



SVHCD FINANCE COMMITTEE MEETING AGENDA

TUESDAY, NOVEMBER 26, 2024

6:00 p.m. Regular Session

**To Be Held in Person at
Sonoma Valley Hospital, 347 Andrieux Street
Administrative Conference Room
and Via Zoom Videoconference**

Join Zoom Meeting

<https://sonomavalleyhospital-org.zoom.us/j/96092860630>

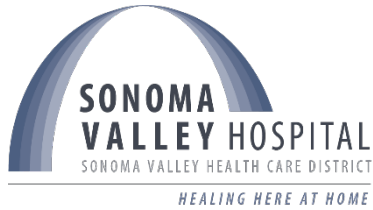
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AGENDA ITEM	RECOMMENDATION	
In compliance with the Americans with Disabilities Act, if you require special accommodations to attend a District meeting, please contact the Board Clerk, Whitney Reese, at wreese@sonomavalleyhospital.org or 707.935.5005 at least 48 hours prior to the meeting.		
MISSION STATEMENT <i>The mission of the SVHCD is to maintain, improve, and restore the health of everyone in our community.</i>		
1. CALL TO ORDER/ANNOUNCEMENTS	<i>Boerum</i>	
2. PUBLIC COMMENT SECTION <i>At this time, members of the public may comment on any item not appearing on the agenda. It is recommended that you keep your comments to three minutes or less. Under State Law, matters presented under this item cannot be discussed or acted upon by the Board at this time. For items appearing on the agenda, the public will be invited to make comments at the time the item comes up for Board consideration.</i>	<i>Boerum</i>	
3. CONSENT CALENDAR • Finance Committee Minutes 10.22.24	<i>Boerum</i>	Action
4. ROSA SYSTEM – ROBOTIC ASSIST DEVICE	<i>Armfield</i>	Action
5. FY24 SVH AUDITED FINANCIAL STATEMENTS	<i>Armfield</i>	Inform
6. SVH REVENUE ANALYSIS AND SERVICE LINE PROFIBILITY	<i>Armfield</i>	Inform
7. FY24 BUSINESS PLAN TRACKER	<i>Armfield</i>	Inform
8. FINANCIAL REPORTS FOR MONTH END OCTOBER 2024	<i>Armfield</i>	Inform
9. ADJOURN	<i>Boerum</i>	



**SVHCD
FINANCE COMMITTEE MEETING
MINUTES**

TUESDAY, OCTOBER 22, 2024

**In Person at Sonoma Valley Hospital
347 Andrieux Street
and Via Zoom Teleconference**

Present	Not Present/Excused	Staff/Public
Bill Boerum, in person Wendy Myatt Lee, in person Dennis Bloch, in person Ed Case, in person Subhash Mishra, MD, via zoom Graham Smith, via zoom Robert Crane, in person Carl Gerlach, in person Catherine Donahue, via zoom		Ben Armfield, SVH CFO John Hennelly, SVH CEO, via zoom Whitney Reese, SVH Board Clerk Lois Fruzynski, SVH Accounting Manager Dawn Kuwahara, RN BSN, SVH Chief Ancillary Officer Jessica Winkler, DNP, RN, NEA-BC, CCRN-K, SVH CNO, via zoom
MISSION & VISION STATEMENT <i>The mission of SVHCD is to maintain, improve, and restore the health of everyone in our community.</i>		
AGENDA ITEM	DISCUSSION	ACTIONS
1. CALL TO ORDER/ANNOUNCEMENTS	<i>Bill Boerum</i>	Meeting called to order 6:00pm
2. PUBLIC COMMENT SECTION	None	
3. CONSENT CALENDAR	<i>Bill Boerum</i>	Action
Finance Committee Minutes 09.23.24		MOTION: Motion to approve by Crane, 2 nd by Case. All in favor
4. PT EXPANSION – Extension of Physical Therapy Lease	<i>John Hennelly</i>	Action
The Finance Committee discussed the physical therapy expansion project, addressing its financial, operational, and strategic aspects. Fundraising is complete, with the SVH Foundation raising \$2 million. Hennelly presented a negotiated lease extension proposal for 19312 Sonoma Hwy. The committee approved recommending the lease to the board, with a capital cost cap of \$2.3 million and a requirement for updated plans detailing risks, mitigation strategies, and milestones to be tracked every six months over three years. Recruiting PT staff remains the project's biggest challenge, though recent hiring success is promising. Marketing efforts will focus on reducing patient wait times and attracting local residents, particularly those deterred by long commutes.		MOTION: Motion to recommend to the BOD to approve the lease, as submitted and qualified, with a cap of 2.3 million, by Smith, 2 nd by Case. All in favor

5. FY25 BUSINESS PLAN TRACKER DRAFT	<i>Ben Armfield</i>	Inform
<p>Armfield introduced a business plan tracker to monitor monthly volumes for the 3T MRI, physical therapy expansion, and orthopedic services tied to Dr. Walter’s recruitment. For the 3T MRI, they aim to reach 215 monthly scans by year-end after a ramp-up period, with current projections showing progress but still below target. PT activities haven’t started yet, and Dr. Walter has exceeded his surgery case budget despite a delayed start due to injury. Revenue updates will be provided quarterly for better accuracy. Armfield also addressed efforts to recruit for GI services following a gap caused by staff departure, with temporary solutions in place. The tracker will be included as a regular appendix to future reports.</p>		
6. FINANCIAL REPORTS FOR MONTH END SEPTEMBER 2024	<i>Ben Armfield</i>	Inform
<p>Armfield presented September financials and highlighted that while revenue was 6% over budget for the month, expenses were slightly higher due to a missed accrual in insurance expenses, although this issue was being addressed. The overall first-quarter operating revenue was 10% above budget, while expenses remained flat. Additionally, the hospital successfully closed its cyberattack claim, securing the remaining \$650,000 in proceeds. Armfield gave an update on the ongoing search for a new ERP system, with a goal of having a solution in place by March 2026, though the main challenge remains the cash flow needed for implementation. There were discussions around bad debt write-offs and efforts to resolve outstanding claims, with Armfield assuring that most of the bad debt had already been written off in financial statements.</p>		
7. FINANCE COMMITTEE WORK PLAN 2025	<i>Wendy Lee Myatt & Ed Case</i>	Action
<p>Lee Myatt and Case presented a draft of the Finance Committee’s work plan for 2025. There was discussion about refining the presentation of financial reports to the board, noting concern about the workload involved in preparing these reports, with some questioning whether monthly reports are necessary for the board, given the significant time and effort required. The aim is to balance thoroughness with efficiency, ensuring that the financial reports remain useful without overwhelming the finance team.</p>		MOTION: Motion to recommend to the BOD to approve by Lee Myatt, 2 nd by Case. All in favor
8. ADJOURN	<i>Bill Boerum</i>	Meeting adjourned at 7:11pm



To: SVHCD Finance Committee
From: Ben Armfield, Chief Financial Officer
Date: November 26, 2024
Subject: ROSA - Robotic Surgical Assistant System

THE ASK

Management seeks Board approval to move forward with a 3-year placement agreement for the ROSA (Robotic Surgical Assistant) System at a cost of \$270,000 (plus incremental per-case supply costs). The system will support our orthopedic service line. It is being requested by Dr Walter, in concert with Dr Harf, to be used during joint replacements. The acquisition will enhance our orthopedic surgery capabilities, improve patient outcomes, and also generate financial savings through associated/existing supply contract discounts. Financial analysis indicates that this investment is likely to have a marginal impact. The expense incurred minus the incentive savings net out to close to zero.

OVERVIEW OF THE ROSA SYSTEM

The ROSA (stands for Robotic Surgical Assistant) System is a robotic platform designed to assist surgeons in performing total joint replacement surgeries with greater precision and accuracy. Developed by Zimmer Biomet, the ROSA system helps with pre-operative planning, intra-operative decision-making, and precise execution of surgical procedures through a minimally invasive approach.

Benefits of the ROSA System:

- **Robotic Assistance** | The system provides real-time data to help the surgeon in planning and executing the surgery. It assists with the alignment, orientation, and positioning of the implant.
- **Pre-Operative Planning** | Surgeons can use 3D imaging and other diagnostic tools to plan the surgery in detail before the procedure begins. This helps ensure a more customized approach.
- **Minimally Invasive** | The precision offered by the robotic system reduces the amount of tissue damage, helping to speed up recovery times and reduce post-surgical pain.
- **Accuracy and Precision** | By helping to achieve more accurate alignment of the implant, ROSA aims to improve the overall outcome of the surgery and increased longevity of the knee implant.

CLINICAL OUTCOMES AND PATIENT SATISFACTION

The ROSA System aims to significantly enhance patient satisfaction by improving both the surgical process and clinical outcomes.

With ROSA, the surgeon knows the precise size of the implant and the exact location of the cuts before the procedure even begins, resulting in a more customized and accurate surgery. This contrasts with traditional methods that are currently being utilized, where orthopedic surgeons must manually twist and manipulate the knee to assess joint movement, often trying out different implant sizes during the surgery itself. While low, the precision of a robotic assistant significantly reduces the likelihood of implant misalignment, which in turn reduces complications and post-operative pain while also contributing to faster recovery times.

This investment will further strengthen one of the key service lines at SVH by deploying technology to improve both patient and surgeon experiences.

CAPITAL PURCHASE VS. LEASE

To purchase a system like this outright would cost the hospital anywhere from \$900,000 to upwards of \$1,000,000. By entering into a Placement Agreement, the hospital would essentially 'lease' the equipment from Zimmer Biomet for the duration of the contract term.

FINANCIAL DETAILS – TERM & COST

Term | The proposed arrangement would carry a 3-year term.

Operating Costs | Operating costs related to procuring this equipment entail: the lease or per-case cost, disposable per-case supplies, and the service contract (which is an opt-in starting in year 2).

Lease Cost, or "Per-Case Fee" | The cost to use the system is based on a per-case fee model. The structure of this model includes an annual case threshold of 124 cases (which represents about 70% of our annual historical joint replacement volumes). If SVH meets or exceeds the annual threshold there is no associated lease cost. Conversely, If the number of surgeries performed with the ROSA system falls short of the annual case threshold, the hospital will be required to pay a per-case fee of \$1,250/case for every surgery below the threshold.

- For example, if 100 joint replacement surgeries were performed at SVH during the year while using ROSA,, the annual lease cost would be \$30,000 $((124-100) * \$1,250)$.

Disposables | This system would require disposable supplies of \$650/case to be used during every case performed.

Service Contract | There would be an option to purchase an annual service contract with the procurement of this equipment. The service contract would cost \$85,000 per year starting in year 2 (the equipment is covered under warranty for the first year).

FINANCIAL DETAILS – SUPPLY SAVINGS

There are incentives with this procurement that offset the majority of the incremental operating expenses as the acquisition of the ROSA system would provide more favorable terms on implant costs through our existing supply contract.

Guaranteed Implant Savings | We will see a 10% reduction in Zimmer implant pricing immediately upon placing the Robot at SVH. Based on our current spend with Zimmer, this is expected to generate savings of approximately **\$75,000 per year**.

Tired Rebate Savings | We will also be eligible for tired rebates by placing the ROSA at SVH. The rebate tiers are structured as follows, based on total spend on Zimmer implants and supplies:

- **Tier 1** | **3% Rebate** with Implant spend of **\$500,000-\$1,000,000**
- **Tier 2** | **6% Rebate** with Implant spend of **\$1,000,001-\$1,500,000**
- **Tier 3** | **9% Rebate** with Implant spend of over **\$1,500,000**

Based on our historical spend of ~\$750,000, this rebate is expected to generate savings rebates of at least **\$22,500 per year**.

Sole Sourcing Discount | The hospital has also negotiated a sole sourcing discount with Zimmer, which provides an additional 10% discount on Zimmer implant costs if we achieve 90% utilization of

Zimmer products in our orthopedic surgeries. Based on our current spend with Zimmer, this is expected to generate additional savings of approximately **\$75,000 per year**.

All three implant savings components (Guaranteed Implant Savings, Tiered Rebate,, and Sole Sourcing Discount) will be effective immediately upon executing agreement with Zimmer.

OUT-CLAUSE

This agreement would also come with an out clause that would allow SVH to terminate this agreement at the end of the 1st year, should the hospital sever its relationship with any ROSA certified physician.

FINANCIAL DETAILS – OVERALL IMPACT

The pro forma below estimates the financial impact of this transaction based on what we believe to be the most likely scenario, which is a gradual ramp-up of joint replacement surgeries over the 3-year period. We have also included our estimations on what would be both a worst-case and best-case scenario as well (see next page).

The ‘most-likely’ scenario ramps up our joint replacement volumes over the 3-year period – falling short of the annual case threshold in the first two years and meeting and exceeding in the third.

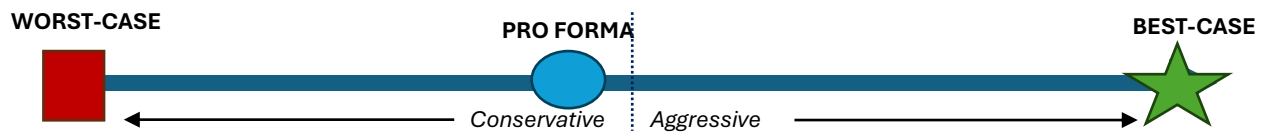
This results in total estimated operational costs of \$465,000 (\$155K/yr) over the 3-year period. We do project that we will be able to achieve and maintain the sole sourcing discount throughout the contract period, and due to these aggressive discounts we have been able to negotiate, we projected total implant savings of over \$515,000 throughout the 3-year period.

This would actually result in a total net cost savings of \$52,500 over the 3-year period.

Assumptions	Year 1	Year 2	Year 3	3-Yr Total	3-Yr Avg*	Comments
Cases/Month	6	8	11		8	Estimated actual joint replacement surgeries/month
Cases/Year	72	96	132	300	100	Estimated actual joint replacement surgeries/year
Case Gap vs. Threshold	(52)	(28)	8	(72)	(24)	Annual threshold (124) less Actual Cases (for Lease Cost)
Est Zimmer Implant Spend	\$ 750,000	\$ 750,000	\$ 750,000			Historical spend with Zimmer
Financial Impact						
Operational Costs	Year 1	Year 2	Year 3	3-Yr Total	3-Yr Avg*	Comments
1. Robot Lease Cost	\$ 65,000	\$ 35,000	\$ -	\$ 100,000	\$ 33,333	\$1,250 / case for every case short of 124
2. Disposables	46,800	62,400	85,800	195,000	65,000	\$650 / case
3. Service Contract	-	85,000	85,000	170,000	56,667	\$85K/Year starting in year 2
Total Cost (Prior to Savings)	\$ 111,800	\$ 182,400	\$ 170,800	\$ 465,000	\$ 155,000	
Implant Savings						
Implant Savings	Year 1	Year 2	Year 3	3-Yr Total	3-Yr Avg*	Comments
1. Guaranteed 10% Savings	\$ (75,000)	\$ (75,000)	\$ (75,000)	\$ (225,000)	\$ (75,000)	10% implant savings based on placement of ROSA at SVH
2. Tiered Rebate Savings	(22,500)	(22,500)	(22,500)	(67,500)	(22,500)	Based on total spend, projected 3% rebate
3. Sole Sourcing Discount	(75,000)	(75,000)	(75,000)	(225,000)	(75,000)	Additional 10% savings if 90% utilization is achieved
Total Implant Savings	\$ (172,500)	\$ (172,500)	\$ (172,500)	\$ (517,500)	\$ (172,500)	
Total Estimated Net Cost / (Savings)	\$ (60,700)	\$ 9,900	\$ (1,700)	\$ (52,500)	\$ (17,500)	

FINANCIAL IMPACT – SCENARIO ANALYSIS

We are also including potential scenarios to compare with what we believe to be the most likely outcome. Based on what we also believe to be the best and worst case, we estimate the range of the total investment (total cost NET of implant savings) to be a net savings of \$250,000 to total cost of nearly \$140,000.



Worst Case:

- Annual Case Threshold never met
- Unable to achieve sole sourcing discount (lose 10% in Yrs2&3)

3-Year Impact vs Current State | **\$140,000**

Most Likely Case (Pro Forma):

- Gradual ramp-up of cases, Annual Case Threshold met in 3rd Year
- All Discounts Achieved

3-Year Impact vs Current State | **\$(52,000)**

Best Case:

- Annual Case Threshold met every year
- All Discounts Achieved

3-Year Impact vs Current State | **\$(250,000)**

BEST CASE SCENARIO - Annual case threshold met every year with joint replacement volumes reaching historical Dr. Brown levels in year 2. All implant discounts achieved. Realize 6% rebate (based on +\$1M in implant spend) due to alignment of single vendor strategy to Zimmer.

	Year 1	Year 2	Year 3	3-Yr Total	3-Yr Avg*
Cases/Month	11	13	14		12.7
Cases/Year	132	156	168	456	152
Case Gap vs. Threshold	8	32	44	84	28
Total Cost (Prior to Savings)	\$ 85,800	\$ 186,400	\$ 194,200	\$ 466,400	\$ 155,467
Total Implant Savings	\$ (172,500)	\$(253,000)	\$ (287,500)	\$ (713,000)	\$(237,667)
Total Net Cost / (Savings)	\$ (86,700)	\$ (66,600)	\$ (93,300)	\$ (246,600)	\$(82,200)

WORST CASE SCENARIO - Annual Case Threshold Never Met, Cannot Achieve Sole Source Discount (would lose add'l 10% in yrs 2&3)

	Year 1	Year 2	Year 3	3-Yr Total	3-Yr Avg*
Cases/Month	4	6	8		6.0
Cases/Year	48	72	96	216	72
Case Gap vs. Threshold	(76)	(52)	(28)	(156)	(52)
Total Cost (Prior to Savings)	\$ 126,200	\$ 196,800	\$ 182,400	\$ 505,400	\$ 168,467
Total Implant Savings	\$ (172,500)	\$ (97,500)	\$ (97,500)	\$ (367,500)	\$(122,500)
Total Net Cost / (Savings)	\$ (46,300)	\$ 99,300	\$ 84,900	\$ 137,900	\$ 45,967

MOST LIKELY CASE SCENARIO - Continued ramp-up of cases over 3 years resulting in meeting Annual Case Threshold in Year 3, All discounts achieved.

	Year 1	Year 2	Year 3	3-Yr Total	3-Yr Avg*
Cases/Month	6	8	11		8.3
Cases/Year	72	96	132	300	100
Case Gap vs. Threshold	(52)	(28)	8	(72)	(24)
Total Cost (Prior to Savings)	\$ 111,800	\$ 182,400	\$ 170,800	\$ 465,000	\$ 155,000
Total Implant Savings	\$ (172,500)	\$(172,500)	\$ (172,500)	\$ (517,500)	\$(172,500)
Total Net Cost / (Savings)	\$ (60,700)	\$ 9,900	\$ (1,700)	\$ (52,500)	\$(17,500)

JUSTIFICATION FOR MOVING FORWARD

Support for Newly Recruited Orthopedic Surgeon | Our new Orthopedist, Dr. Chris Walter, has had experience performing orthopedic surgeries using a robotic assistant and would be the physician champion and main user of this system. There is goal congruence as he has a vested interest in seeing this succeed – both clinically and financially, and will be a pro-active partner that can help ensure we realize a return on this investment.

