OFFICE OF THE DEAN
UNIVERSITY OF MINNESOTA MEDICAL SCHOOL

MANUAL OF
POLICIES AND PROCEDURES
PRIVATE PRACTICE OF MEDICINE

Effective As Of January 1, 1998
MANUAL OVERVIEW

Purpose of Manual

This Manual has been developed by the Dean ("Dean") of the University of Minnesota Medical School ("Medical School") in consultation with University of Minnesota Physicians ("UMPhysicians") the designated clinical practice of the Medical School faculty. This Manual is the definitive statement of policies and procedures of the Dean's office governing the private practice of medicine by Medical School faculty. This Manual provides a consistent and ongoing set of policies and procedures interpreting and implementing the Board of Regents' Policy on Practice Plans adopted on June 13, 1997. This Manual replaces the DPG Manual dated October 24, 1995.

The Manual focuses on the private practice of medicine by members of the Medical School faculty who are employed by UMPhysicians. Section 10 of the Manual deals with physicians who hold faculty appointments but whose relationship to the Medical School and Fairview-University Medical Center ("FUMC") does not require them to be employed by UMPhysicians.

How to Use This Manual

Each Policy Section contains an overview and general explanation of the policy and related documents, and general procedures. Specific Operational Procedures, included in the Appendices, further detail procedures implementing the policies contained in this Manual.

A Table of Contents is located at the beginning of the Manual. A set of Appendices is located at the back of the Manual, containing relevant documents and subject matters. These documents include the Board of Regents' Policy, the Master Agreement between UMPhysicians and the University of Minnesota ("University"), UMPhysicians' Articles of Incorporation and Bylaws, and the Faculty Organization Relationship Task Force Committee Report.

The Dean may revise this Manual in accordance with the following procedures:

1. All policies and procedures, new and revised, must be approved by the Dean, in consultation with UMPhysicians. The Dean's office will ensure that all new and revised materials will be approved and distributed according to Manual Guidelines.

2. All revisions will include the original implementation date, as well as all revision dates.

The Dean, through his or her representatives, is charged with monitoring compliance with this Manual.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Page No.</th>
<th>Section Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>STRUCTURE AND GOVERNANCE OF UNIVERSITY OF MINNESOTA PHYSICIANS</td>
</tr>
<tr>
<td>1.1</td>
<td>Overview of Structure and Goals</td>
</tr>
<tr>
<td>1.2</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>1.3</td>
<td>Voting Rights of Participating Physicians</td>
</tr>
<tr>
<td>1.4</td>
<td>Compliance with Regents’ and University Policies and Contractual Agreements</td>
</tr>
<tr>
<td>1.5</td>
<td>Priority of Policies</td>
</tr>
<tr>
<td>1.6</td>
<td>Changes to UMPHysicians</td>
</tr>
<tr>
<td>1.7</td>
<td>Disputes Within UMPHysicians</td>
</tr>
<tr>
<td>1.8</td>
<td>Disputes With University</td>
</tr>
<tr>
<td>2</td>
<td>PARTICIPATION IN UMPHYSICIANS</td>
</tr>
<tr>
<td>2.1</td>
<td>Participation in UMPHysicians</td>
</tr>
<tr>
<td>2.2</td>
<td>New Faculty</td>
</tr>
<tr>
<td>2.3</td>
<td>Termination of Participation in UMPHysicians</td>
</tr>
<tr>
<td>2.4</td>
<td>Staff and Clinical Privileges</td>
</tr>
<tr>
<td>2.5</td>
<td>Services at Non-Fairview Facilities</td>
</tr>
<tr>
<td>2.6</td>
<td>Clinical Service Units</td>
</tr>
<tr>
<td>2.7</td>
<td>Division of Responsibility for Management Functions</td>
</tr>
<tr>
<td>3</td>
<td>FINANCES AND ACCOUNTING</td>
</tr>
<tr>
<td>3.1</td>
<td>Annual Budget of UMPHysicians</td>
</tr>
<tr>
<td>3.2</td>
<td>Clinical Revenue Funds Flow</td>
</tr>
<tr>
<td>3.3</td>
<td>Gifts, Grants, Contributions</td>
</tr>
<tr>
<td>3.4</td>
<td>Accounting Principles</td>
</tr>
<tr>
<td>3.5</td>
<td>Annual Financial Reporting and Required Detail</td>
</tr>
<tr>
<td>3.6</td>
<td>Periodic Financial Reporting and Required Detail</td>
</tr>
<tr>
<td>3.7</td>
<td>Confidentiality of Information</td>
</tr>
<tr>
<td>3.8</td>
<td>Books and Records</td>
</tr>
<tr>
<td>4</td>
<td>COMPENSATION</td>
</tr>
<tr>
<td>4.1</td>
<td>University Limit On Compensation</td>
</tr>
<tr>
<td>4.2</td>
<td>Agreements Regarding Terms and Conditions of Employment</td>
</tr>
<tr>
<td>4.3</td>
<td>Distribution of Compensation</td>
</tr>
<tr>
<td>4.4</td>
<td>Invested Funds Distribution</td>
</tr>
<tr>
<td>4.5</td>
<td>Compensation Dispute Resolution</td>
</tr>
</tbody>
</table>


MANUAL OF

POLICIES AND PROCEDURES

1. STRUCTURE AND GOVERNANCE OF UNIVERSITY OF MINNESOTA PHYSICIANS

1.1 Overview of Structure and Goals

UMPhysicians is the designated clinical practice organization of the Medical School. UMPhysicians is organized as a single multi-specialty group practice encompassing various clinical service areas, and operates as a non-profit, tax-exempt corporation which is closely affiliated with the Medical School but is legally separate. Members of the faculty ("Faculty") of the Medical School have a variety of relationships to the Medical School ranging from full-time tenured professors to uncompensated clinical appointments. UMPhysicians operates in connection with the Academic Health Center ("AHC") to fulfill the academic mission of the Medical School through the facilitation of clinical practice in an academic setting. UMPhysicians' activities are crucial to the development and maintenance of the clinical skills of the Faculty and the teaching of those skills. The AHC will continue to control the integration of educational, research and administrative activities of the Faculty.

