperbaric Oxygen Therapy

Overview of New Affiliation

- Northwest Hospital will join UW Medicine and become an integral part of the UW Medicine Health System
- Non-cash transaction
- Northwest Hospital to be renamed “UW Medicine/Northwest” and UW will be the sole corporate member
- Excellent fit with UW Medicine strategic plan, including enhanced access for patients needing secondary care and the opportunity to build new and expanded programs in areas such as cardiology and oncology
- Affiliation will support mission of UW Medicine and the commitment by Northwest to provide high quality health care services to their community

Strategic Affiliate: Northwest Hospital

- Full-service, not-for-profit medical facility
- 281 licensed bed acute-care hospital
- Annual revenue of \$260 million
- More than 1600 employees
- 32 acre hospital campus within 5 miles of UW
- 11 acre outpatient campus
- Financially stable system with a focus on high quality, efficient primary and secondary health care services

Key Terms: Integration

- NW and UW Medicine will develop a long range strategic plan for UW Medicine/Northwest
- UW Medicine commitment to explore certain areas:
 - Oncology
 - Cardiac services
 - Obstetrical services
 - Access to secondary care
- Implementation of strategic plans is subject to availability of capital and operating funds
- UW Medicine/Northwest will continue an open medical staff

Key Terms: Business Structure

- UW Medicine/Northwest will operate under its existing hospital license and provider number
- UW Medicine/Northwest employees will remain NW employees for at least 7 years
- UW Medicine/Northwest will continue existing management through nonprofit Health Resources Northwest through a 7 year management contract
- UW Medicine will approve budget for UW Medicine/Northwest
- Internal dispute resolution process for certain express commitments

Key Terms: Governance

- UW Med/NW Board responsible for hospital accreditation and physician credentialing
- UW Med/NW Board members appointed by CEO of UW Medicine from candidates proposed by the UW Med/NW Board with review and advice of UW Medicine Board
- UW Medicine Board adds 2 members from UW Med/NW Bd
- CEO of UW Medicine has authority to remove UW Med/NW Board member with review and advice of UW Medicine Board
- Removing more than one UW Med/NW Board member in a calendar year would require approval of UW Regents
- UW Medicine Board has oversight of all UW Med/NW activities, including compliance programs
- UW Med/NW included in UW Medicine Board reports to Regents (annual financial, compliance & governance reports)