Improved Patient Outcomes and Satisfaction | Robotic-assisted surgeries like those performed with the ROSA system have been shown to improve surgical accuracy, reduce complications, and improve patient outcomes and satisfaction.

Associated Implant Savings | While there is certainly risk to this transaction, the preferred pricing we would be able to take advantage of makes this an attractive option for the hospital. There is also further cost savings upside if we are successful in reducing clinical variation and align more with a single vendor for implants.

Increased Surgical Volume | We believe that the addition of the ROSA system can help us capture more market share in joint replacement surgeries, particularly as minimally invasive and robotic-assisted procedures are becoming increasingly popular. There are also opportunities to partner with Zimmer and collaborate and cost-share on joint marketing and outreach initiatives related to this system.

Competitive Edge in Orthopedics | Competing hospitals and orthopedic programs in our service area have adopted robotic surgery technology. By investing in the ROSA system we not only enhance our services but also ensure that we remain competitive.

CONCLUSION AND RECOMMENDATION

The purchase of the ROSA robotic surgical system will elevate the hospital's orthopedic surgery capabilities, provide the potential for substantial financial benefits through implant savings, and support the successful integration of our newly recruited orthopedic surgeon. We strongly believe this investment will enhance our reputation, improve patient care, and create a path for additional market capture.

We respectfully request the SVHCD Finance Committee to recommend to the SVHCD Board of Directors to approve management to move forward with the acquisition of the ROSA system.

Attachments:

Attachment A – Zimmer Biomet ROSA Fact Sheet

Attachment B – Zimmer Biomet Master Agreement

- Zimmer/Sonoma Valley Hospital Master Agreement (Pg 1-36 of Agreement)
- Zimmer/Sonoma Valley Hospital Rosa Placement Agreement (Pg 37-39 of Agreement)

Zimmer Biomet ROSA Fact Sheet



ZIMMER BIOMET
Your progress. Our promise.™

ROSA Robotics | Zimmer Biomet Connect

Zimmer Biomet is honored to provide the following unique robotic proposal for the Sonoma Valley Hospital. We are committed to providing the best-in-class ROSA robotics platform, surgeon certification, and launch program for your orthopedic team. This offering aims to provide a simple contracting platform to align with your facility and the current market conditions and provide them with best-in-class technology.

Surgeon-Centered

- Robotic surgical assistant for TKA
- Adaptive surgical workflow
- Optional tools for soft-tissue balancing and femoral rotation

Efficient¹

- 2D x-ray to 3D bone modeling imaging cases based on X-Atlas™ technology
- Imageless case option
- Reduced instrumentation
- Intuitive intraoperative workflow

Accurate²

- Dynamic tracking maintains cut plane
- Live cut values
- Patient specific data collection
- Soft tissue management
- Real-time intraoperative feedback

[ROSA® System]



REBATE OFFER EXPIRES UNLESS A FULLY SIGNED AGREEMENT
IS RETURNED TO ZIMMER BIOMET BY: December 31, 2024

MASTER AGREEMENT

This Master Agreement, together with the Standard Terms and Conditions of Master Agreement and the other Schedules and Exhibits attached hereto (“**Master Agreement**”), and any additional agreements or terms (including any SOWs) entered into by the Parties incorporating this Master Agreement by reference (“**Agreement**”), is entered into between Zimmer US, Inc., d/b/a Zimmer Biomet (“**Zimmer Biomet**”), and Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital (“**Customer**”) and is effective as of the date of the last to sign of the Parties (“**Effective Date**”). Each of Zimmer Biomet and Customer is referred to herein as a “**Party**” and together as the “**Parties**”.

Schedules and Exhibits

Schedule 1: Standard Terms and Conditions

- Exhibit A – Warranties

Schedule 2: Customer Facilities

Schedule 3: Business Associate Agreement

Schedule 4: Zimmer Biomet Product Purchase Agreement (“**PPA**”)

- Exhibit A to the PPA - Pricing, General Terms and Product Pricing
- Exhibit B to the PPA - Zimmer Biomet PPA Facilities Covered

Schedule 5: ROSA® Product Terms (“**ROSA Product Terms**”)

- Exhibit A to the ROSA Product Terms - Pricing

Schedule 6: ROSA® Service Terms (“**ROSA Service Terms**”)

- Exhibit A to the ROSA Service Terms – Product Covered
- Exhibit B to the ROSA Service Terms – 2024 ROSA Service Price List
- Exhibit C to the ROSA Service Terms – Hip Addendum (if applicable)

Schedule 7: ROSA® Placement Agreement

General Terms & Conditions

The Parties hereby agree as follows:

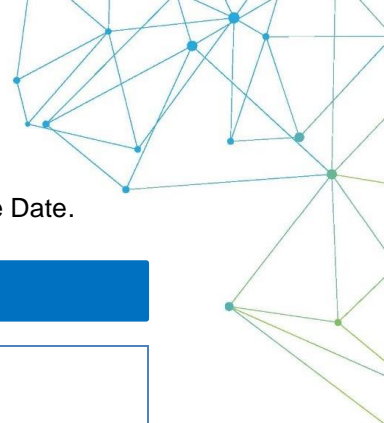
1. **Term of Master Agreement.** The term (“**Term**”) of this Master Agreement will commence on the Effective Date and, unless terminated earlier or extended in accordance with the express terms of this Agreement, will continue in effect for thirty-six (36) months (“**Initial Term**”), and then automatically renew for successive one (1) year periods (each, a “**Renewal Term**”) unless either Party provides notice to the other Party of its intention not to renew at least sixty (60) days prior to the expiration of the then-current term; provided, that the Term will extend for so long as any Attachment as defined below remains in effect, solely with respect to the subject matter of such Attachment.

2. **Standard Terms and Conditions.** Customer may purchase, the Products and Services described in the Schedules and Exhibits attached hereto, and any SOWs thereunder, or any other agreements referencing this Master Agreement (each, an “**Attachment**”). The Standard Terms and Conditions will apply to the Parties and all other Attachments and POs hereunder. Zimmer Biomet will have no obligation to provide any products or services other than as specifically identified in an Attachment.

3. **Applicability of Master Agreement.** The Parties may from time to time attach additional Attachments to this Master Agreement which may be added only by written consent.

[Signature page follows.]

Page 1 of 39



IN WITNESS WHEREOF, the Parties have executed this Master Agreement as of the Effective Date.

Customer to Fill Out

Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital

Authorized Signature

Name

Title

Date

Zimmer Biomet to Fill Out

Zimmer US, Inc.

Authorized Signature

Name

Title

Date

Customer Contact Information

Address: 347 Andrieux Street
City/State/Zip: Sonoma, CA 95476
Phone: 707.935.5227
Contact: James Dugger

Account #: 10010185

Zimmer Biomet Contact Information

Main Office/Headquarters:
345 East Main Street
Warsaw, IN 46580
Attn: General Counsel

Email: legal.americas@zimmerbiomet.com

Please complete the fields below with a contact person for whom to send account performance statements, relating to the ROSA placement-type agreement, so we are able to maintain communication on contractual performance throughout the term.

Performance Statement Contact Name _____

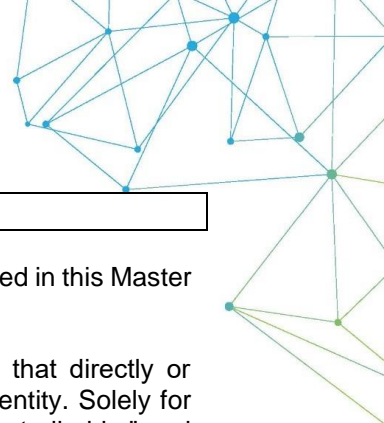
Contact Title / Department _____

Contact email address _____

Contact phone number _____

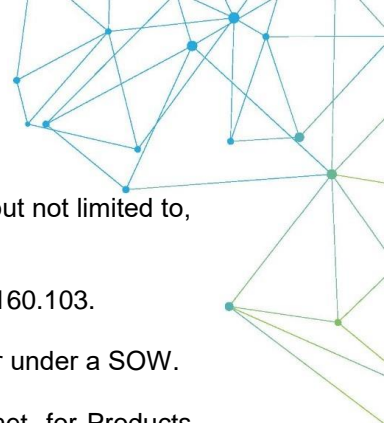
Please provide contact information for the Materials Manager associated with this agreement.

Name _____ **Email** _____ **Phone** _____

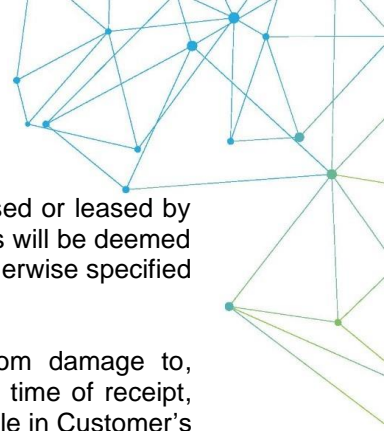


Standard Terms and Conditions of Master Agreement

1. **Definitions.** Capitalized terms have the meanings given in this Section or as otherwise provided in this Master Agreement.
 - a. **"Affiliate"** means, with respect to any person or entity, any other person or entity that directly or indirectly, controls, is controlled by or is under common control with, such person or entity. Solely for purposes of this definition, the term "control" (including without limitation the terms "controlled by" and "under common control with") means the direct or indirect power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise.
 - b. **"BAA"** means, if applicable, the Business Associate Agreement entered into between the Parties.
 - c. **"Claim"** means any demand, action, suit, claim, investigation or proceeding, of any nature, civil, criminal, administrative, regulatory, or otherwise, whether at law, in equity or otherwise.
 - d. **"Consigned Products"** are those Products that are provided to Customer by or on behalf of Zimmer Biomet on a consignment basis, including without limitation Products identified as Consigned Products on a PO. Consigned Products are either Long Term Loan Products or Short Term Loan Products.
 - e. **"Customer Data"** means all data provided by or on behalf of Customer to Zimmer Biomet through any Product or Service, including without limitation any Personal Information and data input into Zimmer Biomet's forms (but not including Zimmer Biomet's forms).
 - f. **"Disposable"** means any Product which is identified as "Disposable" under the applicable Attachment, or which is provided with a Product and is labeled, or by its nature intended, for single use ancillary to the use of such Product.
 - g. **"Equipment"** means any Product which is identified as "Equipment" under the applicable Attachment, or which is provided with a Product and is labeled, or by its nature intended, for use as a tool in a procedure involving such Product.
 - h. **"FDA"** means the U.S. Federal Food and Drug Administration.
 - i. **"Implants"** means Products intended to be used as implants in patients.
 - j. **"Indemnitees"** means the Indemnified Party (as defined in Section 17(d) of this Schedule) and its Affiliates and its and their respective shareholders, directors, officers, employees, and agents.
 - k. **"In Part"** means, with respect to affected Services, to terminate the applicable SOW for such Services and with respect to affected Products, to terminate an outstanding order for such Products or a consignment for such Products.
 - l. **"Long Term Loan Products"** means Products which are provided to Customer in the quantities listed in any Consignment Agreement hereunder or in such other quantities as are otherwise agreed on by the Parties and left on Customer's premises.
 - m. **"Losses"** means liabilities, damages, losses, costs, and expenses, including without limitation reasonable attorneys' fees.
 - n. **"Patient"** means patients of Customers whose Personal Information will be processed or disclosed in connection with Zimmer Biomet Products and Services, including Personal Information used in Zimmer Biomet systems or portals in connection with this Agreement.



- o. **“Personal Information”** means information about an identifiable individual including, but not limited to, PHI.
 - p. **“PHI”** has the meaning given to the term “protected health information” at 45 C.F.R. § 160.103.
 - q. **“Platform”** means the entire suite of Services provided by Zimmer Biomet to Customer under a SOW.
 - r. **“PO”** means a purchase order provided by Customer, and accepted by Zimmer Biomet, for Products and incorporating this Master Agreement by reference.
 - s. **“Products”** means (i) the deliverables, including without limitation Software, set forth in an Attachment, and (ii) any other deliverables or other items, which may include Disposables, Equipment, and /or Implants that Zimmer Biomet actually provides to Customer.
 - t. **“Purchased Products”** means Products that are not Consigned Products.
 - u. **“SaaS Services”** means the software as a service(s) and other hosted services set forth in an Attachment.
 - v. **“Services”** means the services set forth in an Attachment. “Services” includes SaaS Services.
 - w. **“Short Term Loan Products”** means Products that are provided on an as-needed or Just-In-Time (JIT) basis and are intended to be implanted into a patient or removed from Customer’s premises after use.
 - x. **“Single-Use Product”** means any Product that is labeled “For Single Use” or “Single Use Only” or “Do Not Reuse” or otherwise labeled to indicate that the Product is to be used once in delivering patient care.
 - y. **“Software”** means the object code for any software specified in an Attachment or embedded in a Product or otherwise provided by or on behalf of Zimmer Biomet, to Customer incident to a Product, and any updates or customizations thereto which Zimmer Biomet provides to Customer.
 - z. **“SOW”** means a Statement of Work entered into by the Parties setting out Services to be provided by Zimmer Biomet to Customer and incorporating this Master Agreement by reference.
 - aa. **“Third Party Contributors”** means licensors or service providers providing any portion of the Services, Products, or content available thereon, which Zimmer Biomet provides to Customer, or which such third party provides, pursuant to an Attachment or PO, directly to Customer.
 - bb. **“User”** means an employee, agent, and/or external personnel of the Customer that uses Zimmer Biomet Products and Services in connection with this Agreement.
2. **Commitment to Provide Services and Products.** Zimmer Biomet will use commercially reasonable efforts to fill orders for Services and Products and meet mutually agreed delivery dates. If Zimmer Biomet does not provide the Services or Products, Customer may, as its sole and exclusive remedy for any failure to provide the Services or Products, cancel the order for the delayed Services or delayed Products.
3. **Delivery of Services and Products.** On-premises Services and Products will be provided to the locations and in the manner set forth in the applicable Attachment, or, if no location is specified, then to the address mutually agreed to by the Parties. Customer will not transfer any on-premises Services or Products from one location to another. Customer will provide access to Customer’s premises, employees, contractors, and equipment and will provide information as Zimmer Biomet reasonably requests to perform this Agreement. Shipping will be FOB Destination with Zimmer Biomet absorbing the cost of the initial shipment up to and including \$4,999.00. All other costs are to be paid in accordance with the applicable Attachment or, if not specified, all such costs will be paid by Customer.



4. **Ownership of Products.** Products provided by or on behalf of Zimmer Biomet are purchased or leased by Customer or consigned as Long Term Loan Products or Short Term Loan Products. Products will be deemed purchased, and title will transfer to Customer, at the point of use by the Customer, unless otherwise specified in an Attachment or other agreement of the Parties.
5. **Damage to Products.** Customer will be solely responsible for all losses resulting from damage to, contamination of or destruction of the Products ("**Damaged Products**") from and after the time of receipt, including without limitation all risk of loss for any Products which are missing or damaged while in Customer's possession, except that damage to instruments caused by reasonable wear and tear or Products with a manufacturing defect will be the responsibility of Zimmer Biomet. Zimmer Biomet will remove such Consigned Products from Customer's possession at no cost to Customer. All other Damaged Products will be invoiced to Customer at the price indicated in the Attachment, and if not included in an agreement, at the then-current list price.
6. **Software and SaaS Services.** Any Software (including without limitation software embedded within Products) or SaaS Services will be subject to the terms of the applicable Attachment.
7. **Returns.** Returns will be processed in accordance with Zimmer Biomet's Return Policy available at www.zimmerbiomet.com/en/suppliers.html which may be amended from time to time. Customer may contact its local Zimmer Biomet sales representative for additional information.
8. **Restrictions on Use of Products.**
 - a. Customer agrees not to sell, resell, distribute, or otherwise make available any Products to any third party, without the prior written consent of Zimmer Biomet; provided, that the foregoing will not limit the use of an Implant in new condition in one, and only one, patient.
 - b. Zimmer Biomet conveys no right in any patented Single-Use Product other than the right to use those units once. Zimmer Biomet does not grant the Customer or any other person or entity any license to reprocess, remanufacture or reconstruct any Single-Use Product.
9. **Controls on Use.** If applicable, Zimmer Biomet may include a license key or other means (e.g., automated features to track and log utilization) within any Services or Products to monitor the use thereof and enforce any restrictions on use under this Agreement. Any data about the utilization of the Products or Services ("**Log Information**") may be used and disclosed by Zimmer Biomet for Zimmer Biomet's business purposes, including without limitation to meet obligations imposed by the FDA.
10. **Purpose and Use of Services.** Customer is requesting the Services for health care operations purposes, within the meaning of 45 C.F.R. § 164.501. Any decisions or actions taken by Customer as a result of insights gained from the Services will be the sole responsibility of Customer.
11. **Discontinued Products.** Except as otherwise required by applicable law, the decision to discontinue any Product, Product line, Service or business segment will be in Zimmer Biomet's sole discretion and will not constitute a breach. Customer's sole remedy will be to cancel the applicable order for the Product or terminate the applicable Attachment, in each case on sixty (60) days' prior written notice to Zimmer Biomet.
12. **Non-Conformance.** Customer will (i) inspect received Products within one (1) business day of receipt; (ii) verify the count and quality of shipments; and (iii) advise Zimmer Biomet in writing of any non-conformities with the documentation within three (3) business days of receipt. Zimmer Biomet will, at its option and as Customer's exclusive remedy for any nonconformance, correct or repair such nonconformance, or replace the nonconforming Product with conforming Product. Customer will retain any rejected Products at Customer's facility as requested by Zimmer Biomet to allow an opportunity for inspection by Zimmer Biomet.
13. **Customer Responsibilities.**
 - a. Effective utilization of the Products or Services and associated transmission of information from the Products or Services may require certain technical prerequisites as detailed in associated instructions

for use or other documentation provided to Customer or to a patient. Zimmer Biomet is not responsible for any Products or Services with regards to any Customer or patient for whom the prerequisites are not met. CUSTOMER IS SOLELY RESPONSIBLE FOR THE SECURITY AND FUNCTIONAL OPERATION OF ITS OWN COMPUTER NETWORK AND INTERNET ACCESS.