UMPhysicians' single group practice format is intended to further the clinical educational mission of the Medical School by promoting administrative efficiencies; facilitating effective managed care contracting and contract management; simplifying coordination of clinical services and enhancing communication with the University regarding clinical activities; facilitating coordination between the Faculty, the Medical School's flagship teaching hospital, with whom UMPhysicians has entered into an Affiliation Agreement, Fairview Health System ("Fairview") and other healthcare providers; and reinforcing the unified mission, vision and goals of the clinical practice of the Faculty. UMPhysicians' Articles of Incorporation set forth in greater detail its specific purposes.

Full Time (as described in Section 2.1.1) Faculty will perform clinical services solely as employees of UMPhysicians unless alternative clinical employment arrangements have been approved by the Dean in consultation with UMPhysicians in accordance with Section 2.1.2. In addition, UMPhysicians may employ Part-Time (as described in Section 2.1.1) Faculty and physicians who are not members of the Faculty.

UMPhysicians is structured as a Minnesota nonprofit corporation which is tax-exempt for federal and state income taxation. Each UMPhysicians’ Voting Employee (as defined in UMPhysicians’ Bylaws) is entitled to vote on UMPhysicians matters consistent with UMPhysicians’ Bylaws. The UMPhysicians’ Voting Employees will be referred to herein as “Participating Physicians.”
Faculty practicing at UMPhysicians Practice Sites who are not employed by UMPhysicians will be subject to specific agreements with the Dean and UMPhysicians. As of the Effective Date of this Manual, UMPhysicians Practice Sites means Fairview-University Medical Center ("FUMC"). As additional UMPhysicians Practice Sites are developed and approved by UMPhysicians, such as the family practice sites transitioning into UMPhysicians as a result of the integration of UAFP into UMPhysicians, such practice sites shall require the approval of the Dean and his/her acceptance shall be evidenced by a signed schedule to this Manual.

UMPhysicians is composed of Clinical Service Units ("CSUs") which currently reflect the Medical School's clinical departments. Adding or deleting a CSU will be mutually agreed upon by the Dean and UMPhysicians. Each CSU functions as an operating division of UMPhysicians within UMPhysicians' policy guidelines and the CSU's Governing Document. Participating Physicians practice through UMPhysicians as a member of at least one CSU. Participating Physicians with joint Medical School appointments will be assigned to a primary CSU but revenues and costs may be shared between the CSUs pursuant to an inter-CSU memorandum.

Full-Time Faculty members who generate clinical revenue through UMPhysicians and are employed by UMPhysicians, and such Part-Time Faculty members identified by each CSU Board of Governors, are entitled to vote on CSU matters as provided in each CSU Governing Document. Physicians employed by UMPhysicians who are not Faculty are only entitled to vote on CSU matters if the applicable CSU Governing Document so provides. Participating Physicians with joint Medical School appointments may vote only in one CSU as determined under an agreement between the applicable CSU Managers.

University Affiliated Family Physicians - University of Minnesota, P.A. ("UAFP") will continue for a limited transition period under a separate governance structure which will include representation by UMPhysicians. The definitive agreement between UAFP and UMPhysicians is contained in the Appendices.

1.2 Board of Directors

The Board of Directors of UMPhysicians is responsible for managing and directing UMPhysicians in furtherance of its mission in accordance with its contractual obligations with the University. The Board of Directors responsibility includes overseeing strategic planning, joint efforts with FUMC and other clinical practice locations, and clinical coordination and marketing activities. The Board of Directors is comprised of thirteen (13) members, including the Dean, a minimum of three (3) department heads, and elected representatives from identified clinical activities groupings such as clinical specialists, surgical specialists, primary care physicians and hospital-based physicians. The department head and clinical representative members of the Board of Directors of UMPhysicians are physicians elected by the Participating Physicians. The precise composition of the Board of Directors is set forth in UMPhysicians' Bylaws.
1.3 Voting Rights of Participating Physicians

All Full-Time and Part-Time M.D., Ph.D. and D.O. Faculty who are employees of UMPhysicians and who generate any clinical income for UMPhysicians or who perform significant clinical administrative functions as recognized by the Dean are Voting Employees of UMPhysicians. Each Voting Employee is eligible to vote for the members of the Board of Directors and such other matters as set forth in UMPhysicians’ Articles and Bylaws. (Faculty eligible to vote are referred to as Voting Employees in UMPhysicians’ Bylaws but will be referred to as Participating Physicians in this Manual.) Participating Physicians who meet a clinical productivity standard established by the UMPhysicians Board of Directors may have his or her vote weighted as two votes for Board of Director elections in accordance with UMPhysicians’ Bylaws and action of the UMPhysicians Board of Directors.

1.4 Compliance with Regents’ and University Policies and Contractual Agreements

As a condition of employment with the University and UMPhysicians, all Participating Physicians shall agree to comply with: (a) the Regents’ or University Policies relating to the private practice of medicine, (b) the Master Agreement between UMPhysicians and the University, (c) this Manual, (d) the Agreement between UMPhysicians and the University relating to Fairview, and (e) UMPhysicians’ governing documents and policies, as adopted by UMPhysicians’ Board of Directors and approved by the Dean and as the same may be amended from time to time (collectively the “Governing Documents”). Copies of the Governing Documents (other than the Manual) have been included in the Appendices. The Dean has the authority, for good cause and in consultation with UMPhysicians, to grant any exception to the policies and procedures in this Manual, so long as the exception is in writing, does not violate the Regents’ Policy or the University’s agreement with UMPhysicians, does not jeopardize UMPhysicians’ tax status or create a regulatory issue, and is consistent with UMPhysicians’ governing documents and policies. The Dean’s office shall provide the Chair of the UMPhysicians’ Board of Directors with notice of any exceptions granted in order to ensure compliance.