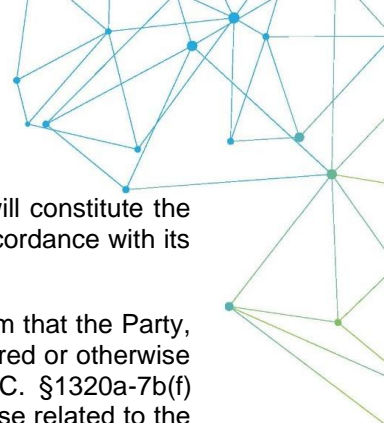
- b. CUSTOMER WILL BE SOLELY RESPONSIBLE FOR COMPLIANCE WITH ALL APPLICABLE LAWS WITH REGARD TO USE OF THE PRODUCTS OR SERVICES. IN NO EVENT WILL ZIMMER BIOMET BE LIABLE FOR CUSTOMER'S NON-COMPLIANCE WITH ANY LAW, RULE OR REGULATION RESULTING FROM CUSTOMER'S USE OF THE PRODUCTS OR SERVICES.

14. Fees; Taxes.

- a. Fees or Prices. Customer will pay Zimmer Biomet the fees or prices set forth in each Attachment, including without limitation applicable freight charges ("**Fees**"). Customer will remit full payment to Zimmer Biomet within thirty (30) days of the invoice date.
- b. Late Payment. Late amounts will be subject to a late fee of 1.5% per month prorated (18% per annum) or, if lower, the maximum interest rate allowable by law. Customer agrees to pay all costs and expenses associated with collection of unpaid sums, including without limitation attorneys' fees and costs.
- c. Disputes. If Customer disputes any invoiced amount in good faith, it will: (i) notify Zimmer Biomet in writing of such dispute (including without limitation a written explanation specifying the amount in dispute and the cause for the dispute) within thirty (30) days of the invoice date; and (ii) pay the undisputed amount when due. Upon resolution of the amount in dispute, Customer will pay to Zimmer Biomet any disputed amount that is determined to be due and owing immediately upon such resolution.
- d. Taxes. The Fees do not include, and Customer is solely responsible for and will pay (or, at Zimmer Biomet's request, reimburse Zimmer Biomet for), any additional taxes, levies, duties, governmental charges, or expenses, including without limitation all withholding, value added and sales taxes due, except for taxes on Zimmer Biomet's income ("**Taxes**"). On request, Customer will provide Zimmer Biomet with written evidence of payment of Taxes.
- e. Compliance. Each Party is solely responsible for ensuring its own compliance with Medicare, Medicaid, and all other third-party payer requirements, as well as accurate coding, documentation and medical necessity for the Products and Services provided. Before filing claims, Customer should confirm individual payer requirements and coverage/medical policies. Zimmer Biomet may provide general reimbursement information for reference purposes only, which should not be construed as legal or coding advice. Such information is informational only, general in nature, and does not cover all situations or all payers' rules or policies. It is important to note that Zimmer Biomet provides information obtained from third-party authoritative sources and such sources are subject to change without notice, including without limitation as a result of changes in reimbursement laws and policies. Reimbursement information may not be all-inclusive, and changes may have occurred after publication. Zimmer Biomet makes no promise or guarantee, express or implied, in this Agreement or by its act of providing reimbursement information regarding coverage or payment for products or procedures by Medicare or other payers. Inquiries can be directed to Customer's respective Medicare Administrative Contractor or to appropriate payers. Customer agrees Zimmer Biomet will have no liability or responsibility for the results or consequences of any actions taken in reliance on reimbursement information provided by Zimmer Biomet.

15. Representations and Warranties; Disclaimers.

- a. Each Party represents, warrants and covenants that: (i) it is duly organized, validly existing and in good standing as a corporation or other entity under the laws of the jurisdiction of its incorporation or other organization; (ii) it has the full right, power and authority to enter into and perform its obligations and grant the rights, licenses, consents and authorizations it grants or is required to grant under this Agreement; (iii) the execution of this Agreement by its representative whose signature is set forth at the end of this Agreement has been duly authorized by all necessary corporate or organizational action of



such Party; and (iv) when executed and delivered by both Parties, this Agreement will constitute the legal, valid and binding obligation of such Party, enforceable against such Party in accordance with its terms.

- b. Each Party represents, warrants and covenants to the other Party throughout the Term that the Party, its officers, directors, contractors and employees: (i) are not currently excluded, debarred or otherwise ineligible to participate in the federal health care programs as defined in 42 U.S.C. §1320a-7b(f) (“**Federal Healthcare Programs**”) and (ii) have not been convicted of a criminal offense related to the provision of healthcare items or services which could result in becoming excluded, debarred or otherwise declared ineligible to participate in the Federal Healthcare Programs. Each Party will immediately notify the other Party of any change in the accuracy of this Section 15(b). The Parties further represent and warrant that each of them will abide by all applicable laws relating to the Products or Services, including without limitation the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations (45 C.F.R. Parts 160-164) (collectively, “**HIPAA**”), as may be modified or amended from time to time, for the protection of personally identifiable health information, including without limitation PHI, used or disclosed in connection with the Services and Products provided under this Agreement.
- c. Zimmer Biomet provides further warranties as set forth on Exhibit A to this Schedule, which is incorporated herein by reference to the extent applicable to the Services and Products provided hereunder. In the event of any breach of Zimmer’s representations or warranties in this Section 15(c) or Exhibit A to this Schedule, Zimmer Biomet’s sole and exclusive responsibility, and Customer’s sole and exclusive remedy, is for Zimmer Biomet to, as applicable, correct, replace, or re-perform, at no additional charge to Customer, the Services or Products found to be defective, subject in the case of Products to Sections 2, 5 and 12 of this Schedule.
- d. Customer further represents, warrants, and covenants to Zimmer Biomet that neither Customer nor any of Customer’s staff or employees will promote Products or Services for any purposes for which the Products or Services are not indicated or approved by appropriate governmental or regulatory authorities.
- e. EXCEPT FOR THE EXPRESS WARRANTIES SET FORTH IN THIS AGREEMENT AND EXHIBIT A TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, ALL SERVICES AND PRODUCTS ARE PROVIDED “AS IS” AND ZIMMER BIOMET AND ITS THIRD PARTY CONTRIBUTORS DISCLAIM ALL REPRESENTATIONS AND WARRANTIES, EXPRESS AND IMPLIED, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE AND NON-INFRINGEMENT, AND ALL WARRANTIES ARISING FROM COURSE OF DEALING, USAGE OR TRADE PRACTICE. WITHOUT LIMITING THE FOREGOING, EXCEPT AS EXPRESSLY SET FORTH HEREIN OR AS REQUIRED BY APPLICABLE LAW, ZIMMER BIOMET AND ANY APPLICABLE THIRD PARTY CONTRIBUTORS MAKE NO WARRANTY OF ANY KIND THAT THE SERVICES OR PRODUCTS WILL MEET ANY REQUIREMENTS, OPERATE WITHOUT INTERRUPTION, ACHIEVE ANY INTENDED RESULT, BE COMPATIBLE OR WORK WITH ANY SOFTWARE, SYSTEM OR OTHER SERVICES, OR BE SECURE, ACCURATE, COMPLETE, FREE OF HARMFUL CODE OR ERROR FREE.
- f. CUSTOMER ACKNOWLEDGES THAT NEITHER ZIMMER BIOMET NOR ITS THIRD PARTY CONTRIBUTORS ARE LICENSED TO PRACTICE AND DO NOT PRACTICE MEDICINE OR ANY OTHER HEALING PROFESSION. CUSTOMER’S USE OF THE PRODUCTS OR SERVICES, INCLUDING FOR PURPOSES OF ACCESSING CONTENT PROVIDED BY THIRD PARTY CONTRIBUTORS, DOES NOT CREATE A PATIENT OR CLIENT RELATIONSHIP BETWEEN CUSTOMER OR A PATIENT, ON THE ONE HAND, AND ZIMMER BIOMET, ANY THIRD PARTY CONTRIBUTOR OR ANY OF ZIMMER BIOMET’S AFFILIATES OR THIRD PARTY CONTRIBUTORS OR ANY MEDICAL STAFF AFFILIATED WITH, OR EMPLOYEES, CONTRACTORS OR AGENTS OF, ZIMMER BIOMET OR ANY OF ZIMMER BIOMET’S AFFILIATES, ON THE OTHER HAND. CONTENT PROVIDED BY THIRD PARTY CONTRIBUTORS DOES NOT CONSTITUTE MEDICAL ADVICE. ZIMMER BIOMET, THE SERVICES, AND PRODUCTS DO NOT PROVIDE MEDICAL ADVICE, DIAGNOSIS, TREATMENT OR RECOMMENDATION OF ANY KIND AND ARE NOT A SUBSTITUTE FOR THE INDEPENDENT PROFESSIONAL JUDGMENT OF A QUALIFIED HEALTH CARE



PRACTITIONER. CUSTOMER REMAINS SOLELY RESPONSIBLE FOR, AND MAINTAINS COMPLETE AUTHORITY, SUPERVISION AND CONTROL OVER, ALL DECISIONS REGARDING PATIENT CARE, INCLUDING, WITHOUT LIMITATION, DIAGNOSES, TREATMENTS, PROCEDURES AND ALL OTHER PROFESSIONAL HEALTH CARE SERVICES, DOCUMENTATION OF PATIENT CARE, CLAIMS PROCESSING AND THE PAYMENT FOR HEALTH CARE SERVICES PROVIDED, AND CUSTOMER WILL NOT RELY ON ZIMMER BIOMET, THE PRODUCTS OR SERVICES, INCLUDING ANY CONTENT PROVIDED BY THIRD PARTY CONTRIBUTORS, TO MAKE PATIENT-SPECIFIC MEDICAL DIAGNOSES, FOR TREATMENT PURPOSES OR FOR HEALTH CARE CONSULTATION. NEITHER ZIMMER BIOMET NOR ITS THIRD PARTY CONTRIBUTORS WILL BE LIABLE UNDER ANY CIRCUMSTANCES FOR ANY ACT OR OMISSION OF CUSTOMER OR ANY CUSTOMER EMPLOYEE, CONTRACTOR OR AGENT RELATING TO THE MEDICAL CARE PROVIDED BY, OR THE EXERCISE OF PROFESSIONAL MEDICAL JUDGMENT OF, CUSTOMER.

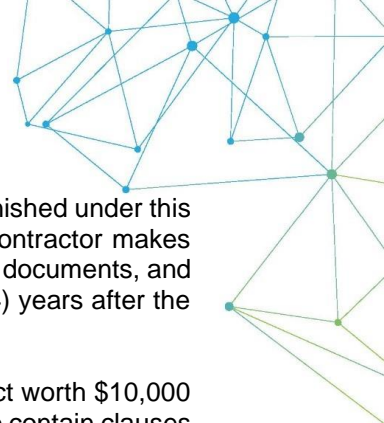
16. **Limitation of Liability.** TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, IN NO EVENT WILL THE LIABILITY OF ZIMMER BIOMET TO CUSTOMER FOR A GIVEN YEAR DURING THE TERM, FOR ALL CLAIMS AND LOSSES OF ANY KIND, WHETHER IN CONTRACT, WARRANTY, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY OR OTHERWISE, ARISING OUT OF THE PERFORMANCE, NON-PERFORMANCE OR BREACH OF THIS AGREEMENT, EXCEED THE GREATER OF (I) THE TOTAL PRICE OF THE SERVICES AND PRODUCTS ORDERED BY CUSTOMER FOR SUCH YEAR AT THE TIME OF A CLAIM OR (II) ONE THOUSAND US DOLLARS (\$1,000 USD). FURTHERMORE, TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, IN NO CASE WILL ZIMMER BIOMET BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR LOST PROFITS. WITHOUT LIMITING THE FOREGOING, ZIMMER BIOMET WILL HAVE NO LIABILITY FOR DEFECTS OR NON-CONFORMANCES RESULTING FROM (I) UNAUTHORIZED OR IMPROPER MODIFICATIONS TO THE SERVICES OR PRODUCTS; (II) CUSTOMER'S FAILURE TO COMPLY WITH THE DOCUMENTATION, SPECIFICATIONS OR THIS AGREEMENT; OR (III) ANY INFORMATION INPUT INTO ANY PRODUCT OR SERVICE OR OTHERWISE PROVIDED BY OR ON BEHALF OF CUSTOMER OR ANY EMPLOYEE, CONTRACTOR, AGENT OR PATIENT OF CUSTOMER. THE LIMITATIONS AND EXCLUSIONS IN THIS SECTION WILL APPLY TO ANY THIRD PARTY CONTRIBUTORS AS IF THEY WERE ZIMMER BIOMET, TO THE EXTENT PERMITTED BY APPLICABLE LAW.

17. **Mutual Indemnification.**

- a. Zimmer Biomet will indemnify, defend and hold harmless Customer and its Affiliates and its and their respective shareholders, directors, officers, employees and agents ("**Customer Indemnitees**") from and against any and all Losses paid or incurred by any Customer Indemnitee in connection with any third party Claim brought against any Customer Indemnitee arising from: (i) any actual infringement, misappropriation or other violation of third party intellectual property rights by the Services or Products when used for their intended purposes in accordance with this Agreement ("**Infringement Claim**"); or (ii) any design or manufacturing defect in any of the Services or Products in the form provided by or on behalf of Zimmer Biomet ("**Defect Claim**"), to the extent such defect is attributable to Zimmer Biomet's actual or alleged (in writing) grossly negligent or more culpable acts or omissions. Zimmer Biomet has no obligation with respect to any Infringement Claim or Defect Claim arising from: (a) use of the Services or Products in combination with software, equipment, or other items not supplied or directed by Zimmer Biomet; (b) unauthorized modification of the Services or Products; (c) failure to install any updates, upgrades or enhancements as supplied or directed by Zimmer Biomet; (d) continued use of the Services or Products after Zimmer Biomet has notified Customer in writing to cease such use; or (e) the use of the Services or Products in violation of this Agreement or in a manner for which they were not designed or contemplated.
- b. Customer will indemnify, defend and hold harmless Zimmer Biomet and its Affiliates and Third Party Contributors, and its and their respective shareholders, directors, officers, employees and agents ("**Zimmer Biomet Indemnitees**") from and against any and all Losses paid or incurred by any Zimmer Biomet Indemnitee in connection with any third party Claim brought against any Zimmer Biomet

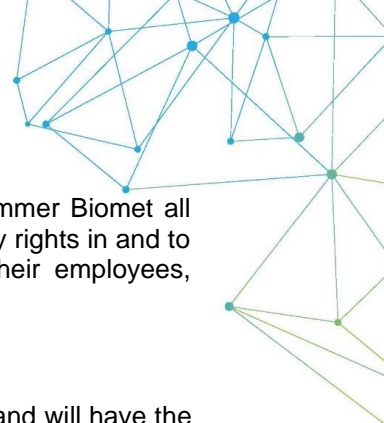
Indemnitee arising from: (i) any actual or alleged (in writing) breach of this Agreement by or on behalf of Customer; or (ii) any modification, abuse, misuse, loss or damage to any Product or Service by or on behalf of Customer or while in Customer's possession or control.

- c. If any of the Services or Products become, or in Zimmer Biomet's opinion are likely to become, the subject of an Infringement Claim, Zimmer Biomet may, at its sole option and expense: (i) procure for Customer the right to continue using the relevant Services or Products; (ii) replace or modify the relevant Services or Products so that they do not infringe, misappropriate or otherwise violate such third party intellectual property rights; or (iii) terminate Customer's right to use the infringing Services or Products and give Customer a refund or credit for the unused Fees actually paid by Customer for such Services or Products. This Section states Customer's sole and exclusive remedies, and Zimmer Biomet's entire liability, for any and all Infringement Claims.
- d. If a Party ("**Indemnified Party**") learns of any third party Claim for which it believes it is entitled to indemnification, it will: (i) promptly notify the other Party ("**Indemnifying Party**"); (ii) reasonably cooperate with the Indemnifying Party in defending any such Claim; and (iii) provide the Indemnifying Party with control of the defense and settlement of such third party Claim. The Indemnifying Party will engage counsel reasonably acceptable to the Indemnified Party and will not settle any Claim admitting fault or liability of or imposing duties of performance or payment upon any Indemnitees without the Indemnified Party's prior written consent, not to be unreasonably withheld, conditioned, or delayed. The Indemnitees will have the right to participate in the defense of any third party Claim (including without limitation by engaging separate counsel at their own expense) for which the Indemnified Party seeks indemnification. The Indemnified Party's failure to deliver prompt notice of the applicable Claim will relieve the Indemnifying Party of liability under this Section solely to the extent such failure was prejudicial to the Indemnifying Party's ability to defend such Claim.
18. **Termination.** A Party may terminate this Agreement as follows: (i) in whole or In Part, effective upon notice, if the other Party breaches this Agreement and fails to cure within thirty (30) days after receipt of notice specifying the nature of the breach; (ii) in whole or In Part, due to a Force Majeure Event, in accordance with Section 31 of this Schedule; (iii) in whole or In Part, effective upon notice, if the other Party becomes insolvent or bankrupt; (iv) with respect to particular Services or Products, In Part, effective upon notice, if such Services or Products thereunder are discontinued; (v) with respect to particular Services or Products, In Part, effective upon notice, if there is a change in applicable law that renders such Services or Products under this Agreement unlawful; and (vi) effective upon notice, if the other Party breaches Section 15(b) of this Schedule, or the other Party is excluded from participation in any Federal Healthcare Program. In addition, Zimmer Biomet may terminate this Agreement in whole or In Part (a) upon ten (10) days' notices if Customer fails to pay amounts due, and (b) immediately upon notice if Customer uses any Services or Products in a manner for which they are not indicated or approved.
19. **Effect of Termination.** Termination or expiration of this Agreement in whole or In Part will not relieve any Party of any obligations that are expressly indicated to survive termination or expiration or prejudice any rights that have accrued to the benefit of any Party prior to such termination or expiration. Upon expiration or earlier termination of this Agreement in whole or In Part, Customer will, and will cause any persons or entities to whom Customer has provided or made available the Services to, immediately discontinue use of the Services. No expiration or termination will affect Customer's obligation to pay all Fees that may have become due before such expiration or termination or entitle Customer to any refund. Notwithstanding anything in this Master Agreement, the rights and obligations under the following provisions will remain in full force and effect following expiration or termination of this Master Agreement in whole or In Part and will be enforceable following such expiration or termination: Sections 4, 8, 14, 15(e) and 15(f), 16, 17, 19, 20-29 and 31-40 of this Schedule.
20. **Records and Disclosure of Discounts.**
- a. Pursuant to the requirements of 42 CFR 420.300 et seq., Zimmer Biomet agrees to make available to the Secretary of Health and Human Services ("**HHS**"), the Comptroller General of the Government Accounting Office ("**GAO**") or their authorized representatives, all contracts, books, documents and records relating to the nature and extent of costs hereunder for a period of four (4) years after the



furnishing of Services and Products hereunder for any and all Services or Products furnished under this Agreement. In addition, Zimmer Biomet agrees to require by contract that each subcontractor makes available to the HHS and GAO, or their authorized representative, all contracts, books, documents, and records relating to the nature and extent of the costs thereunder for a period of four (4) years after the furnishing of Services and Products thereunder.

- b. If Zimmer Biomet carries out the duties of this Master Agreement through a subcontract worth \$10,000 or more over a twelve-month period with a related organization, the subcontract will also contain clauses sufficient to permit access by Customer, the Secretary, the United States Comptroller and their representatives to the related organization's books and records.
 - c. If applicable, Zimmer Biomet will provide Customer with invoices or other documents that fully and accurately disclose the discounted price of all Services and Products purchased under this Agreement. If Customer is an institution required to file Medicare/Medicaid cost reports with federal or state agencies for payment, Customer acknowledges that Customer has an obligation under federal law to fully and accurately report all discounts received in its cost reports. (Public Law 100-93, the "Medicare and Medicaid Patient and Program Protection Act of 1987"; 42 CFR part 1001).
 - d. Customer agrees that, upon the request of the U.S. Department of Health and Human Services or a state healthcare agency, it will fully disclose the discounts offered hereunder.
21. **Regulatory Matters.** Upon learning of any actual or threatened charges, complaints or claims of any nature related to the Products or Services, Customer will immediately forward to Zimmer Biomet all information concerning the same. Customer will cooperate with and assist Zimmer Biomet in investigating and defending any such charges, complaints, or claims, including without limitation by providing information gathering assistance and giving oral or written testimony as to all facts in its possession concerning such charges, complaints, or claims.
 22. **EEO Affirmation.** Unless this Master Agreement is exempt from compliance with applicable law, Zimmer Biomet will comply with the EEO Clause in Section 202 of Executive Order 11246, as amended, 41 CFR Part 60-250 and 41 CFR Part 60-741, as amended, which are incorporated herein by specific reference.
 23. **Transparency Reporting.** The Parties acknowledge that certain state or federal laws now or in the future may require disclosure of information on compensation, gifts or other remuneration provided to physicians and other health care professionals. Zimmer Biomet will have the sole and absolute discretion for making the determination whether to report remuneration provided under this Agreement pursuant to such laws. Customer agrees to promptly provide Zimmer Biomet with such information Zimmer Biomet requests to comply with such reports and in an accurate, whole, and timely manner complete any and all documents required by Zimmer Biomet or any state or federal agency in connection with such reports.
 24. **Confidentiality of Agreement.** Customer will maintain in confidence, and will not disclose to any third party, the pricing, or terms of this Agreement, except as otherwise required by law or court order.
 25. **Intellectual Property Rights.** Solely as between the Parties, Zimmer Biomet solely and exclusively owns or licenses all right, title and interest in and to all intellectual property and other proprietary rights in and to (i) the Services, (ii) the Products, and (iii) any improvements, enhancements, upgrades, modifications, or derivative works to either the Services or the Products. This Agreement grants no express or implied license, right or interest to Customer in or to any intellectual property or proprietary rights, other than the non-exclusive license rights expressly granted pursuant to the Attachments.
 26. **Third Party Contributors.** Third Party Contributors of portions of the Services, Products, or content available through any Services or Products, may require acceptance of different or additional terms for access to their contributions.
 27. **Feedback.** Any ideas, comments, suggestions or other feedback regarding the Services or Products ("**Feedback**") provided by or on behalf of Customer or its Affiliates or its or their employees, contractors or



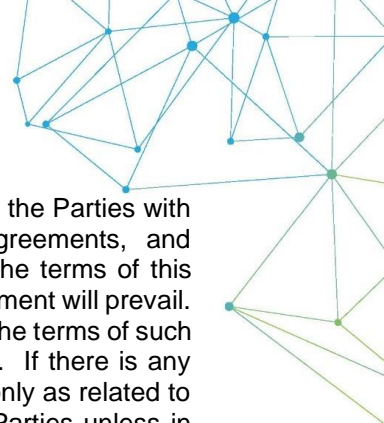
agents is provided voluntarily and knowingly. Customer will and does hereby assign to Zimmer Biomet all worldwide right, title and interest, in and to all intellectual property rights and other proprietary rights in and to all Feedback. Customer will obtain all rights necessary from its Affiliates and its and their employees, contractors, and agents to assign such rights to Zimmer Biomet.

28. **Data.** This Section 28 applies to Customer Data.

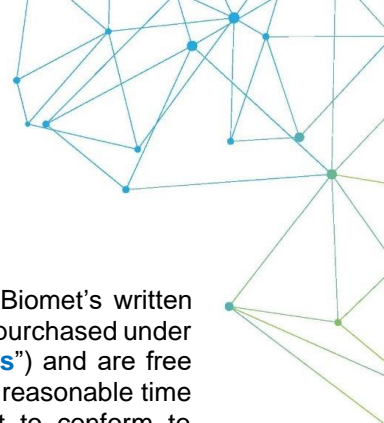
- a. Customer represents, warrants, and covenants to Zimmer Biomet that Customer has and will have the necessary rights, authorizations, approvals, and other consents in and relating to Customer Data so that, as received by Zimmer Biomet and processed in accordance with this Agreement (including without limitation by any contractor or service provider of Zimmer Biomet), such data does not and will not infringe, misappropriate or otherwise violate any third party rights or violate any applicable law. Customer further agrees to inform Patients and Users about the transfer and processing of their Personal Information under this Agreement, and to provide access to the Zimmer Biomet Privacy Notice available at <https://www.zimmerbiomet.com/en/corporate/privacy-notice.html>.
- b. Customer will indemnify, defend, and hold harmless the Zimmer Biomet Indemnitees from and against any and all Losses paid or incurred by any Zimmer Biomet Indemnitee in connection with any third party Claim brought against any Zimmer Biomet Indemnitee arising from the Customer Data or use or processing of the Customer Data in accordance with this Agreement. The procedures set forth in Section 17(d) of this Schedule will apply to the defense of any such third party Claim.
- c. Customer owns the Customer Data. Customer is solely responsible for providing complete and accurate Customer Data to Zimmer Biomet in connection with Zimmer Biomet's provision of the Services and Products. Customer will take appropriate steps to maintain the integrity of the Customer Data and prevent its unauthorized alteration or destruction. Zimmer Biomet has no obligation to review or evaluate the completeness, accuracy or integrity of any Customer Data, and Zimmer Biomet is not liable or responsible for the accuracy, content or completeness of any Customer Data or any use of Customer Data by or on behalf of Customer, or analyses or outcomes based upon Customer Data. Zimmer Biomet has no obligation to back up any Customer Data.
- d. To the extent that the Customer Data created, received, maintained, transmitted, or otherwise processed by Zimmer Biomet includes PHI, Zimmer Biomet will process such PHI in accordance with the applicable BAA. Notwithstanding anything in this Agreement to the contrary, Customer hereby grants to Zimmer Biomet and its Third Party Contributors the perpetual, irrevocable right to use Customer Data to create de-identified data in accordance with applicable law ("**De-identified Data**"). For the avoidance of doubt, De-identified Data shall not be considered Customer Data. Customer further authorizes Zimmer Biomet to create other data or datasets from Customer Data to the extent such Customer Data does not include PHI ("**Other Analytics Data**"). Zimmer Biomet and its successors and assigns and Third Party Contributors may use and disclose, and permit others to use and disclose, the De-identified Data, and any Other Analytics Data, for any lawful purpose. In addition, notwithstanding anything in this Agreement to the contrary, Customer also grants Zimmer Biomet and its Third Party Contributors the right to perform data aggregation services for the health care operations of Customer, and to provide services and aggregated data to other customers of Zimmer Biomet, each as permitted by applicable law, using Customer Data. Zimmer Biomet will not publicly identify Customer as the source of the De-identified Data or aggregated data unless Customer otherwise provides consent in writing. The Parties will be bound by and comply with all applicable laws governing the confidentiality of patient records, employee records and other personal data, including without limitation state labor law (pertaining to employee information) and business law (pertaining to social security numbers).
- e. Customer acknowledges that Zimmer Biomet and its Third Party Contributors may seek the consent and/or authorization (as required by applicable law) from the patient for continued collection and processing of personal data, including personal data collected and processed from said Products during the Term. Such personal data shall not be considered Customer Data and, notwithstanding any other provision of this Agreement or the BAA, shall be used by Zimmer Biomet and its Third Party Contributors

per such applicable consent and/or authorization. Zimmer Biomet and its Third Party Contributors may transfer said personal data to patient or patient's health care providers at the direction of patient.

29. **Zimmer Biomet Product Recall Policy.** Should Zimmer Biomet discover any situation with distributed Products or Services whose continued use or exposure could result in a risk to health for the patient or the health care professional, Customer will comply with any recall related action, or any such situation as directed by Zimmer Biomet. In the event of a recall, Customer will fully cooperate with Zimmer Biomet to provide access to any Products or Services, as well as any information related to the tracking and inventory of the Products.
30. **Use of Names; Publicity.** Neither Party will use the names of the other Party or any trademark, trade name, trade style or registered design that is the property of or currently in use by the other Party, on any web site or in any printed materials, publicity, advertising or for trade or other commercial purposes without the prior written consent of the other Party.
31. **Force Majeure.** Neither Party will be liable or responsible to the other Party, nor will it be deemed to have defaulted under or breached this Agreement, for any failure or delay in fulfilling or performing its obligations under this Agreement, when and to the extent such failure or delay is caused by matters beyond the reasonable control of the impacted Party, whether or not reasonably foreseeable, including without limitation acts of God, strikes or lockouts, embargo, national emergency, fire, flood, natural disaster, civil commotion, riots, wars, revolution, acts of terrorism, blockade, acts of government preventing performance, pandemic or disease outbreak or delays caused by third party distributors or providers of Products, Services or components thereof ("**Force Majeure Event**"); provided, however, that the foregoing will not excuse Customer from its minimum spend obligations or case commitments, if applicable or from paying fees due. Upon a Force Majeure Event, the impacted Party: (i) will notify the other Party in writing of the delay as soon as practicable after the impacted Party knows or has reason to know that the Force Majeure Event will cause a disruption, stating the period of time it expects the disruption to continue; (ii) use commercially reasonable efforts to end the failure or delay and minimize the effects of such Force Majeure Event; and (iii) resume the performance of its obligations as soon as reasonably practicable after the removal of the cause of the disruption. Notwithstanding the foregoing, if the impacted Party's performance remains disrupted or its failure or delay remains uncured for a period of ninety (90) days, the other Party may terminate this Agreement in whole or In Part upon notice.
32. **Assignment.** Neither Party may assign its rights and obligations under this Agreement to any third party without the express prior written consent of the other Party; provided, however, that Zimmer Biomet may assign or delegate all or any part of its rights and obligations hereunder without the need for Customer's consent to any subcontractor or Affiliate of Zimmer Biomet or, in the event of a merger, acquisition, change of control, reorganization or sale of substantially all of Zimmer Biomet's assets, to Zimmer Biomet's successor. This Agreement will be binding upon the Parties and their respective successors and permitted assigns.
33. **Notices.** All notices and other communications in connection with this Master Agreement will be in writing and will be sent to the respective Parties at the addresses set forth on the signature page to this Master Agreement above, or to such other addresses as may be designated by the Parties in writing from time to time in accordance with this Section. Notices will be sent by hand, by registered or certified mail, postage prepaid or by express courier service, service fee prepaid, in accordance with this Section. All notices will be deemed given and received: (i) if delivered by hand, immediately; (ii) if sent by mail, three (3) business days after posting; or (iii) if delivered by express courier service, the next business day in the jurisdiction of the recipient.
34. **Choice of Law.** THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF INDIANA, EXCLUDING ITS CHOICE OF LAW OR CONFLICTS PRINCIPLES. CUSTOMER EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY.
35. **Export Controls.** This Agreement is made subject to any restrictions concerning the export of products or technical information from the United States or other countries that may be imposed on the Parties from time to time. Customer will at all times comply with export control, sanctions and all other applicable laws when accessing or using the Services or Products.



36. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement between the Parties with respect to the Services and Products, and supersedes all previous negotiations, agreements, and commitments (written or oral) with respect thereto. If there is any inconsistency between the terms of this Agreement and the terms of any PO or documentation from Customer, the terms of this Agreement will prevail. If there is any inconsistency between the terms of this Schedule 1 and any other Attachment, the terms of such other Attachment (but only as related to the subject matter of such Attachment) will prevail. If there is any conflict between the BAA and this Master Agreement, the terms of the BAA will prevail (but only as related to the subject matter of such BAA). No amendment or modification will be binding upon the Parties unless in writing and duly executed by both Parties.
37. **Independent Contractors.** The Parties are independent contractors and nothing in this Agreement places the Parties in the relationship of employer and employee, principal and agent, partners, or joint venturers.
38. **Waiver; Illegality.** Any term or condition may be waived by the Party that is entitled to the benefit thereof, but only by an instrument in writing duly executed by the Party waiving such term or condition. The waiver by a Party of a right or of the failure to perform or a breach by the other Party will not be deemed a waiver of any other right hereunder or of any other failure or breach by such other Party, even if of a similar nature. The illegality or invalidity, in whole or in part, of any provision of this Agreement will not affect the validity of this Agreement or any other provision of this Agreement.
39. **Audit.** From time to time during the Term and for three (3) years thereafter, Zimmer Biomet will have the right (but not the obligation) to audit Customer's books, records, facilities, computers, and systems to confirm Customer's compliance with this Agreement and any records related to the Products or Services, including without limitation any damaged, contaminated, wasted, destroyed, recalled, or expired Products or Services. If any audit discloses a breach of this Agreement by Customer, Customer will be responsible for any additional Fees owed by Customer. By conducting a physical audit or examination pursuant to this Section, Zimmer Biomet will not assume any liability for violations of applicable law that Zimmer Biomet fails to discover, nor will Zimmer Biomet assume any obligation to remedy violations of applicable law that Zimmer Biomet discovers in such physical audit or examination. Customer agrees it will be solely liable for any violations of such applicable law.
40. **Counterparts.** This Agreement may be executed in the original or electronically in one or more counterparts, each of which will be deemed an original, but all of which will constitute one agreement.



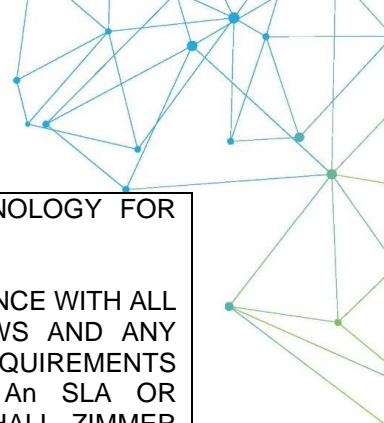
**EXHIBIT A to Schedule 1:
Warranties**

Product Warranties. Unless otherwise set forth in the below table or specified in Zimmer Biomet’s written materials pertaining to a particular Product, Zimmer Biomet warrants to Customer that Products purchased under this Master Agreement conform to Zimmer Biomet’s published specifications (“**Specifications**”) and are free from defects in workmanship and material at the time of shipment. If, upon inspection within a reasonable time after delivery and before implantation or use, Customer discovers a failure of a Product to conform to Specifications or a defect in material and workmanship, it must promptly notify Zimmer Biomet in writing.

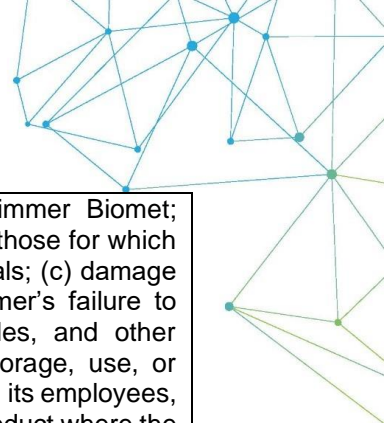
The foregoing warranties, unless otherwise agreed by the Parties in a written addendum to this Master Agreement or expressly provided in the Specifications, shall extend for a period of one (1) year commencing on the date of shipment of the Product to Customer.

This warranty does not extend to or cover: (a) any product, components, or parts not manufactured or sold by Zimmer Biomet; (b) damage caused by use of any Product for purposes other than those for which it was designed as indicated in Zimmer Biomet’s published materials; (c) damage caused by unauthorized attachments or modification; (d) any other abuse or misuse by Customer, its employees, representatives, contractors and agents; (e) any Zimmer Biomet Product where the Customer receives the Product from a person or entity that is not affiliated with or authorized by Zimmer Biomet, or (f) any Product after implanted into a patient.