1.5 Priority of Policies

In the event of any inconsistency among the Governing Documents, the order of hierarchy or precedence among them shall be: (a) the Regents’ or University Policies relating to the private practice of medicine, (b) the Master Agreement between UMPhysicians and the University, (c) this Manual, (d) the Agreement between UMPhysicians and the University relating to Fairview, and (e) the remaining portions of UMPhysicians’ governing documents and policies, as adopted by UMPhysicians’ Board of Directors and amended from time to time. In no event will the Dean act in a manner that will jeopardize UMPhysicians’ tax-exempt status or place UMPhysicians at regulatory risk without consulting with the Chair of UMPhysicians. Such documents supersede other University policies regarding outside consulting activities by Participating Physicians to the extent such consulting activities relate to patient care.
1.6 Changes to UMPhysicians

Any material changes to UMPhysicians' Articles and Bylaws must be approved by the Dean. (See Article V, Section 3 of UMPhysicians' Bylaws). Significant changes to UMPhysicians or its operations must be made in a manner consistent with the existing agreements between (a) UMPhysicians and the University, and (b) the University and Fairview (in each case as they may be amended from time to time). Certain material changes to UMPhysicians' operation are subject to the approval of the Dean as set forth in Article V, Section 3 of UMPhysicians' Bylaws. For example, clinical programs, new CSUs, new UMPhysicians Practice Sites, and the creation of subsidiary corporations, partnerships or joint ventures of UMPhysicians. In addition, certain specific material changes to UMPhysicians' Bylaws must be approved by Participating Physicians.

1.7 Disputes Within UMPhysicians

The Board of Directors of UMPhysicians, or a subcommittee of the Board of Directors, is responsible for resolving disputes within UMPhysicians. The Board of Directors shall adopt a dispute resolution procedure which is consistent with Article VII, Section 6 of the UMPhysicians' Bylaws, and which permits UMPhysicians M.D., D.O.s, and Ph.D. employees to receive a fair hearing on compensation matters.

1.8 Disputes With University

It is anticipated that the University and UMPhysicians will not have frequent disputes given the representation of the University on UMPhysicians' Board of Directors and the ability of the University to provide input into UMPhysicians' decisions before they are made. In the event that any dispute should occur that cannot be resolved by direct discussion between the Dean and the Board of Directors of UMPhysicians, the Dean and the Board of Directors of UMPhysicians will each appoint three (3) representatives to a committee to study the dispute and make a recommendation to the Senior Vice President of the AHC with respect to the resolution of the dispute. The Senior Vice President of the AHC will make a final decision on the dispute and such decision will be binding on the parties. If such decision adversely affects UMPhysicians' tax-exempt status, however, such decision shall not be binding on UMPhysicians unless and until all actions are taken to preserve UMPhysicians tax-exempt status or appropriate action is taken with the Internal Revenue Service and the Minnesota Secretary of State and Attorney General's office notifying them of such changes. Disputes which relate to or affect FUMC may, depending on the nature of the dispute, be governed by the dispute resolution procedures set forth in agreements between the University and Fairview.

2. PARTICIPATION IN UMPHYSICIANS

Faculty perform at least four categories of functions: (a) teaching, (b) research, (c) academic and clinical administration, and (d) educational clinical care, including private patient care.

Participating Physicians carry out the educational clinical care and private practice administrative
functions as employees of UMPhysicians. This Manual governs the educational clinical care function only, and does not directly address the other functions of Faculty.

2.1 Participation in UMPhysicians

2.1.1 Definitions. For purposes of this Manual, the following terms will be given the following meanings:

(a) **Full-Time Faculty.** For purposes of this Manual, the Full-Time Faculty shall consist of those members of the Faculty who are classified in accordance with University policies as having a 66 2/3% or greater appointment and who are in one of the following categories:

(i) tenured;
(ii) tenured track;
(iii) full-time clinical track;
(iv) multiple years fixed term or non-regular appointment;
(v) temporary appointments.

All Faculty meeting the above requirements are considered Full-Time Faculty whether they practice primarily at the UMPhysicians Practice Sites or at any other location; provided, however, full-time clinical track faculty who practice at locations at which the Medical School has an educational affiliate contract approved by the Dean (e.g., Hennepin County, Regions, Gillette Children's Hospital, etc.) may be excepted from this definition if set forth in such affiliate contract.

(b) **Part-Time Faculty.** Any member of the Faculty who is not a Full-Time Faculty member shall be considered a Part-Time Faculty member.

2.1.2 All Full-Time Faculty must conduct their clinical practice as Participating Physicians with UMPhysicians unless otherwise agreed to by the Dean, in consultation with UMPhysicians. Special arrangements apply between the Medical School and Twin Cities Anesthesia Associates with respect to anesthesia services. All clinical service revenue, as defined by UMPhysicians' Board of Directors and the Dean and as set forth in Section 3.2, hereof, generated by Participating Physicians are accounted for through UMPhysicians regardless of the site where funds are generated.

Unless approved otherwise by the Dean in consultation with the UMPhysicians Board of Directors, Full-Time Faculty may not contract for or provide clinical services except through UMPhysicians and must use UMPhysicians as their exclusive means for contracting with or
participating in clinical service contracts (or any other arrangements for which billable clinical services are provided).

2.1.3 Unless the Dean otherwise approves by written agreement, Part-Time Faculty who generate clinical income at UMPhysicians Practice Sites must be associated with UMPhysicians (pursuant to a written agreement) with respect to clinical services performed at such UMPhysicians Practice Sites. Such Part-Time Faculty will be deemed to be Participating Physicians for purposes of this Manual.