Product/Service	Warranty
<p>mymobility® SaaS Services</p> <p>Joints™ System</p>	<p>Platform Limited Warranties. Zimmer Biomet warrants to Customer that (a) the SaaS Services will function substantially in accordance with Zimmer Biomet’s publicly available specifications for a period of the Term of the applicable SOW; and (b) Services will be performed in a professional manner consistent with the practices and standards of care generally accepted within Zimmer Biomet’s industry.</p> <p>Warranty Limitations. Zimmer Biomet will have no liability for defects or non-conformances resulting from (a) unauthorized, improper or inadequate modification, maintenance or calibration by Customer or any third party; (b) Software, Services, and content provided by Third Party Contributors and any other software, hardware, interfacing, or supplies not supplied by Zimmer Biomet; (c) Customer’s failure to comply with applicable specifications provided to Customer; (d) improper preparation or maintenance by Customer or a third party; or (e) any Customer Data.</p> <p>TO THE FULLEST EXTENT PERMITTED BY LAW, ZIMMER BIOMET AND THIRD PARTY CONTRIBUTORS DO NOT WARRANT THAT THE PLATFORM WILL MEET THE REQUIREMENTS OF CUSTOMER OR ANY USERS OR THAT THE OPERATION OR USE OF THE PLATFORM WILL BE UNINTERRUPTED OR ERROR FREE. WHILE ZIMMER BIOMET SHALL USE ITS REASONABLE EFFORTS TO MEET DEADLINES FOR PERFORMANCE OF ITS SERVICE OBLIGATIONS UNDER ANY SLA, TIME FOR SUCH PERFORMANCE SHALL NOT BE OF THE ESSENCE OF THE SLA AND ZIMMER BIOMET SHALL NOT BE LIABLE FOR ANY LOSS OR DAMAGE CAUSED BY DELAY IN PERFORMANCE UNDER THE SLA.</p> <p>EXCEPT FOR THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996, AS AMENDED, ZIMMER BIOMET MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, THAT THE PLATFORM MEETS ANY TECHNOLOGY, SECURITY, INFRASTRUCTURE OR PRIVACY SPECIFICATIONS AS MAY BE REQUIRED BY ANY STATE, FEDERAL OR INTERNATIONAL PRIVACY LAWS GOVERNING</p>



	<p>THE USE OF AUDIO OR VIDEO COMMUNICATION TECHNOLOGY FOR HEALTH CARE SERVICES.</p> <p>CUSTOMER SHALL BE SOLELY RESPONSIBLE FOR COMPLIANCE WITH ALL APPLICABLE STATE, FEDERAL, AND INTERNATIONAL LAWS AND ANY APPLICABLE THIRD-PARTY PAYOR REIMBURSEMENT REQUIREMENTS WITH REGARD TO ANY SERVICE PROVIDED UNDER An SLA OR CUSTOMER'S USE OF THE PLATFORM. IN NO EVENT SHALL ZIMMER BIOMET OR ANY THIRD PARTY CONTRIBUTOR BE LIABLE FOR CUSTOMER'S NON-COMPLIANCE WITH ANY LAW, RULE OR REGULATION OR ANY THIRD PARTY PAYOR REIMBURSEMENT REQUIREMENT RESULTING FROM CUSTOMER'S USE OF THE PLATFORM, INCLUDING, WITHOUT LIMITATION: (A) MEDICAL DOCUMENTATION REQUIREMENTS; (B) REQUIREMENTS RELATED TO THE USE OF AUDIO OR VIDEO COMMUNICATION TECHNOLOGY FOR HEALTH CARE SERVICES; (C) ORIGINATING AND DISTANT SITE REQUIREMENTS; OR (D) STATE OR NATIONAL LAW LICENSURE OR LOCATION REQUIREMENTS. CUSTOMER SHALL INDEMNIFY, DEFEND AND HOLD ZIMMER BIOMET AND THIRD PARTY CONTRIBUTORS HARMLESS FROM AND AGAINST ANY LOSS, CLAIM, DAMAGE, COST, EXPENSE (INCLUDING REASONABLE ATTORNEYS' FEES) OR LIABILITY ARISING OUT OF OR RELATING TO CUSTOMER'S USE OF THE PLATFORM.</p>
Patient Base Stations	<p>Zimmer Biomet disclaims all representations and warranties with regards to Patient Base Stations but will pass through to Customer all manufacturer warranties. The foregoing warranties shall extend for a period of one (1) year commencing on the date of shipment of the Patient Base Station to Customer. These manufacturer warranties survive termination or expiration of this Master Agreement.</p>
ROSA	<p>Unless otherwise specified in Zimmer Biomet's written materials, Zimmer Biomet warrants to Customer that Products purchased under this Agreement conform to Zimmer Biomet's published specifications ("ROSA Specifications") and are free from defects in workmanship and material at the time of shipment.</p> <p>The foregoing warranties, unless otherwise agreed by the Parties in a written addendum to this Agreement or expressly provided in the ROSA Specifications, shall extend for a period of one (1) year commencing on the date of shipment of the Product to Customer.</p> <p>This warranty may be cancelled: (a) in the event of unforeseen circumstances beyond Zimmer Biomet's control (acts of God) which do not engage Zimmer Biomet's responsibility (fire, floods, natural disasters, etc.); (b) if the Product has been moved to a different facility without Zimmer Biomet's prior knowledge; (c) if Customer has outstanding invoices with Zimmer Biomet; (d) if Customer misuses or abuses the Product; (e) if Customer's use of Product is non-conforming to Zimmer Biomet's Specifications; (f) if Customer attempts any unauthorized repairs or modifications; or (g) if Customer does not allow time-sensitive preventative or corrective maintenance.</p>
OptiVu™	<p>Zimmer Biomet disclaims all representations and warranties with regard to Product but will pass through to Customer all manufacturer warranties. Customer should contact Zimmer Biomet regarding any warranty claims, and Zimmer Biomet will coordinate Customer's making of its claim with the manufacturer.</p> <p>Zimmer Biomet disclaims any warranty coverage of the following (which may also void manufacturer warranties of third party-manufactured Products): (a) any</p>

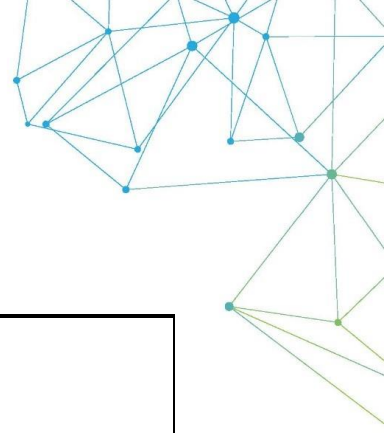


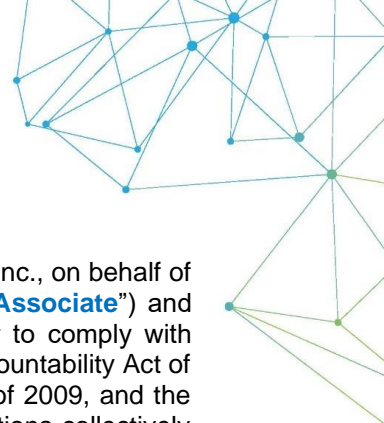
product, components, or parts not manufactured or sold by Zimmer Biomet; (b) damage caused by use of any Product for purposes other than those for which it was designed as indicated in Zimmer Biomet's published materials; (c) damage caused by unauthorized attachments or modification; (d) Customer's failure to comply with all instructions for use, manuals, quick start guides, and other documentation provided with any Product, including improper storage, use, or cleaning of any product; (e) any other abuse or misuse by Customer, its employees, representatives, contractors and agents; (f) any Zimmer Biomet Product where the Customer receives the Product from a person or entity that is not affiliated with or authorized by Zimmer Biomet; or (g) any software application not provided by Zimmer Biomet or any damage resulting from the use thereof. Any warranty related to a Product may be cancelled: (a) in the event of unforeseen circumstances beyond Zimmer Biomet's control (acts of God) which do not engage Zimmer Biomet's responsibility (fire, floods, natural disasters, etc.); (b) if the Product has been moved to a different facility without Zimmer Biomet's prior knowledge; (c) if Customer has outstanding invoices with Zimmer Biomet; (d) if Customer misuses or abuses the Product; (e) if Customer's use of Product is non-conforming to Zimmer Biomet's specifications; (f) if Customer attempts any unauthorized repairs or modifications; or (g) if Customer does not allow time-sensitive preventative or corrective maintenance.

THE FOREGOING WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, RELATING TO THESE OPTIVU PURCHASE TERMS OR THE PRODUCTS OR MATERIALS TO BE PROVIDED UNDER THESE OPTIVU PURCHASE TERMS, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. ALL SUCH OTHER WARRANTIES AND REPRESENTATIONS ARE HEREBY DISCLAIMED.

Customer Facilities

Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital
347 Andrieux Street
Sonoma, CA 95476
10010185





Business Associate Agreement

This Business Associate Agreement (this “**BAA**”) is entered into by and between Zimmer US, Inc., on behalf of itself and those of its affiliates providing services in connection with this BAA (“**Business Associate**”) and Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital (“**Covered Entity**”) in order to comply with privacy, security, and breach notification provisions of the Health Insurance Portability and Accountability Act of 1996, Subtitle D of the Health Information Technology for Economic and Clinical Health Act of 2009, and the regulations promulgated under both laws, as amended from time to time (statutes and regulations collectively referred to as “**HIPAA**”). This BAA amends, supplements, and is made a part of the Master Agreement by and between Covered Entity and Business Associate, as the same may be amended from time to time (the “**Master Agreement**”).

Recitals

WHEREAS, Covered Entity is a “covered entity” as that term is defined at 45 C.F.R. § 160.103.

WHEREAS, in connection with Business Associate providing services to Covered Entity pursuant to the Master Agreement, Business Associate may, on behalf of Covered Entity, create, receive, maintain, process, or transmit certain Protected Health Information (“**PHI**”), as such term is defined below.

WHEREAS, Covered Entity and Business Associate are required by HIPAA to enter into this BAA, which shall be applicable only if Business Associate meets, with respect to Covered Entity, the definition of “business associate” set forth at 45 C.F.R. § 160.103.

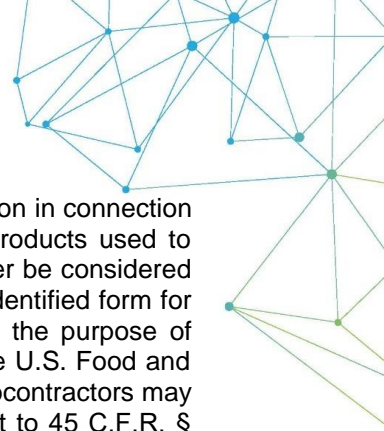
NOW, THEREFORE, in consideration of the mutual promises below and the exchange of information pursuant to this BAA, the parties agree as follows:

Statement of BAA

1. **Definitions.** Capitalized terms used, but not otherwise defined, in this BAA shall have the same meaning as those terms in HIPAA, with the exception of the following: (a) “Individual” shall have the meaning given to such term under 45 C.F.R. § 160.103 and shall include a person who qualifies as a personal representative in accordance with 45 C.F.R. § 164.502(g); (b) “PHI” shall have the meaning given to the term “protected health information” at 45 C.F.R. § 160.103, as applied to the information that Business Associate receives from, or receives, maintains, creates, processes, or transmits on behalf of Covered Entity in connection with the Master Agreement unless otherwise expressly agreed in writing by the parties; and (c) “Unsecured PHI” shall have the meaning given to the term “unsecured protected health information” at 45 C.F.R. § 164.402, as applied to PHI as defined herein.

2. **Compliance and Subcontractors.** Business Associate agrees that to the extent it receives, create, transmits, processes, or maintains PHI, Business Associate will comply with the requirements of this BAA with respect to such PHI. Business Associate will ensure that every subcontractor to whom Business Associate provides PHI will enter into a business associate agreement with Business Associate that includes comparable restrictions and conditions that are no less stringent as those set forth in this BAA. If Business Associate is required to carry out an obligation of Covered Entity under the Privacy Rule of HIPAA, 45 CFR Part 164, Subpart E, Business Associate will comply with applicable requirements of the Privacy Rule that apply to Covered Entity in the performance of that obligation.

3. **Use and Disclosure; Rights.** Business Associate agrees that it shall not use or disclose PHI except as permitted under this BAA and the Master Agreement or as allowed or Required by Law. Business Associate’s use and disclosure of PHI shall comply with this BAA and the provisions of HIPAA applicable to business associates. Business Associate and its subcontractors may use or disclose PHI received or created by it: (a) to perform its obligations under the Master Agreement or this BAA; (b) to perform functions, activities, or services for, or on behalf of, Covered Entity as specified in the Master Agreement; (c) to provide Data Aggregation services to or for Covered Entity as permitted by 45 C.F.R. § 164.504(e)(2)(i)(B); and (d) to



deidentify, within the meaning of 45 C.F.R. § 164.514, PHI and use such deidentified information in connection with the provision of the services, including improving algorithms and other software and products used to provide the services. Information that is deidentified in accordance with HIPAA shall no longer be considered PHI subject to this BAA and may be used by Zimmer Biomet and its subcontractors in its deidentified form for any lawful purpose. Business Associate and its subcontractors may also disclose PHI for the purpose of activities related to the quality, safety or effectiveness of a product or activity regulated by the U.S. Food and Drug Administration as permitted by 45 C.F.R. § 164.512(b)(iii). Business Associate and its subcontractors may use PHI to request an authorization for the use or disclosure of an Individual's PHI pursuant to 45 C.F.R. § 164.508. Business Associate and its subcontractors may use PHI to manage and administer its business or to carry out its legal responsibilities. Business Associate and its subcontractors may disclose PHI to manage and administer its business or to carry out its legal responsibilities if: (a) the disclosure is Required by Law, or (b) Business Associate or its subcontractor obtains reasonable assurances from the person to whom the information is disclosed that it will be held confidentially and used or further disclosed only as Required by Law or for the purpose for which it is disclosed to the person, and the person agrees to notify Business Associate or its subcontractor of any instances of which the person is aware that the confidentiality of the PHI has been breached. Covered Entity shall not ask Business Associate to use or disclose PHI in any manner that would not be permissible under HIPAA if done by Covered Entity, except as expressly set forth in this Section.

4. **Safeguards.** Business Associate agrees to use appropriate physical, administrative, and technical safeguards to prevent a use or disclosure of PHI other than as permitted or required by this BAA and, with respect to electronic PHI, Business Associate agrees to comply with the Security Rule as required by 45 CFR Part 164, Subpart C.

5. **Minimum Necessary.** To the extent required by HIPAA, Business Associate will limit any use or disclosure of, or request for, PHI to the minimum amount necessary to accomplish the intended purpose of the use, disclosure, or request.

6. **Report of Improper Use or Disclosure.** Business Associate shall report to Covered Entity information of which it becomes aware concerning a use or disclosure of PHI that is not permitted by this BAA and any Security Incident affecting PHI of which it becomes aware. The parties acknowledge and agree that this **Section 6** constitutes notice by Business Associate to Covered Entity of the ongoing existence and occurrence or attempts of unsuccessful Security Incidents for which no additional notice to Covered Entity shall be required. "**Unsuccessful Security Incidents**" means, without limitation, pings and other broadcast attacks on Business Associate's firewall, port scans, unsuccessful log-on attempts, denial-of-service attacks, and any combination of the above, so long as no such incident results in unauthorized access to, or use or disclosure of, PHI.

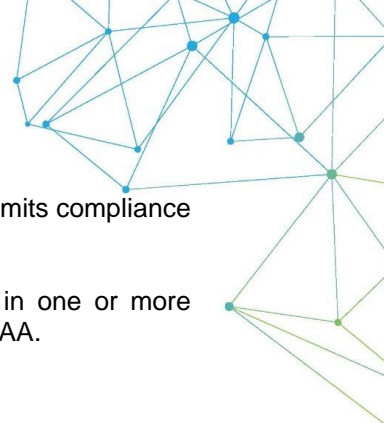
7. **Individual Access.** To the extent Business Associate maintains PHI in a Designated Record Set and in accordance with an Individual's right to access their PHI under 45 CFR § 164.524, Business Associate shall make available PHI maintained in a Designated Record Set to Covered Entity to enable the Covered Entity to provide access to the Individual to whom that information pertains.

8. **Amendment of PHI.** To the extent Business Associate maintains PHI in a Designated Record Set, Business Associate shall make available for amendment PHI in a Designated Record Set and shall incorporate any amendments to PHI in a Designated Record Set in accordance with 45 CFR § 164.526 and in accordance with any process mutually agreed to by the parties.

9. **Accounting.** Business Associate agrees to document such disclosures of PHI and information related to such disclosures as would be required for Covered Entity to respond to an Individual's request for an accounting of disclosures of their PHI in accordance with 45 CFR § 164.528. Business Associate agrees to make available to Covered Entity the information needed to enable Covered Entity to provide the Individual with an accounting of disclosures as set forth in 45 CFR § 164.528.

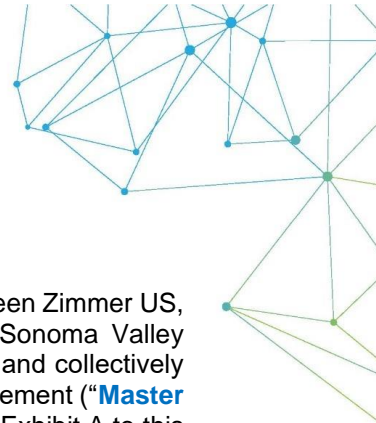


10. **Access to Books, Records, and Other Information**. Business Associate shall make available to the U.S. Department of Health and Human Services its internal practices, books, and records relating to the use and disclosure of PHI for purposes of determining the Covered Entity's compliance with HIPAA.
11. **Covered Entity Obligations**. Covered Entity will notify Business Associate of any limitation in the Covered Entity's notice of privacy practices, any restriction to the use or disclosure of PHI that Covered Entity has agreed to with an Individual, and any changes in or revocation of an authorization or other permission by an Individual, to the extent that such limitation, restriction, change, or revocation may affect Business Associate's use or disclosure of PHI related to such Individuals.
12. **Breach Notification**. Business Associate will, following the discovery of a Breach of Unsecured PHI, notify Covered Entity of such Breach within 15 business days after that discovery. The notice shall include the identification of each Individual whose Unsecured Protected Health Information has been, or is reasonably believed by Business Associate to have been, accessed, acquired, or disclosed during such Breach and other available information that the Covered Entity is required to include in a notification to the Individual pursuant to 45 C.F.R. § 164.404(c).
13. **Term**. This BAA shall take effect on the effective date of the Master Agreement, and shall continue in effect unless and until this BAA is terminated for cause pursuant to Section 14 below or the Master Agreement expires or is terminated in accordance with its terms.
14. **Termination for Cause**. Upon Covered Entity's determination of a breach of a material term of this BAA by Business Associate, Covered Entity shall provide Business Associate written notice of that breach in sufficient detail to enable Business Associate to understand the specific nature of that breach and afford Business Associate an opportunity to cure the breach; provided, however, that if Business Associate fails to cure the breach within thirty (30) days of receipt of such notice, Covered Entity may terminate this BAA and the Master Agreement.
15. **Effect of Termination**. Business Associate agrees that, upon termination of this BAA and upon the request of the Covered Entity, Business Associate shall return or destroy, to the extent feasible and reasonable, all PHI that Business Associate maintains and shall retain no copies of such information. The parties agree that it is not feasible to return or destroy PHI incorporated into aggregated data sets. Business Associate shall continue to limit uses and disclosures of any retained PHI to those permitted by this BAA, the Master Agreement, and as Required by Law. This Section shall survive the termination of this BAA.
16. **Data Portability**. Notwithstanding the foregoing, Business Associate and its subcontractors will not destroy PHI for which it has received patient consent or authorization for continued use or disclosure.
17. **Regulatory References**. A reference in this BAA to a section in HIPAA means the section as in effect or as amended at the time this BAA is executed or amended.
18. **Relationship of the Parties**. The parties to this BAA are independent contractors. None of the provisions of this BAA are intended to create, nor shall they be interpreted or construed to create, any relationship between Covered Entity and Business Associate other than that of independent contractors. Except as otherwise expressly set forth herein, neither party, nor any of its representatives, shall be deemed to be the agent, employee, or representative of the other party.
19. **No Third Party Beneficiaries**. This BAA is between the parties hereto. Nothing express or implied in this BAA is intended to confer, nor shall anything herein confer, any rights, remedies, obligations, or liabilities whatsoever upon any person other than Covered Entity and Business Associate and any respective successors and assigns.
20. **Conflicts**. The terms and conditions of this BAA will override and control any conflicting term or condition of the Master Agreement. All non-conflicting terms and conditions of the Master Agreement shall



remain in full force and effect. Any ambiguity in this BAA shall be resolved in a manner that permits compliance with HIPAA.

21. **Counterparts**. This BAA may be executed in the original or electronically in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one BAA.



Zimmer Biomet Product Purchase Terms

These Zimmer Biomet Product Purchase Terms (“**Zimmer Biomet PPA**”) are entered into between Zimmer US, Inc., d/b/a Zimmer Biomet (“**Zimmer Biomet**”), and Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital (“**Customer**”). Zimmer Biomet and Customer are individually referred to as a “**Party**” and collectively as the “**Parties**”. This Zimmer Biomet PPA modifies the terms and conditions of the master agreement (“**Master Agreement**”) between the Parties and applies to Customer’s purchase of the products listed in Exhibit A to this Zimmer Biomet PPA. This Zimmer Biomet PPA shall be effective as of the Effective Date and shall continue for thirty-six (36) months. In the event of a conflict between any terms in This Zimmer Biomet PPA and the Master Agreement, This Zimmer Biomet PPA will control (but only as related to the subject matter herein).