2.1.4 A Faculty member is eligible for employment by UMPhysicians provided he or she has:

(a) a current valid and unencumbered licensure as an M.D., D.O., Ph.D., psychologist, audiologist or oral surgeon;
(b) one of the following:
    (i) a full-time appointment to the Faculty, or
    (ii) in the case of Part-Time Faculty, written approval by the relevant department head, Dean of the Medical School and Board of Directors of UMPhysicians for participation in UMPhysicians;
(c) credentials approved by all necessary credentialing committees;
(d) hospital privileges (when applicable) at FUMC;
(e) the ability to be insured for professional liability by UMPhysicians at reasonable rates for his or her respective specialty;
(f) provides clinical patient care services; and
(g) willingness to comply with UMPhysicians policies.

Physicians who do not meet the above criteria, including non-Faculty, may be employed in UMPhysicians only upon approval of the Board of Directors of UMPhysicians and the Dean.

2.1.5 UMPhysicians Participating Physicians are subject to practice parameters and guidelines of UMPhysicians and the University of Minnesota Medical School Clinical Departments. Every Participating Physician must cooperate with any outcome studies or other quality improvement or utilization management activities approved by the Dean and the relevant department head(s) when such studies or activities involve the Participating Physician’s practice or practice area. Every Participating Physician must cooperate with any compliance programs adopted by UMPhysicians’ Board of Directors when such activities involve the Participating Physician’s practice or practice area.

2.1.6 UMPhysicians Participating Physicians must comply with the education research standards at the clinical sites where they practice. All research conducted by Faculty must be approved and conducted in accordance with applicable law and University policies. The University must be the sponsoring institution for all research conducted by Faculty, unless otherwise approved by the Dean. Significant collaborations with non-Faculty must be approved in advance by the Dean.
2.2 New Faculty

New Faculty meeting the criteria in Section 2.1.4, above, shall be entitled to employment by UMPhysicians upon the date their Medical School appointment is effective, unless an earlier or later date is approved by the Dean. New Faculty shall agree in writing with the Dean to comply with policies relative to the private practice of medicine.

2.3 Termination of Participation in UMPhysicians

When a Participating Physician (1) ceases to meet the criteria in Section 2.1.1, above, (2) becomes permanently disabled, or (3) dies, then his or her employment by and rights under UMPhysicians shall terminate (except for rights accrued as of the date of termination). Notwithstanding the foregoing, a Participating Physician’s employment with UMPhysicians may be terminated by UMPhysicians for any breach of any of the agreements, policies or performance standards to which such Participating Physician is subject; provided, however, that prior to any such termination the Chair of UMPhysicians shall consult with the Dean.

2.4 Staff and Clinical Privileges

Participating Physicians who are Full-Time Faculty may not maintain offices for professional practice outside of UMPhysicians Practice Sites or UMPhysicians contracted affiliates without written approval by the Dean.

2.5 Services at Non-Fairview Facilities

If UMPhysicians desires to render services at sites other than FUMC, it must submit a written request to the Dean, (1) including reasonably adequate information about the nature and location of the service to be performed, and (2) citing that the request is made pursuant to Section 3.03 of the Master Agreement Between UMPhysicians and the University. Any written request is deemed approved unless the Dean objects in writing within thirty (30) business days after receiving the written request. In approving or objecting to requests, the Dean will consider, in addition to other relevant factors, the need of Faculty to treat sufficient numbers of patients to maintain medical skills and the financial condition of UMPhysicians.

2.6 Clinical Service Units

Each Participating Physician in UMPhysicians is a member of a CSU. Participating Physicians with joint Medical school appointments will be assigned to a primary CSU. Revenues and costs for joint appointments may be shared between the CSUs pursuant to an inter-CSU memorandum. Such Participating Physicians may vote only in the primary CSU. The Dean must approve all CSUs. A CSU may be comprised of more than one department or clinical program. Additions and deletions to the governing body of CSUs need not be approved by the Dean and UMPhysicians if the individuals meet the criteria established in their CSU’s Governing Document. Faculty transfers in and out or any reconfiguration of a CSU must be approved by the Dean after consultation with the affected department chairs.
Each CSU is governed by the terms of a CSU Governing Document which has been adopted by the CSU and approved by UMPhysicians. CSUs must have a governing body consisting of at least three (3) members or 10% of the CSU membership, whichever is greater. The CSU’s governing body must include the head of the department having the greatest number of members in the CSU. The departmental chair (or his or her designee) of the academic department corresponding to the CSU shall be the CSU manager. Each member of the governing body will have an equal vote on CSU board matters. The governing body establishes an operational plan for the CSU, subject to the approval of UMPhysicians’ Board of Directors, which reflects the needs and goals of the CSU and provides for a budget within the CSU. The CSU governing body will work closely with the CSU manager and oversee the CSU’s manager’s performance. Each CSU must share its financial and strategic plans with its members at least semi-annually. Each CSU is responsible for ensuring its members comply with applicable laws, standards and administrative procedures, including billing procedures. The goal of this structure is to grant each CSU flexibility with respect to its operations, so long as it functions consistent with (a) the oversight needs of UMPhysicians’ Board of Directors, (b) the rules and policies governing clinical practice activities, (c) applicable law, and (d) the goals and purposes of UMPhysicians as a whole.

UMPhysicians’ Board of Directors shall conduct performance reviews of CSU management at least annually or at any time upon request of 50% of either the CSU Governing Body or the CSU Faculty. The review will be based on peer review criteria developed by the UMPhysicians Board of Directors. If UMPhysicians’ Board of Directors identifies significant CSU governance, management, or financial problems, it will provide feedback to the CSU Manager and Governing Board, engage in additional fact finding, and communicate to the CSU Manager and CSU Governing Board specific objective corrective measures and a time line for their implementation. The Board of Directors will also report such findings to the Dean. If the corrective measures are not implemented in a timely fashion, the UMPhysicians Board of Directors may appoint an interim CSU Manager.