Exhibits to Zimmer Biomet PPA

Exhibit A to the Zimmer Biomet PPA – Pricing, General Terms and Product Pricing
Exhibit B to the Zimmer Biomet PPA – Facilities Covered

Zimmer Biomet PPA Terms and Conditions

1. **F.O.B. Destination.** Unless otherwise agreed in writing by the Parties, Products will be delivered F.O.B. destination. Pricing does not include freight charges, taxes, or storage fees. Unless otherwise specifically excluded in a Schedule attached hereto, a minimum shipping fee of \$40.00 may be added for each procedure in which Products are delivered via courier. Freight will be prepaid by Zimmer Biomet and added to the invoice as a charge to be paid by Customer. Title and risk of loss for Products, other than consigned products, shall transfer to Customer upon delivery.

Zimmer Biomet’s representative will submit delivery documents for implant cases to Customer’s purchasing department within twenty-four (24) hours after surgery, and Customer will submit a purchase order within forty-eight (48) hours after receipt of the delivery documents for the implant case. Customer will pay \$100.00 for each PO submitted more than three days after the date of surgery.

2. **Pricing.** The product categories (the “**Products**”) covered by this Zimmer Biomet PPA and corresponding prices for the Products under this Zimmer Biomet PPA are described on Exhibit A to Zimmer Biomet PPA. These prices account for discounts off of Zimmer Biomet’s current price list and reflect a discount for payment in immediately available funds, check or electronic funds transfer. In fulfilling the terms and conditions of this agreement, Zimmer Biomet shall not pay costs, fees, or other charges, not included in this agreement. Pricing under this Zimmer Biomet PPA is to be held firm for the first year of the agreement, thereafter pricing will increase three percent (3%) per year, provided that no Product shall be priced at less than cost.

3. **Facilities Covered.** Zimmer Biomet shall provide the Products to Customer and its facilities, if any, listed in Exhibit B to Zimmer Biomet PPA.

4. **Consigned Products.** In the event that Products, instruments, or equipment are held with Customer the Zimmer Biomet Consignment Terms and Conditions shall apply, subject to any subsequent written consignment agreement executed by the Parties specific to particular Products and if no separate consignment agreement is executed, Zimmer Biomet’s standard consignment terms and conditions will apply.

Exhibit A to Zimmer Biomet PPA Pricing, General Terms and Product Pricing

Products:

Pricing: Included in the attached price file, below

Revision Pricing: Revisions (excluding Salvage, Oncology Products, Trabecular Metal Products, and custom products) will be billed at 45% off prevailing list. Revision implants are not included in procedural caps due to the unpredictable nature of implant needs for such procedures.

Salvage and Oncology Products, which include Rotating Hinge Knee, MOST and Zimmer Segmental System, will be billed at 45% off prevailing list.

Wasted Products: Products considered “wasted,” “opened but unused,” “opened in error,” or “trialed in error” by the surgeon or other employee or agent of Customer will be billed at the lesser of 45% off the prevailing list price, or the agreed-upon price in this Exhibit. Provided, however, that the price shall not be less than cost.

Consumables: Consumables products such as, saw blades, drill bits, drill & pin set, special fixation screws used as instrumentation, pins, bone cement, disposable instruments, etc., are not included in the procedure price. Pricing for consumables will be discounted at 45% off prevailing list.

Instrumentation: If Customer requests standard non-disposable instruments necessary to perform a case (collectively, “**Instrumentation**”) Zimmer Biomet shall provide the Instrumentation with no additional charge, except: (a) disposable instruments and optional or additional instrumentation, for example, patient specific instruments, rigid trays and computer navigation equipment are subject to additional charges; (b) if Customer requests that Instrumentation be delivered more than twenty-four (24) hours, but less than forty-eight (48) hours before a scheduled case, a \$100.00 fee will be assessed; (c) if Customer requests that Instrumentation be delivered more than forty-eight (48) hours before a scheduled case, a \$200.00 fee will be assessed; and (d) if Customer’s initial request for Instrumentation is less than forty-eight (48) hours before a scheduled case, a \$200.00 fee will be assessed. Fees will be assessed for each instrument set requested, regardless as to whether the instrument set was used or not.

Upon reasonable advance notice from Customer and in the event that Customer demonstrates a need for additional Instrumentation based upon excess case volume, Zimmer Biomet will provide additional Instrumentation on a temporary basis as appropriate. If Customer requests more than one instrument case for a procedure, Customer will pay a fee of \$100.00. Zimmer Biomet will upgrade Instrumentation as upgrades become available. Instrumentation shall at all times remain the property of Zimmer Biomet and Customer accepts the risk of loss for missing or damaged Instrumentation, reasonable wear and tear excepted. Lost, damaged, or missing Instrumentation shall be invoiced to Customer at then prevailing list price less 45%, provided that Zimmer Biomet must not be required to sell any Product below Zimmer Biomet’s cost. Upon termination of this Agreement, such Instrumentation shall be returned to Zimmer Biomet at the sole expense of Zimmer Biomet.

Cancelled Cases.

- a. **For All Cases.** If, within 24 hours of any scheduled procedure, Customer cancels its order, in whole or in part, Customer shall be liable to Zimmer Biomet for reasonable cancellation charges, with a minimum charge of \$100.00. Additional Charges may include, but are not limited to, all costs and expenses incurred by Zimmer Biomet in connection with procuring, filling, and cancelling Customer’s purchase order as well as return shipping charges.
- b. **Additional Procedures for Cases with Canary Base Stations.** Products may include, without limitation, Implants, patient Canary base stations (“**Patient Base Stations**”) and operating room Canary base stations (“**OR Base Stations**”). In the event a surgery is cancelled for which Customer has provided a patient with a Patient Base Station, Customer will provide Zimmer Biomet with notice of such



cancellation promptly but no later than twenty-four (24) hours after the cancellation. Customer will make a good faith effort to ensure that the Patient Base Station is returned to Zimmer Biomet or any other third party as directed by Zimmer Biomet.

PPE: Customer shall supply, without charge, any necessary and required personal protective equipment to Zimmer Biomet's representatives when such representatives are required to be on site at a Customer facility.

Product Price Export attached.



New-Recon-Local-Sole Source.xlsx

Sole Source Commitment

For Customer to retain the pricing indicated on Exhibit A, Customer must purchase from Zimmer Biomet at least 90% of hips, knees, shoulders, and cement products. ("**Sole Source Commitment**"). Within thirty days after the end of the contract quarter, Customer shall provide Zimmer Biomet sufficient documentation as Zimmer Biomet may require to calculate whether Customer has met its Sole Source Commitment. After Zimmer Biomet receives documentation from Customer, Zimmer Biomet shall determine whether Customer has met this Sole Source Commitment. If Customer has met its Sole Source Commitment, then pricing shall continue at the same level. If the Customer falls short of the Sole Source Commitment, but is within 5%, Customer will have 90 days to return to compliance. If (1) after the 90 days compliance has not been re-established, (2) Customer does not meet the Sole Source Commitment initially, or (3) Customer does not provide the Sole Source Commitment documentation, then pricing for the Products shall increase 10% for the remainder of the Agreement, including any extensions, after Zimmer Biomet provides 30 days' notice to the Customer.

Rebate

This rebate shall be effective on the first day of the month following the Effective Date and continue for a period of five (5) years. The term "**Contract Year**" means the 12-month period beginning with the first month for which this rebate is in effect, and each 12-month period beginning with the corresponding month in subsequent calendar years.

Zimmer Biomet shall provide Customer the opportunity to earn a rebate for net purchases of cement, disposable computer assisted solutions, early intervention (except hyaluronic products), extremities, foot & ankle, hip, knee, lower trauma, sports medicine, surgical disposable products, and upper trauma products from Zimmer Biomet, net of returns, shipping, fees, and other reductions in price ("**Total Purchases**") as outlined below.

The **Baseline** for each Contract Year shall be \$500,000.00 in Total Purchases. Purchases in excess of the Baseline for each Contract Year are **Excess Purchases**. Excess Purchases shall be categorized into tiers as shown in Table 1 ("**Tiers**"), with the first \$500,000.00 of Excess Purchases in Tier 1, the second \$500,000.00 of Excess Purchases in Tier 2, and any remaining amounts of Excess Purchases in Tier 3. Each Tier is noncumulative.

If Customer exceeds the Baseline in a given Contract Year, Customer will earn a rebate of the Excess Purchases multiplied by the applicable Rebate Percent for each Tier.

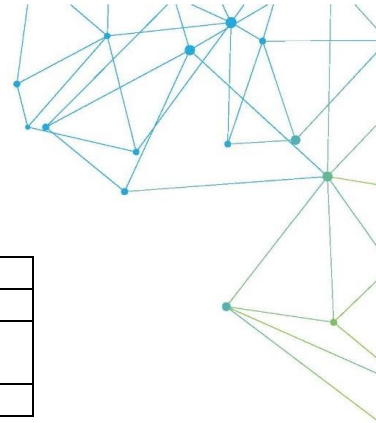


Table 1

	Excess Purchases	Rebate Percent
Tier 1	\$0.01 - \$500,000.00	3%
Tier 2	\$500,000.01 - \$1,000,000.00	6%
Tier 3	\$1,000,000.01+	9%

As an example, if Customer’s Total Purchases are \$1,200,000.00 in a Contract Year, Customer’s Excess Purchases are \$700,000.00 (\$1,200,000.00 - \$500,000.00). The first \$500,000.00 of the Excess Purchase falls into Tier 1, so Customer will earn a rebate of \$15,000.00 (\$500,000.00 * 3%). The remaining \$200,000.00 of Excess Purchases fall into Tier 2, so Customer will earn a rebate of \$12,000.00 (\$200,000.00 * 6%). Customer will earn a total rebate of \$27,000.00.

If Customer does not earn a rebate during a Contract Year, Zimmer Biomet may eliminate the rebate program with written notice to Customer.

Procedure

Zimmer Biomet shall issue the rebate in the form of a credit each Contract Year within forty-five days after Customer pays the invoices to which the rebate relates, and the rebate requirements have been met. Should Customer terminate this Agreement without cause any time before the end of the Contract Year, then Customer shall not earn a rebate for that Contract Year or thereafter.

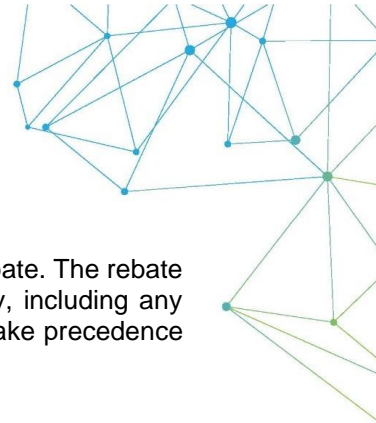
Customer is required to issue purchase orders to Zimmer Biomet within three business days of each use of the Product and remain current on all accounts payable in order to receive rebate. In the event that Customer does not consistently provide purchase orders within three business days, Zimmer Biomet reserves the right to withhold earned rebates until the issue is satisfactorily resolved. In the event that Customer does not remain current on all accounts payable to Zimmer Biomet, Zimmer Biomet reserves the right to withhold earned rebates until all Customer’s accounts payable are made current and/or at Zimmer Biomet’s discretion, apply earned rebates as payment on past due accounts.

Assignment

Neither party may assign its rights and obligations pursuant to the rebate to any third party without the express prior written consent of the other party; provided, however, that Zimmer Biomet may assign or delegate all or any part of its rights and obligations pursuant to the rebate without the need for Customer’s consent to any subcontractor or affiliate of Zimmer Biomet or, in the event of a merger, acquisition, change of control, reorganization or sale of substantially all of Zimmer Biomet’s assets, to Zimmer Biomet’s successor.

Reporting Requirement

If Customer is an institution required to file Medicare/Medicaid cost reports with Federal or State Agencies for Payment, Customer represents and warrants that it will comply with all obligations under Federal Law, to fully and accurately Report all discounts and rebates received, in its cost reports. (Public Law 100-93, the “Medicare and Medicaid Patient and Program Protection Act of 1987,” 42 (CBR Part 1001). Additionally, Customer represents and warrants that it will comply with all legal requirements reporting costs to private reimbursement companies.

**Entire Understanding**

This agreement sets forth the complete understanding of the parties involved, regarding the rebate. The rebate claim or any amount paid to Customer may not be transferred or assigned to any third party, including any physician or physician group. The parties agree that the terms and conditions of this rebate take precedence over any prior agreement.

Rebate Contact Information

For Customer to receive information about rebates in a timely manner, Customer must completely fill out the following Rebate Contact Information designating the department and address where the rebate information will be sent.

Customer: _____

Department: _____

Mailing Address: _____

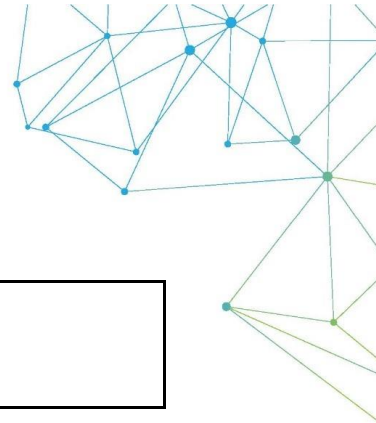
Attn: _____

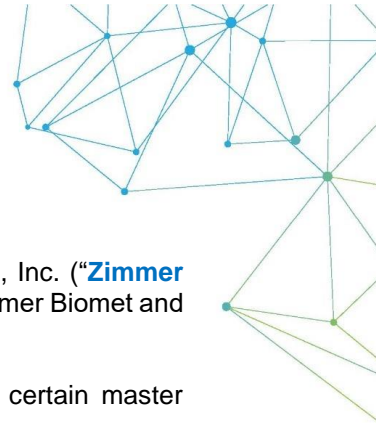
Telephone Number: _____

Email Address: _____

Exhibit B to the Zimmer Biomet PPA
Facilities Covered

Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital
347 Andrieux Street
Sonoma, CA 95476
Account # 10010185





ROSA® Product Terms

These ROSA Product Terms (“**ROSA Product Terms**”) are entered into between Zimmer US, Inc. (“**Zimmer Biomet**”), and Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital (“**Customer**”). Zimmer Biomet and Customer are individually referred to as a “**Party**” and collectively as the “**Parties**”.

The Parties intend these ROSA Product Terms to modify the terms and conditions of that certain master agreement (“**Master Agreement**”) being executed by the Parties simultaneously herewith.

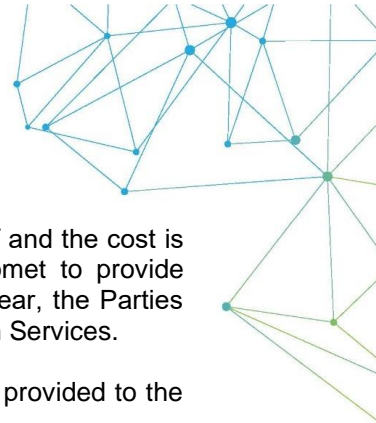
These ROSA Product Terms apply to Customer’s purchase of the products listed on the Exhibit A to ROSA Product Terms. These ROSA Product Terms shall be effective as of the date of the last to sign of the Parties and shall continue for thirty-six (36) months. In the event of a conflict between any terms in these ROSA Product Terms and the Master Agreement, these ROSA Product Terms will control (but only as related to the subject matter herein).

Exhibit to ROSA Product Terms

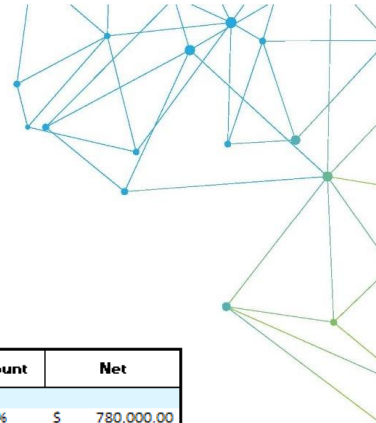
Exhibit A to the ROSA Product Terms – Pricing

ROSA Product Terms and Conditions

- F.O.B. Destination.** Unless otherwise agreed in writing by the Parties, Products will be delivered F.O.B. destination. Pricing does not include freight charges, taxes or storage fees. Freight will be prepaid by Zimmer Biomet and added to the invoice as a charge to be paid by Customer. Title and risk of loss for Products, shall transfer to Customer upon delivery; however, no Products shall be deemed to have been accepted by Customer until they shall have been inspected and, where appropriate, duly installed and tested to the reasonable satisfaction of Customer.
- Pricing.** The product categories (the “**Products**”) covered by the ROSA Product Terms and corresponding prices for the Products under this are described on Exhibit A to the ROSA Product Terms. These prices account for discounts off of Zimmer Biomet’s current price list and reflect a discount for payment in immediately available funds, check or electronic funds transfer. In fulfilling the terms and conditions of this agreement, Zimmer Biomet shall not pay costs, fees, or other charges, not included in this agreement.
- New Technology.** To the extent applicable, new or next generation technology (technology that is not in the current product catalog or has not received FDA approval as of the date of this Agreement) shall be mutually negotiated and agreed upon prior to use.
- Software.** To the extent that Zimmer Biomet’s proprietary or licensed software (“**Software**”) is included on Exhibit A to the ROSA Product Terms or is incorporated in any of the Products, Zimmer Biomet hereby grants to Customer, while this Agreement is in effect, a revocable, royalty free, right and license to use the Software solely in accordance with the terms and conditions herein. Customer shall not copy, modify, make derivatives from and/or use the Software for any other purpose other than those purposes expressly permitted herein. Customer acknowledges that the Products and Software may include automated features that track and log utilization and operation of the Products, Software and Services (as such term is defined on Schedule 3) (the “**Log Information**”), and that the Log Information will be accessible by, and transmitted to, Zimmer Biomet in connection with Zimmer Biomet’s provision and support of the Products, Software and Services and its ordinary business purposes, including to meet obligations imposed by the U.S. Federal Food and Drug Administration (“**FDA**”) and similar international regulatory bodies in connection with adverse events, product complaints, and post-marketing surveillance. “**Software**” means (i) the object code version of any Zimmer Biomet proprietary or licensed software product specified by a Purchase Order or this Agreement, (ii) all updates thereto provided by Zimmer Biomet or its supplier in the performance of this Agreement, (iii) any customized features and functions provided by Zimmer Biomet pursuant to this Agreement, and (iv) all related Documentation. “Software” does not include third party software except as expressly provided by this Agreement.



5. **Maintenance and Support.** Installation is carried out by Zimmer Biomet’s authorized staff and the cost is included in the price of the Product. In the event that Customer wishes for Zimmer Biomet to provide maintenance and professional services (“**Services**”) for the Products after the first contract year, the Parties hereto shall enter into a separate ROSA Services Terms prior to Zimmer Biomet providing such Services.
6. **Training and Assistance.** After the Product has been installed, training on its use will be provided to the surgeons and operating staff and the cost is included in the price of the Product.