2.7 Division of Responsibility for Management Functions

UMPhysicians is responsible for the management of the clinical practices of UMPhysicians, including funding, and may delegate the responsibility for carrying out certain activities to the individual CSUs.

3. FINANCES AND ACCOUNTING

3.1 Annual Budget of UMPhysicians

The Executive Director of UMPhysicians prepares the annual budget for UMPhysicians (including amounts to be paid to the Medical School, central organization costs, funding of capital projects and approval of CSU budgets) subject to review by the Budget and Finance Committee of the Board of Directors of UMPhysicians and approval by the UMPhysicians Board of Directors. Annual budget planning is coordinated with the Dean. The Dean is entitled to review and comment on UMPhysicians’ annual budget before it is approved by the Board of
Directors. UMPhysicians' budget will be developed in a manner to ensure adequate reserves for activities undertaken by UMPhysicians.

3.2 Clinical Revenue Funds Flow

UMPhysicians receives and has control over all clinical services revenue which includes the following:

(a) payment for professional health care services including all clinical, patient care and ancillary services billed directly by the provider or paid through a professional service contract;

(b) payments and settlements from participation in clinically-related joint ventures, risk-sharing agreements, partnerships, and affiliated programs;

(c) payment for provision of clinical advice or assistance to a patient care system, provider or payer including any of the following: medical directorship; advisory; overseer or reviewer of clinical programs, patient care services, patient care services provided by other health care professionals; health care insurance programs; clinical training programs in which patient care service is provided or reimbursed; actuarial review; clinical computer services; clinical management services contractually provided to others;

(d) payment for clinical expert case review or testimony, or case review for product liability litigation;

(e) fees for medical directorships or similar duties;

(f) fees for medical consulting on patient care issues;

(g) clinical trial revenues not otherwise paid to the University; and

(h) any other income that Dean in consultation with UMPhysicians classifies as clinical income.

For Participating Physicians who are Full-Time Faculty, revenues for services at any location must flow to UMPhysicians.

Funds generated from honoraria and royalties are not treated as revenue of UMPhysicians.

The Dean, in consultation with UMPhysicians, will negotiate the amount or definition of clinical service revenue that must flow through UMPhysicians for Participating Physicians who are Part-Time Faculty. Patient service revenue collected by UMPhysicians will be allocated in the following manner:

3.2.1 Common Operating Expenses of UMPhysicians: Common operating expenses include all operating expenses of UMPhysicians, such as billing, supplies, core benefits, space, academic support payments to the University, contracting, credentialing, core clinical staff, medical/legal liability insurance, marketing, financial services, human resources, and general administration. These operating expenses are paid by UMPhysicians, but allocated
to the individual CSUs in a manner to be determined by the Board of Directors of UMPhysicians, taking into account the actual expense generated in support of each of the CSUs.

3.2.2 UMPhysicians Development Fund: UMPhysicians Development Fund is a mechanism for reinvesting in the future of UMPhysicians. Examples of the use of this fund are development of new or expanded clinical service, and creation of funds to invest in new infrastructure, excluding financing for research or educational endeavors. The funds allocated to UMPhysicians Development Fund are derived largely from enhanced efficiencies of operation and increased clinical service revenue. The fund shall be capitalized with earnings from clinical service.

3.2.3 Clinical Service Unit Accounts: The majority of revenues from clinical services performed by UMPhysicians Participating Physicians are allocated to CSUs. Each CSU is accorded a CSU recordkeeping account within UMPhysicians to hold CSU funds for use at the discretion of the CSU. (Although separate recordkeeping accounts will be established for each CSU, all funds will be maintained in UMPhysicians banking and investment accounts and will be disbursed by UMPhysicians in accordance with the policies of UMPhysicians.) Revenues are allocated to each CSU in accordance with a formula established by UMPhysicians Board of Directors, that will take into account, among other things, the amount of UMPhysicians revenue generated by each CSU and other contributions of particular CSU members to UMPhysicians as a whole and to the University.

In accordance with UMPhysicians policies, each CSU is responsible for management of funds allocated to its recordkeeping account, and for determining its Participating Physicians’ salaries and non-core benefits, as determined and agreed by its Participating Physicians subject to the compensation provisions in Section 4, below and the general financial policies of UMPhysicians. Each CSU must allocate 5% to 20% of the funds in its account (under a budget approved by UMPhysicians Board of Directors) for payment of departmental activities such as research and educational initiatives.

3.2.4 Transitional Funding. Until June 30, 2000, each CSU will provide the Medical School, as part of its support of departmental activities as described in Section 3.2.3, with transitional funding support in order to meet existing commitments of academic departments. The amount of such transitional funding support will be determined by agreement between the governing body of the CSU, the chair of the related academic departments and the Dean in accordance with the Medical School budget process. The parties shall take into account the level of such prior support by the departmental practice groups, the available funds of the CSU, and the needs of the Medical School's clinical departments. The Board of Directors of UMPhysicians shall permit the CSU to exceed the 20% limitation in Section 3.2.3 on funds allocated to non-core clinical activities to provide this transitional support.

3.3 Gifts, Grants, Contributions

Unless otherwise approved by the Dean, gifts, grants, and contributions relating to medical education and research shall not flow through UMPhysicians, but must be remitted to, and
controlled by, the Academic Health Center, the Minnesota Medical Foundation or the University of Minnesota Foundation.

3.4 Accounting Principles

To ensure consistency and accountability with the finances of the Medical School, UMPhysicians maintains books in accordance with Generally Accepted Accounting Principles except where required by law to be kept on some other basis. The accounting year of UMPhysicians is July 1 through June 30.

3.5 Annual Financial Reporting and Required Detail

UMPhysicians reports on an annual basis through the Dean to the Regents regarding the finances of UMPhysicians. UMPhysicians’ annual reports must include information regarding the following: (1) UMPhysicians membership, recruitment, retention and termination; (2) evaluation of internal administrative and accounting control; (3) physician clinical activity; (4) income and expenses; (5) UMPhysicians regulatory compliance program; and (6) other matters that reasonably may be requested by the Dean. In addition, the report includes an evaluation of the effectiveness of the Regents’ Rules and other policies, procedures and rules governing the operation of UMPhysicians.