**Exhibit A to the ROSA Product Terms
Pricing**

ITEM #	ITEM DESCRIPTION	UM	BOX QYT	ORD ER	LIST PRICE	UNIT PRICE	Discount	Net
<u>ROSA Knee System</u>								
20-8020-100-01	ROSA KNEE PLATFORM	1	1	1	\$ 1,300,000.00	\$ 780,000.00	40%	\$ 780,000.00
	ROSA KNEE OPTICAL UNIT					INCLUDED		INCLUDED
	ROSA KNEE SOFTWARE					INCLUDED		INCLUDED
	ROSA KNEE SOFTWARE UPGRADE					INCLUDED		INCLUDED
	CLINICAL PC					INCLUDED		INCLUDED
20-8020-080-02	ROSA PROTECTION COVER	1	1	1	\$ 1,500.00	\$ -	100%	INCLUDED
<u>Software</u>								
20-8060-400-01	ROSA HIP FLUORO SOFTWARE	1	1	1	\$ 300,000.00	\$ 150,000.00	50%	\$ 150,000.00
TOTAL Capital								\$ 930,000.00
<u>Instrument Kits</u>								
<u>General</u>								
KT-8020-050-00	ROSA KNEE GENERAL INSTRUMENT KIT	1	1	2	\$ 21,430.00	\$ -	100%	INCLUDED
<u>TKA</u>								
KT-8020-060-04	ROSA KNEE PERSONA V1.4 KIT (ROSAPSN4)	1	1	2	\$ 18,828.25	\$ -	100%	INCLUDED
<u>Hip</u>								
KT-4444-100-00	ROSA HIP IMPACTION INSTRUMENT KIT	1	1	1	\$ 9,977.50	\$ -	100%	INCLUDED
KT-4444-100-01	ROSA HIP TABLET KIT (ROSAHT)	1	1	1	\$ 8,550.54	\$ -	100%	INCLUDED
KT-4444-100-02	ROSA HIP ANTENNA AND SENSOR KIT (ROSAHAS)	1	1	1	\$ 18,933.00	\$ -	100%	INCLUDED
TOTAL Instrument Kits								\$ -
<u>X-PSI Calibration Kit</u>								
20-8085-020-00	X-PSI Calibration Kit	1	1	1	\$ 195.00	\$ -	100%	INCLUDED
<u>Service</u>								
MANUFWARRK1	Standard Warranty + Preventative Maintenance, ROSA Knee Year-1	1	1	1	\$ 10,000.00			INCLUDED WITH PURCHASE
<u>Shipping</u>								
Shipping	INCO Term DAP	1			\$ 10,000.00	\$ 4,999.00	50%	BILLED SEPARATELY
TOTAL								\$ 930,000.00

Actual pricing to be agreed upon purchase.



ROSA[®] Service Terms

These ROSA Service Terms (“**ROSA Service Terms**”) are entered into between Zimmer US, Inc. (“**Zimmer Biomet**”), and Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital (“**Customer**”). Zimmer Biomet and Customer are individually referred to as a “**Party**” and collectively as the “**Parties**”.

The Parties intend to modify the terms and conditions of that certain master agreement (“**Master Agreement**”) being executed by the Parties simultaneously herewith to add these ROSA Service Terms.

These ROSA Service Terms apply to Customer’s purchase of the maintenance, data services, and support described herein (“**Services**”) associated with the products listed on Exhibit A (the “**Product**”) to the ROSA Service Terms. These ROSA Service Terms shall be effective as of the date of the last to sign of the Parties the “**Effective Date**”) and shall continue for a period of thirty-six (36) months (the “**Term**”). In the event of conflict(s) between any terms in these ROSA Service Terms and the Master Agreement, these ROSA Service Terms will control said conflict(s).

Exhibits to the ROSA Service Terms

Exhibit A to the ROSA Service Terms – Product Covered
Exhibit B to the ROSA Service Terms – 2024 ROSA Service Price List
Exhibit C to the ROSA Service Terms – Hip Addendum (if applicable)

ROSA Service Terms and Conditions

1. **Business Associate Agreement.** The Parties shall execute the Business Associate Agreement (the “**BAA**”) attached in the Master Agreement. Any creation, receipt, transmission or maintenance of Protected Health Information by Zimmer Biomet on behalf of Customer pursuant to this Agreement, including the provision of technical support, data services (including providing insights to Customer for its healthcare operations and to assist Customer in treatment), and maintenance services will be subject to that executed BAA. Notwithstanding the foregoing, Customer hereby directs Zimmer Biomet to disclose the Adverse Event Data to Zimmer Biomet’s adverse event tracking function, and the Parties acknowledge and agree that such Adverse Event Data shall not be Protected Health Information and shall not be governed by the Business Associate Agreement.

2. **Description of Services.** The Services shall be performed solely by Zimmer Biomet’s technical staff or Zimmer Biomet’s authorized agents. Maintenance services shall not be provided on any other products or equipment not sold or installed by Zimmer Biomet or on any modifications or customizations made to the original Product by the Customer.

The Services include the following:

- Preventive maintenance visits performed annually as required by Zimmer Biomet. Each visit includes the following:
 - Functional checks; and
 - Planned maintenance and warranty.
- Virtual technical support response within twenty-four (24) hours or less.
- On-site response within three (3) business days of receiving notification of request.
- Corrective maintenance of the Product including any required replacement parts, excluding consumable items.
- Hotline available on workdays from 7:00 am to 7:00 pm Eastern Time by phone to: 1 (855) 767-2268.
- All travel and related expenses to and from the Customer site.

The following are not included as part of the offered Services (“**Excluded Services**”):

- Work or repairs performed on non-original Product and any modifications or customizations made to the



original Product by the Customer.

- Work or repair related to moving or transporting the Product requested by the Customer, including recalibrations.
- Work or repairs related to modifications or customizations made to the original Product requested by the Customer.
- Work, repairs, preventive or corrective maintenance, rebooting of the Product due to negligence, non-conforming use, experimental use, improper use; and unauthorized personnel use.
- Work, repairs, preventive or corrective maintenance, rebooting of the Product due to environmental actions such as fire, floods or any other acts of God.

If applicable, Exhibit C provides Services and Excluded Services included in the hip module.

3. **Software Updates.** The Services include installation and updates to software purchased by Customer. Software updates are released by Zimmer Biomet and designed to improve the functionality of the Product.

4. **Additional Conditions.** Maintenance and repairs are performed during Customer's regular business hours Monday through Friday.

After each act of maintenance or repair, a report will be submitted to the Customer detailing the work performed on the Product at the Customer's facility. The Customer is required to sign and return a copy of the report to the Zimmer Biomet technician or authorized agent.

Zimmer Biomet reserves the right to suspend all work performed under this contract if:

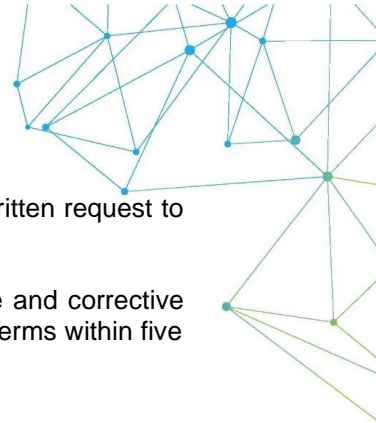
- The Product has been tampered with by non-Zimmer Biomet personnel;
- The Product has been moved to a different location without Zimmer Biomet's prior knowledge; or
- The Customer has outstanding invoices with Zimmer Biomet.

5. **Termination.** For ROSA Product(s) purchased by Customer, these ROSA Service Terms may be cancelled by Customer with respect to only such ROSA Product(s) by providing written notice to Zimmer Biomet at least four (4) months prior to the annual anniversary of the Effective Date indicating the desire of such Party to terminate. Zimmer Biomet shall have the right to terminate these ROSA Service Terms by providing Customer written notice at least four (4) months prior to the annual anniversary of the Effective Date indicating the desire of such Party to terminate.

6. **Costs.** The annual cost of the Services shall be provided in Exhibit A and payable net thirty (30) days from date of invoice.

7. **Loaner Units.** If Product covered under these ROSA Service Terms that cannot be performed onsite at Customer or requires more than 72 hours of downtime, Zimmer Biomet will issue a return goods authorization ("**RG**A"). While Product is under RGA, Customer may request in writing to receive a loaner unit ("**Loaner Unit**") from Zimmer Biomet. Upon approval of Zimmer Biomet, Zimmer Biomet will provide a Loaner Unit to Customer until Product is repaired or replaced. Zimmer Biomet will repair and return ship the Product to Customer in a reasonable amount of time not to exceed thirty (30) days or replace if it cannot be repaired.

Upon Customer's receipt of repaired Product, Customer will allow Zimmer Biomet to pick up the Loaner Unit within forty-eight (48) hours. If Customer does not provide Zimmer Biomet access to the Loaner Unit within thirty (30) days of receiving the Product, Customer agrees to pay an extended usage fee of fifteen thousand dollars (\$15,000.00) due upon receipt of Zimmer Biomet's invoice. If Customer does not provide Zimmer Biomet access to the Loaner Unit within sixty (60) days of receiving the Product, Customer agrees to pay a second extended usage fee of fifteen thousand dollars (\$15,000.00) due upon receipt of Zimmer Biomet's invoice. If Customer does not make the Loaner Unit available after ninety (90) days from Customer's receipt of Product, Customer agrees to pay for the replacement value of the Loaner Unit less the invoiced and paid extended usage fees. Zimmer Biomet will transfer title to Customer on an "AS IS, WHERE IS" basis without recourse to or warranty from Zimmer Biomet.



8. Request for Services Outside of the ROSA Service Terms. Customer shall submit a written request to Zimmer Biomet for any Excluded Services.

Zimmer Biomet will respond to all written requests made by Customer for repairs, preventive and corrective maintenance, rebooting of the Product, and other services not covered by the ROSA Service Terms within five (5) business days.

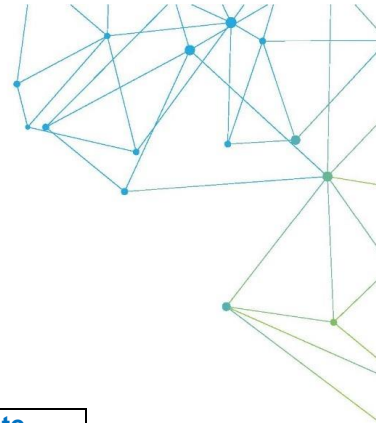


Exhibit A to the ROSA Service Terms
Product Covered

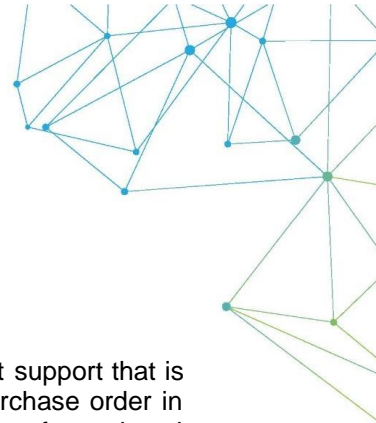
ROSA Robot Serial Number _____

	Installation Date	Services Commencement Date
Total Knee		1 YEAR AFTER INSTALLATION
Hip		(SAME AS TOTAL KNEE)

Annual cost of Services for years 2-3 is \$85,000.00.

Total Cost

Costs. The annual cost of the Services shall be \$85,000.00. Payment is due net thirty (30) days from date of invoice.



**Exhibit B to the ROSA Service Terms
2024 ROSA Service Price List**

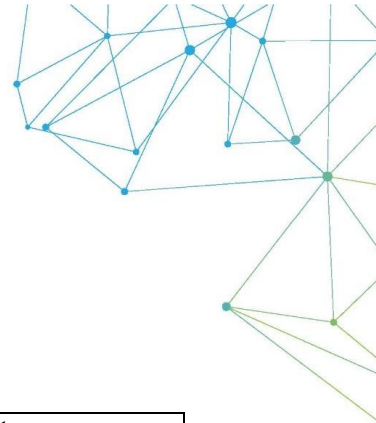
Time and Material Pricing

Time and Material rates apply to Customers who are off contract or to Customers who request support that is not covered under the ROSA Service Terms. All off contract services require a quote and purchase order in advance of the planned event. Parts and labor will be billed separately. Rates are inclusive of travel and expenses and are subject to change at any time without notice.

Call Support <i>Technical Support Call Center</i>	Standard Rate[‡] <i>7:00AM – 4:00PM</i>	Premium Rate <i>4:00PM – 7:00AM Weekends, Holidays</i>	Preventative Maintenance Visit <i>Estimate</i>
Free of charge	\$800 / Hour	\$1,200 / Hour	\$20,000

‡Minimum charge for an on-site visit is \$8,000.

Please contact ROSA Technical Support at (855) ROSA-BOT / (855) 767-2268 or your local representative to schedule service for your Zimmer Biomet ROSA robot(s).



**Exhibit C to the ROSA Service Terms
Hip Addendum**

The hip application includes the following hip products (“**Hip Product**”) in the table below:

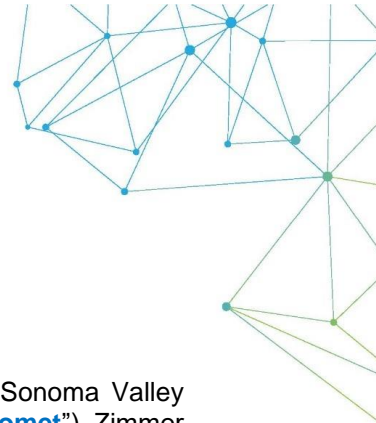
Description	Serial Number	Quantity
ROSA Tablet	20-8060-400-00	1
Tablet Power Supply	20-8060-401-00	1
Tablet Battery	20-8060-402-00	2
Tablet Battery Bay	20-8060-403-00	1
Tablet Power Cord Type (B)	20-8060-400-03	1

The hip application includes the following hip services (“**Hip Services**”):

- Tablet
 - Defects due to a manufacturing issue
 - Accidental damage to ROSA Tablet – two (2) covered events during the ROSA Service Terms
 - Replacement of Batteries and Power Cords
 - Calibration of the Product
 - Functional checks
 - Planned maintenance and warranty

The following are not included as part of the offered Hip Services (“**Hip Excluded Services**”):

- Work or repairs performed on non-original Hip Product and any modifications or customizations made to the original Hip Product by the Customer.
- Work or repair related to moving or transporting the Hip Product requested by the Customer, including recalibrations.
- Work or repairs related to modifications or customizations made to the original Hip Product requested by the Customer.
- Work, repairs, preventive or corrective maintenance, rebooting of the Hip Product due to negligence, non-conforming use, experimental use, improper use; and unauthorized personnel use.
- Work, repairs, preventive or corrective maintenance, rebooting of the Hip Product due to environmental actions such as fire, floods or any other acts of God.



ROSA® PLACEMENT AGREEMENT
Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital
347 Andrieux Street
Sonoma, CA 95476
ZB Account # 10010185

This ROSA® Placement Agreement (the “**Placement Agreement**”) is entered into between Sonoma Valley Hospital District d/b/a Sonoma Valley Hospital (“**Customer**”), and Zimmer US, Inc. (“**Zimmer Biomet**”). Zimmer Biomet and Customer are individually referred to as a “**Party**” and together as the “**Parties**”. This Placement Agreement shall be effective from the date of the last signature of the Parties and shall end three (3) years after the first day of the month following installation of the Equipment (“**Placement Term**”). At the end of the first Contract Year of the Placement Term, Customer shall have the one-time option to terminate this Placement Agreement if a ROSA certified physician who consistently performs procedures using the ROSA should sever their relationship with the Customer, by providing no less than sixty (60) days prior written notice to Zimmer Biomet. Termination, for any cause, is subject to the equipment return provision in Section 9(b) herein. Customer’s notice of termination does not relieve it of its obligation to make a prorated MPC during the applicable Commitment Period, up to and including the date of termination. This Placement Agreement is null and void if board approval is not received in December.

This Placement Agreement is further subject to the terms and conditions of the Master Agreement. If there is any conflict between this Placement Agreement and the Master Agreement, the terms of this Placement Agreement will prevail (but only as related to the subject matter herein).

The Parties agree as follows:

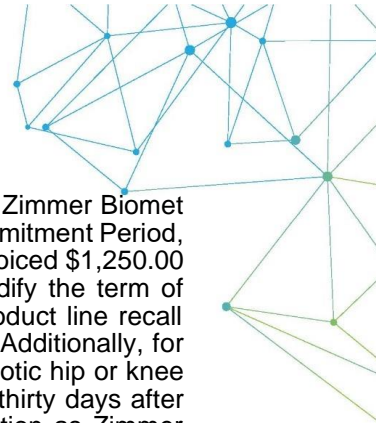
If Customer performs the number of procedures set forth in Section A below (the minimum purchase commitment, or “**MPC**”), using ROSA hip or knee implants and ROSA disposables (“**Products**”), Customer’s purchases will fully compensate Zimmer Biomet for the installation and use of the Equipment identified in Section B (“**Equipment**”). “**Contract Year**” means the 12-month period beginning with the first month for which this Placement Agreement is in effect, and each twelve-month period thereafter.

Section A: Procedures

Item Description	MPC
ROSA® KNEE & HIP CASES	124

Section B: Equipment

Part #	Zimmer Product Description	Quantity
20-8020-100-01	ROSA KNEE PLATFORM US PL B	1
MANUFWARRK1	ONE (1) YEAR WARRANTY ON ROSA ROBOT FROM INSTALLATION	1
20-8020-080-02	ROSA PROTECTION COVER	1
KT-8020-060-04	ROSA KNEE PERSONA V1.4 KIT (ROSAPSN4)	2
20-8085-020-00	X-PSI CALIBRATION KIT	1
KT-8020-050-00	ROSA KNEE GENERAL INSTRUMENT KIT	2
KT-8020-060-04	ROSA KNEE PERSONA V1.4 KIT (ROSAPSN4)	2
20-8060-400-01	ROSA HIP FLUORO SOFTWARE	1
KT-4444-100-00	ROSA HIP IMPACTION INSTRUMENT KIT	1
KT-4444-100-01	ROSA HIP TABLET KIT (ROSAHT)	1
KT-4444-100-02	ROSA HIP ANTENNA AND SENSOR KIT (ROSAHAS)	1



1. Zimmer Biomet shall invoice Customer for Products as they are ordered by Customer. Zimmer Biomet shall evaluate Customer's purchases annually ("**Commitment Period**"). At the end of each Commitment Period, Zimmer Biomet shall determine whether Customer has met the MPC. If not, Customer will be invoiced \$1,250.00 for each procedure below the MPC. Zimmer Biomet will act in good faith to compliantly modify the term of applicable Commitment Period and the Term of the Placement Agreement in the event a product line recall relating to the Equipment renders the Equipment unusable during the period of any such recall. Additionally, for Customer to retain the pricing for the Products, Customer must perform at least 80% of its robotic hip or knee procedures using the ROSA and applicable Products ("**Sole Source Commitment**"). Within thirty days after the end of the contract quarter, Customer shall provide Zimmer Biomet sufficient documentation as Zimmer Biomet may require to calculate whether Customer has met its Sole Source Commitment. After Zimmer Biomet receives documentation from Customer, Zimmer Biomet shall determine whether Customer has met this Sole Source Commitment. If Customer has met its Sole Source Commitment, then pricing shall continue at the same level. If the Customer falls short of the Sole Source Commitment, but is within 5%, Customer will have 90 days to return to compliance. If (1) after the 90 days compliance has not been re-established, (2) Customer does not meet the Sole Source Commitment initially, or (3) Customer does not provide the Sole Source Commitment documentation, then the MPC shall be increased by 10% for each subsequent Contract Year.