3.6 Periodic Financial Reporting and Required Detail

UMPhysicians will make available to the Dean, at his or her request, all of its regularly prepared internal financial reports which are distributed to UMPhysicians senior management and Board of Directors. The Dean shall be provided additional financial reports that the Dean reasonably believes are necessary to monitor the operations of UMPhysicians provided such information is not contained in reports otherwise available to the Dean.

3.7 Confidentiality of Information

All information provided by UMPhysicians to the Dean and the Medical School shall be treated as confidential information and shall not be disclosed to third parties except as required by law or with the prior approval of UMPhysicians. If disclosure appears to be required by law, the Dean shall provide the Executive Director of UMPhysicians with notice of any impending disclosure.

3.8 Books and Records

UMPhysicians shall maintain complete books and records of accounts. UMPhysicians shall select (subject to approval of the Dean, which approval shall not be unreasonably withheld) an independent public accounting firm which will be responsible for preparing an annual financial audit of UMPhysicians. UMPhysicians shall provide the Dean with copies of the final audited financials and management letters. UMPhysicians will also make available to the University audit staff, from time to time, its books and records in order to permit such staff to perform, at University expense, audits for compliance with Governing Documents and conducted in a
manner that will permit information obtained in such audits to remain confidential to the maximum extent permitted by law.

4. COMPENSATION

Each Faculty member shall agree to a negotiated compensation limit each year in the manner described below. Compensation to Faculty for clinical services must be reasonable and comparable to benchmarks agreed to by the Dean and UMPhysicians. All compensation must comply with applicable laws and be consistent with UMPhysicians’ tax-exempt status. Participating Physicians in UMPhysicians are paid using a “two-paycheck” system. This means that Faculty Participating Physicians will be compensated by the University for their teaching, research and administrative services and by UMPhysicians for their clinical services. Physicians will receive separate W-2s, although payments may be consolidated into a single paycheck. The University may serve as the common paymaster for Participating Physicians in UMPhysicians.

UMPhysicians shall maintain such data as regards individual professional service compensation as may be required by the Dean for purposes of monitoring compliance with the Governing Documents. The Dean’s Office shall maintain data as to total individual compensation. The Dean shall make every effort to maintain the confidentiality of individual compensation and shall consult with UMPhysicians before publicly releasing any such information.

4.1 University Limit On Compensation

The Dean shall establish overall limits of compensation of Faculty for educational, research, administrative and, in consultation with the Board of Directors of UMPhysicians, clinical activities. The Dean shall also consult with an advisory committee appointed by the Dean which will include non-interested individuals from outside the AHC. The chairs of the respective academic departments shall determine an individual Faculty member’s overall compensation for clinical, educational, research and administrative activities subject to the Dean’s overall limit on compensation. The actual clinical compensation of a Faculty member shall be established in accordance with the Bylaws and policies of UMPhysicians subject to the limits determined by the Dean and the chairs of the respective academic departments. UMPhysicians’ compensation arrangements will comply with IRS requirements prohibiting private inurement and with consistent community standards for nationally recognized academic health centers and local clinical salaries.

4.2 Agreements Regarding Terms and Conditions of Employment

A Participating Physician who is a member of the Faculty must execute and be subject to a written agreement with UMPhysicians whereby such Participating Physician commits to comply with the terms of this Manual, the Regents’ Rules, the policies and procedures of UMPhysicians and an annual addendum specifying the applicable compensation limits. Other members of the Faculty may be subject to other agreements in accordance with Section 10.
4.3 Distribution of Compensation

Faculty clinical compensation shall be based on the following guidelines:

(a) the net revenue available to the CSU for distribution to Faculty shall be allocated in a manner that is fair, fosters team work, and recognizes all of the principal areas of contribution to the activities of the CSU, current and past business/program development, clinical service effort, clinical administrative effort and other considerations as determined by UMPhysicians’ Board of Directors;

(b) each Faculty member shall have an established maximum limit of total compensation (as provided above); and

(c) specialty-specific salaries are intended to be competitive with private practice compensation levels for similar levels of clinical practice in order to recruit and retain qualified specialists.

The CSU governing body, in determining the compensation amount, shall discuss the computation with each Participating Physician and allow him or her to present any additional relevant factors.

4.4 Invested Funds Distribution

UMPhysicians will develop a financial plan to promote its long term financial viability and to protect against obligations it assumes under capitation contracts. UMPhysicians may retain and invest such reserves in compliance with Regents’ investment guidelines for University investments.

4.5 Compensation Dispute Resolution

Any Faculty member employed by UMPhysicians who disagrees with his or her private practice compensation, and is unable to resolve such dispute with his or her CSU, is entitled to have that salary reexamined consistent with UMPhysician’s grievance policy.

5. BENEFITS

5.1 Benefit Programs

Faculty Participating Physicians in UMPhysicians may receive benefits from both the University and UMPhysicians. Fringe benefit plans for medical and non-medical support staff of UMPhysicians are developed by UMPhysicians’ Benefits, Compensation and Personnel Committee, and approved by the Board of Directors of UMPhysicians.
5.2 Overall Benefits

The value of all employee benefit plans may be capped at a certain percentage of a Participating Physician’s compensation, to the extent necessary to comply with state or federal laws. Benefit packages that exceed permissible caps will be adjusted, in a manner to be determined by UMPhysicians’ Board of Directors, for the sole purpose of complying with applicable law.

5.3 Pension

UMPhysicians, as part of its overall employee benefit program, may adopt one or more tax qualified retirement plans which will be maintained in accordance with applicable federal law.

5.4 Deferred Compensation

In general, UMPhysicians shall not provide deferred compensation to its employees other than qualified retirement plans and severance pay plans adopted consistent with UMPhysicians Board of Directors’ policies. Deferred compensation programs (other than qualified retirement plans and severance pay plans consistent with UMPhysicians Board of Directors’ policies) must be approved in writing by the Dean. In the event a deferred compensation program is approved by the Dean, a Faculty member’s deferred compensation will be applied against the Faculty member’s compensation limit in the year it is earned.

6. PERMISSIBLE PRACTICE EXPENSES

6.1 Reimbursable Expenses

UMPhysicians may pay, or reimburse Participating Physicians for, business expenses deemed by the Board of Directors to be ordinary, necessary and appropriate for Participating Physicians’ clinical practice consistent with IRS regulations. Examples of reimbursable expenses include certain payments, liability insurance, license fees, credentialing fees, professional association fees, and continuing medical education costs.

Expenses will be appropriately verified by UMPhysicians’ outside accountants as determined appropriate by UMPhysicians’ Board of Directors.

6.2 Use of University Services and Facilities

The University will provide UMPhysicians, subject to the approval of the Dean, reasonable use of the University’s staff, space and equipment without additional charge for functions deemed reasonably essential for academic functions such as use of teaching and seminar rooms, telephone use for academic purposes, and photocopying for journal articles. The University will adopt, in consultation with the UMPhysicians, an appropriate expense methodology to account for the University’s expenditures in connection with UMPhysicians’ clinical operations.
7. PAYOR CONTRACTING AND BILLING

7.1 Medical Services Contract Participation and Compliance

UM Physicians is responsible for contracting on behalf of its Participating Physicians with insurance companies, PPOs, the government, HMOs, employer groups and other payors and provider groups. UM Physicians participates in Medicare, Medicaid, and numerous medical care programs. All Faculty agree, upon becoming a Participating Physician in UM Physicians, to participate in the contractual arrangements entered into with payors by UM Physicians and to abide by the terms of such contracts. Copies of such contracts are available for review by any Participating Physician upon request.

7.2 Credentialing and Recredentialing

UM Physicians Participating Physicians must comply with all credentialing and recredentialing policies imposed by: (a) UM Physicians, (b) clinical practice locations, and/or (c) individual payors. Participating Physicians must promptly complete required applications and provide accurate and complete information necessary to conduct credentialing and recredentialing activities. The administrative staff of UM Physicians shall use its best efforts to simplify and coordinate all credentialing activities, and to utilize available uniform credentialing forms.

7.3 Precertification/UR

UM Physicians Participating Physicians will comply with precertification rules of contracting payors and to comply with and assist in the completion of utilization review activities of contracting payors.

7.4 Quality Improvement

UM Physicians Participating Physicians will comply with quality improvement initiatives of (a) UM Physicians, (b) clinical practice sites, and (c) contracting payors and to promote effective, efficient and comprehensive data and service information collection in support of these initiatives. Every Participating Physician must cooperate with any compliance program adopted by UM Physicians’ Board of Directors when such activities involve the Participating Physician’s practice or practice area.

8. INSURANCE COVERAGE

8.1 Maintenance of Insurance

UM Physicians will maintain adequate professional liability insurance, meeting standards approved from time to time by the Dean, covering UM Physicians and Participating Physicians.
8.2 Verification of Coverage

UM Physicians will provide the Dean with proof of insurance on an annual basis. In the event a Participating Physician becomes uninsurable because the Participating Physician’s insurance terminates or is not renewed and no replacement insurance is reasonably available, the Participating Physician’s participation in UM Physicians shall terminate.

9. ACADEMIC PROGRAM SUPPORT

9.1 Amount of Support; Dean’s Fund

In recognition of the role of UM Physicians in supporting the mission of the Medical School, and consistent with the Regents’ Rules, UM Physicians shall pay, as a Dean’s Fund, to the University 2.31% of that portion of the receipts of UM Physicians indicated by the Regents’ Rules as interpreted by the Dean as being subject to the Dean’s Fund. Subject to agreement with the Dean, the payment by UM Physicians to support the academic programs of the Medical School will not exceed five percent (5%) of the previous year’s total sum paid by UM Physicians, and, in the aggregate, the total amount of increase may not exceed twenty percent (20%) of the above rate over a four (4) year time period, unless approved by a two-third (2/3) vote of the Participating Physicians in UM Physicians. The Dean has the authority to waive part or all of the annual payment due from UM Physicians.

9.2 Use of Academic Support Funds

The funds paid by UM Physicians to the Dean’s Fund under Section 9.1 ordinarily will be used for purposes such as recruitment of Faculty, transitional salary assistance to recruited Faculty, fostering educational research and clinical programs, and student or fellow financial assistance.

9.3 Annual Reporting on Academic Support Funds

The Dean will report to the Board of Directors of UM Physicians on an annual basis regarding the manner in which the funds paid under Section 9.1 were utilized during the prior year and the anticipated use of the funds during the subsequent fiscal year, and any plans for major reallocation of such funds.

9.4 Timing of Payments

UM Physicians will make payments as provided under Section 9.1 on a timely basis as determined by the Dean in consultation with UM Physicians.

10. FACULTY NOT PARTICIPATING IN UM PHYSICIANS

Faculty practicing at UM Physicians Practice Sites who are not required to participate in UM Physicians in accordance with Section 2.1 must agree in writing to be subject to such policies
and procedures as the Dean may establish from time to time. As part of such policies and procedures, the Dean may require that such faculty provide support to the AHC to the extent such faculty use medical residents or other resources of the AHC. The Dean may also impose specific requirements on individual members of the Faculty as part of such individual’s academic appointment.

Certain members of the Faculty may be employed by or under contract with UMPhysicians on a part-time basis in connection with clinical services rendered at UMPhysicians Practice Sites and employed with clinical programs that are not associated with the University for clinical services rendered at non-UMPhysicians practice locations. In such cases, the Faculty member will be deemed to be a Participating Physician only for clinical services performed in association with UMPhysicians and shall be subject to the Dean’s general policies and procedures for Faculty who are not Participating Physicians for the balance of such Faculty member’s clinical services.

11. **REVISIONS TO THIS MANUAL**

This Manual is effective as of January 1, 1998. Revisions to this Manual may be made from time to time by the Dean in consultation with UMPhysicians. Participating Physicians will be notified of such Manual revisions by means of a supplement to the Manual, a copy of replacement provisions, or other notice describing such changes.

UNIVERSITY OF MINNESOTA PHYSICIANS

By  
Its Chair

Date: 4/28/99

GP:355430 v15

UNIVERSITY OF MINNESOTA MEDICAL SCHOOL

By  
Its Associate Dean for Clinical Affairs

Date: 4-29-99
AMENDMENT NO. 1 TO THE
MANUAL OF POLICIES AND PROCEDURES
PRIVATE PRACTICE OF MEDICINE

This is Amendment No. 1 to the Office of the Dean of the University of Minnesota Medical School Manual of Policies and Procedures – Private Practice of Medicine. The amendments made herein are effective as of the dates set forth below.

RECITALS

A. Effective January 1, 1998, the Dean of the University of Minnesota Medical School ("Medical School"), in consultation with University of Minnesota Physicians ("UM Physicians") adopted the Manual of Policies and Procedures interpreting and implementing the Board of Regents' Policy on Practice Plans adopted on June 13, 1997 (the "Manual").

B. Since the adoption of the Manual, UM Physicians operations have changed such that certain portions of the Manual must be revised to reflect the current activities of UM Physicians.

C. Terms not otherwise defined herein have the meanings as set forth in the Manual.

REVISIONS

1. The parties acknowledge the operation of University Specialists (effective as of January 1, 1998) and Reproductive Medicine Center (effective as of April 1, 1999) and for purposes of this Manual only are designated as Practice Sites of UM Physicians. Schedule 1.1 is hereby added to the Manual.

2. Effective as of October 5, 1999, Section 1.2 is amended to read in its entirety as follows:

1.2 Board of Directors

The Board of Directors of UM Physicians is responsible for managing and directing UM Physicians in furtherance of its mission in accordance with its contractual obligations with the University. The Board of Directors' responsibilities include overseeing strategic planning, joint efforts with FUMC and other clinical practice locations, and clinical coordination and marketing activities. The precise composition of the Board of Directors shall be as set forth in UM Physicians' Bylaws as amended and approved by the Dean, from time to time.
3. Effective as of October 5, 1999, Section 1.3 is amended to read in its entirety as follows:

1.3 Voting Rights of Participating Physicians

All Full-Time and Part-Time M.D., Ph.D. and D.O. Faculty who are employees of UMPhysicians and who generate any clinical income for UMPhysicians or who perform significant clinical administrative functions as recognized by the Dean are Voting Employees of UMPhysicians. Voting Employees are eligible to vote for Faculty Directors of UMPhysicians and such other matters as may be set forth in UMPhysicians’ Articles and Bylaws from time to time. (Faculty eligible to vote are referred to as Voting Employees in UMPhysicians’ Bylaws but will be referred to as Participating Physicians in this Manual.)

4. Effective as of October 5, 1999, Section 1.7 is amended to read in its entirety as follows:

1.7 Disputes Within UMPhysicians

The Board of Directors of UMPhysicians, or a subcommittee of the Board of Directors, is responsible for resolving disputes within UMPhysicians. The Board of Directors shall adopt a dispute resolution procedure which permits UMPhysicians M.D., D.O., and Ph.D. employees to receive a fair hearing on compensation matters.

5. Effective as of October 5, 1999, the specific reference to the Budget and Finance Committee in the first sentence of Section 3.1 is deleted.

6. Effective as of January 1, 1998, the first paragraph of Article 4 is amended to read in its entirety as follows. This amendment is made to accurately describe the common paymaster system.

4. COMPENSATION

Each Faculty member shall agree to a negotiated compensation limit each year in the manner described below. Compensation to Faculty for clinical services must be reasonable and comparable to benchmarks agreed to by the Dean and UMPhysicians. All compensation must comply with applicable laws and be consistent with UMPhysicians’ tax-exempt status. Participating Physicians in UMPhysicians are paid using the common paymaster system. This means that Faculty Participating Physicians will be compensated by the University for their teaching, research and administrative services and by UMPhysicians for their clinical services. Physicians will receive one W-2, and payments are consolidated into a single paycheck. The University shall serve as the common paymaster for Participating Physicians in UMPhysicians.
7. All other provisions of the Manual shall remain the same.

UNIVERSITY OF MINNESOTA MEDICAL SCHOOL

By \underline{Cal} \underline{f} \underline{e} \underline{h} \underline{a} \underline{l} \underline{d}
Its Dean

Date: \underline{5-16-00}

UNIVERSITY OF MINNESOTA PHYSICIANS

By \underline{J} \underline{o} \underline{s} \underline{e} \underline{y} \underline{C} \underline{h} \underline{e} \underline{r} \underline{g} \underline{e} \underline{r}
Its Chair of the Board of Directors

Date: \underline{5-24-00}
SCHEDULE 1.1

TO THE MANUAL OF POLICIES AND PROCEDURES

PRIVATE PRACTICE OF MEDICINE

The Dean acknowledges the operation of University Specialists and the establishment of the Reproductive Medicine Clinic located on the Fairview-University Medical Center Riverside Campus and that such sites shall be considered a UMPhysicians Practice Site under the Manual.

UNIVERSITY OF MINNESOTA MEDICAL SCHOOL

By  [Signature]  
- Its Dean

Date: 5-16-02

UNIVERSITY OF MINNESOTA PHYSICIANS

By  [Signature]  
- Its Chair of the Board of Directors

Date: 5-24-02