2. In accordance with the discount safe harbor to the federal anti-kickback statute (42 C.F.R. § 1001.952(h)), Customer agrees to fully and accurately report all amounts paid and rebates earned hereunder to Medicare, Medicaid and all other federal and state health care programs and third-party payors as required by applicable law or agreement and to provide copies of this Placement Agreement and all other applicable documentation and invoices to representatives of these programs and third-party payors upon their request.

3. Title to the Equipment shall remain with Zimmer Biomet at all times during the Placement Term. Customer shall not encumber the Equipment in any way, and further shall not remove the Equipment from Customer's place of business without first obtaining written consent of Zimmer Biomet. Notwithstanding the foregoing, Customer hereby grants to Zimmer Biomet a security interest in the Equipment as security for all Customer's liabilities and obligations hereunder.

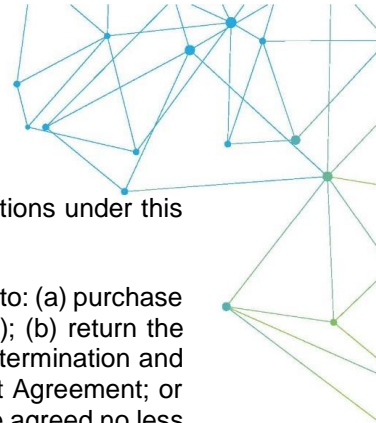
4. The following events shall constitute a default under this Placement Agreement ("**Event of Default**"): (a) Customer violates any of the provisions under this Placement Agreement; (b) Customer fails to make any payment within ten (10) days of its due date; or (c) if any of the following actions or proceedings are not dismissed within sixty (60) days after commencement: (i) Customer's dissolution, insolvency, becoming the subject of a petition in bankruptcy, or involvement in any other proceeding under federal bankruptcy laws; (ii) Customer makes an assignment for benefit of creditors; or (iii) Customer is named in a suit for the appointment of a receiver. Following an Event of Default, Zimmer Biomet may exercise concurrently, or separately, without notice to Customer, any of the following remedies: (a) repossess the Equipment; (b) terminate the Placement Agreement; and (c) declare the Balance Remaining immediately due and payable. "**Balance Remaining**" is defined as any and all amounts due and payable but not yet paid, plus fair market value of Equipment, less any recoveries due to repossession, if applicable. Customer agrees to pay all of Zimmer Biomet's costs of enforcing Zimmer Biomet's rights against Customer, including attorneys' fees and court costs.

5. Customer agrees to accept, take delivery of, store, and ensure that the Equipment is maintained in good repair, condition and in proper working order by entering into and maintaining a service agreement between the parties, use said Equipment as medically indicated and agrees to take full legal and financial responsibility for any and all loss, damage, or destruction of said Equipment while in Customer's possession until the Equipment is returned to Zimmer Biomet.

6. Provided Customer is not in breach of this Placement Agreement, Customer shall be entitled to all Equipment warranties offered by Zimmer Biomet. Customer's sole remedy for breach of any Equipment warranty shall be against Zimmer Biomet. The warranty for the Equipment shall begin on the date of installation and shall continue for one year thereafter.

7. Intentionally omitted.

8. Customer agrees to permit Zimmer Biomet entry into the premises where Equipment supplied hereunder is stored, from time to time. Such entry shall occur during normal business hours for the purpose of inspecting



and inventorying such Equipment and removing Equipment if Customer fails to meet its obligations under this Placement Agreement.

9. No less than thirty (30) days prior to the end of the Placement Term, Customer will elect to: (a) purchase all, but not less than all, of the Equipment at the then fair market value (“**Fair Market Value**”); (b) return the Equipment to Zimmer Biomet by making it available for pick-up within forty-eight (48) hours of termination and shall pay all assessable fees for expenses, loss, theft or damage as outlined in this Placement Agreement; or (c) execute an extension or alternative acquisition solution under mutually agreeable terms to be agreed no less than thirty (30) days prior to end of Placement Term and to be effective upon expiration of the Placement Term.

10. During the Placement Term or any extension to this Placement Agreement, Customer will self-insure for or maintain adequate commercial general liability insurance and “all risk” property insurance covering the Equipment against physical damage or loss, including theft, for its full replacement cost. Customer’s insurance shall name Zimmer Biomet as loss payee and additional insured and shall provide for thirty (30) days’ prior notice to Zimmer Biomet of any modification or cancelation. If requested by Zimmer Biomet, Customer shall provide evidence of such insurance coverage.

11. Customer shall not consolidate or merge with or into any other entity, liquidate, sell or dispose of all or any substantial portion of its ownership interests, properties or assets other than in the ordinary course of its business, without Zimmer Biomet’s prior written consent, which shall not be unreasonably withheld. CUSTOMER HAS NO RIGHT TO SELL, TRANSFER, ASSIGN OR SUBLET THE EQUIPMENT OR THIS PLACEMENT AGREEMENT WITHOUT THE WRITTEN CONSENT OF BOTH PARTIES.

12. Intentionally omitted.

13. Intentionally omitted.

14. Intentionally omitted.

From: Bill Boerum, Board Member, District Treasurer, Chair – Finance Committee
To: Members of Finance Committee
Subject: Audited Financial Statements

November 26, 2024

At its meeting on November 7, the Board approved the draft audited Financial Statements recommended by the Audit Committee at its October meeting which had been submitted by our new audit firm, Moss Adams. Attached here is the full package seen by Audit and the Board including the presentation by the firm. The latter includes charts certain of which are comparatives with five peer group hospitals.

You are invited to peruse the statements according to your own interests and instincts, and read and analyze where you wish. There is no requirement to read or much less study the entire document. However, I am hopeful that any discussion resulting from individual observations will result in a keener awareness of the financial dynamics affecting the hospital.

One page which should bear scrutiny is page 77 of the audit which displays the revenues and expenses for three fiscal years. In addition to the implications of that trend, I am asking Ben to reconcile the difference in those numbers from what we saw as the year-to-date results at June 30, which in effect displays a difference in the monthly reports we view. The important thing is not understanding the difference but the magnitude and direction in both sets of statements: the negative operating margin resulting from what we receive for what we do and what it costs us to do it.

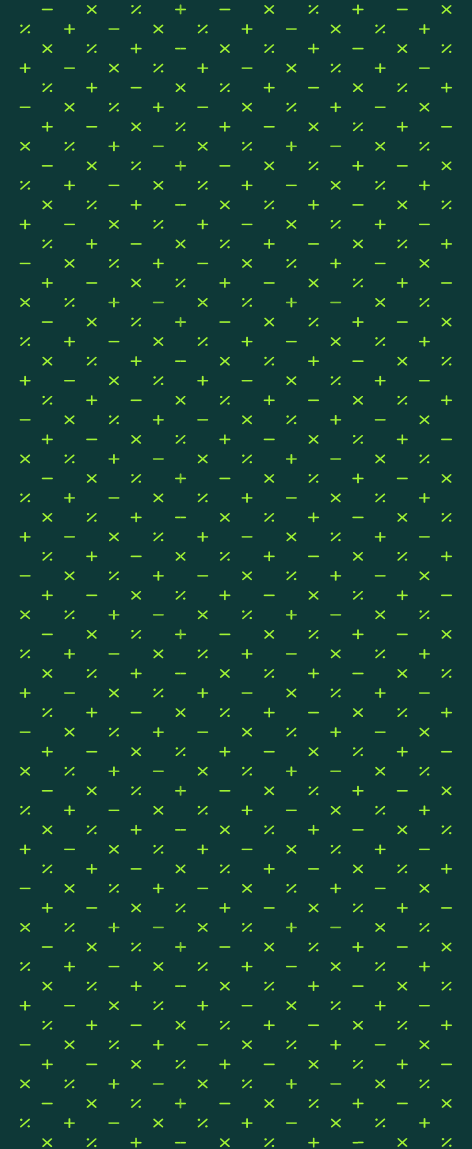
I'll leave other observations to the committee.



MOSSADAMS

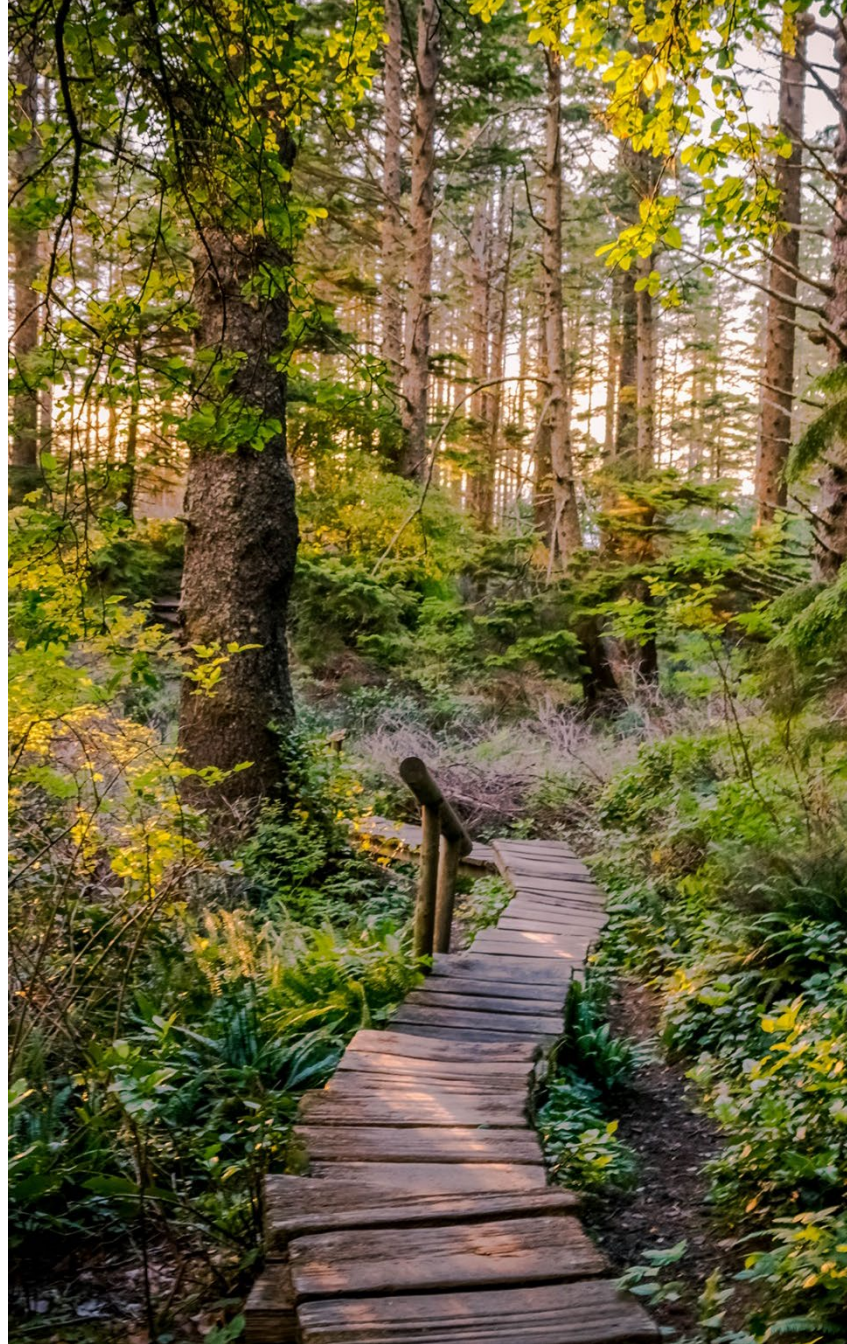
Sonoma Valley Health Care District

2024 AUDIT RESULTS



Agenda

1. Scope of Services
2. Auditor Opinion and Report
3. Significant Risks Identified
4. Matters to Be Communicated to the Governing Body
5. Statements of Net Position
6. Operations
7. Other Information



Scope of Services

We have performed the following services for Sonoma Valley Health Care District:

Annual Audits



- Annual financial statement audit as of and for the year ended June 30, 2024.

Non-Attest Services



- Assisted in drafting the financial statements and related footnotes as of and for the year ended June 30, 2024.



Auditor Report on the Financial Statements

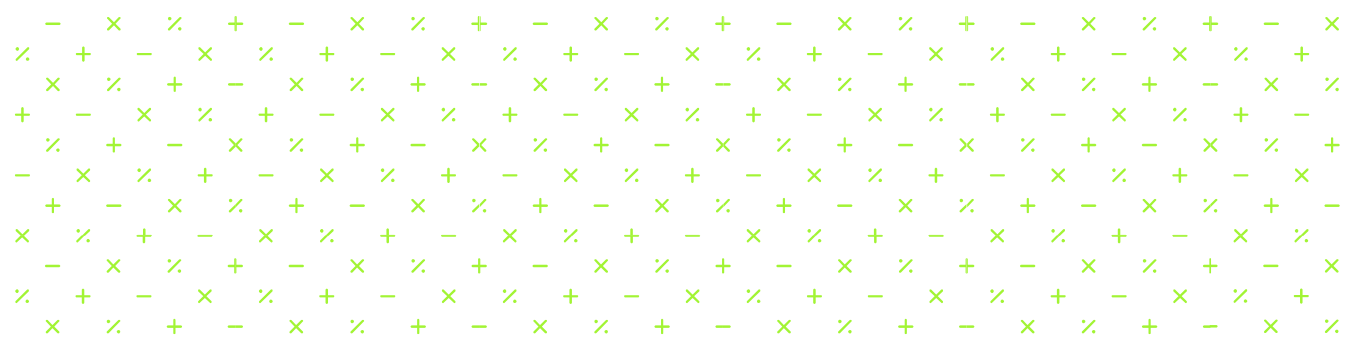


Significant Risks Identified

During the audit, we identified the following:

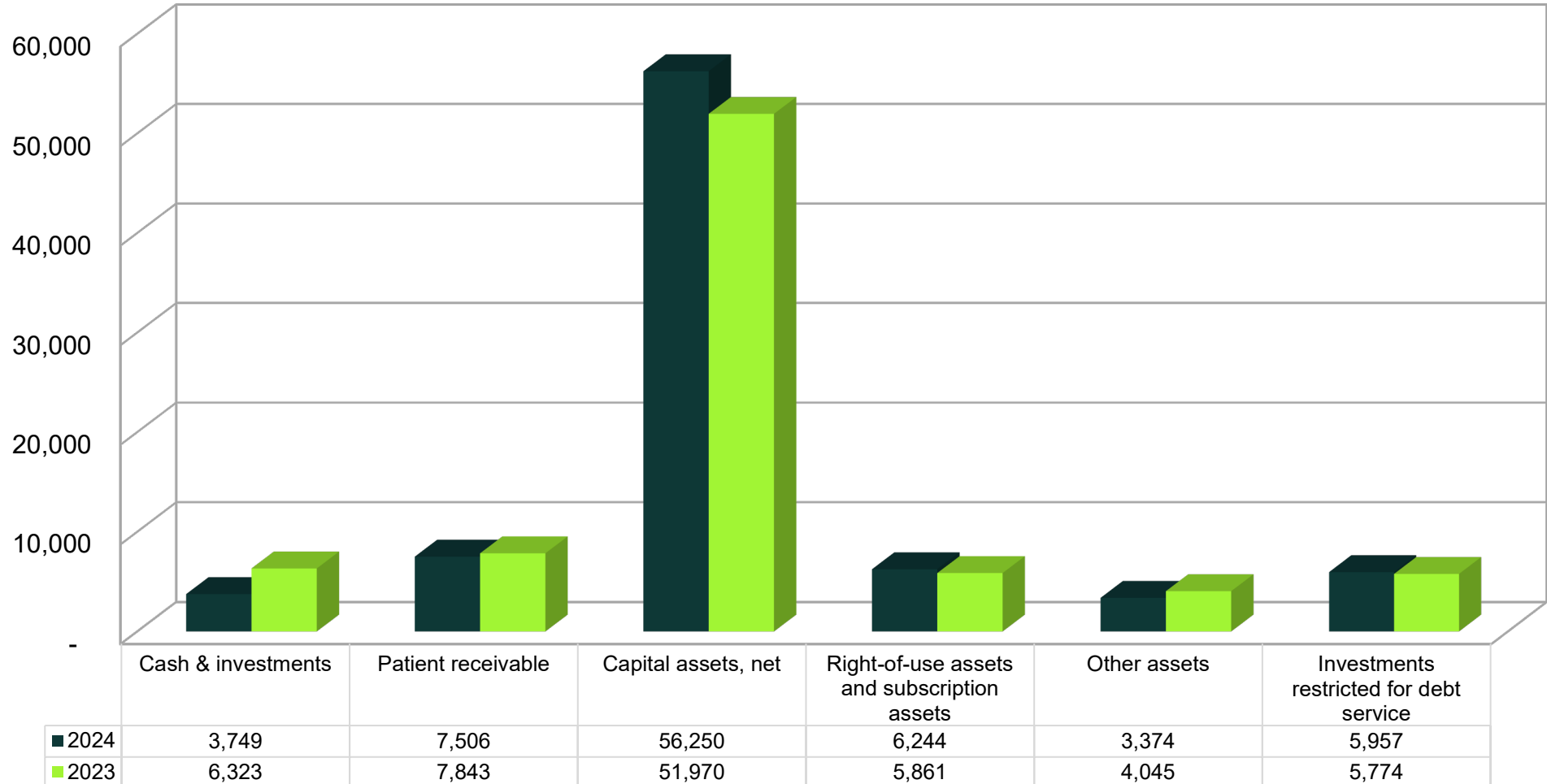
Significant Risks	Procedures
Valuation of patient accounts receivable	<ul style="list-style-type: none">- Tie out of reserving schedules- Zero Balance Accounts (“ZBA”) analysis- Lookback analysis & subsequent collections analysis
Revenue recognition	<ul style="list-style-type: none">- Hospital patient revenue analysis & cut-off analysis- Journal entry testing focusing on revenue reversals- Contribution revenue cut-off testing
Management override of controls	<ul style="list-style-type: none">- Inquiries of accounting and operational personnel- Perform risk assessment procedure- Test of design and operational effectiveness of financial reporting controls- Testing of risk-based manual journal entry selections



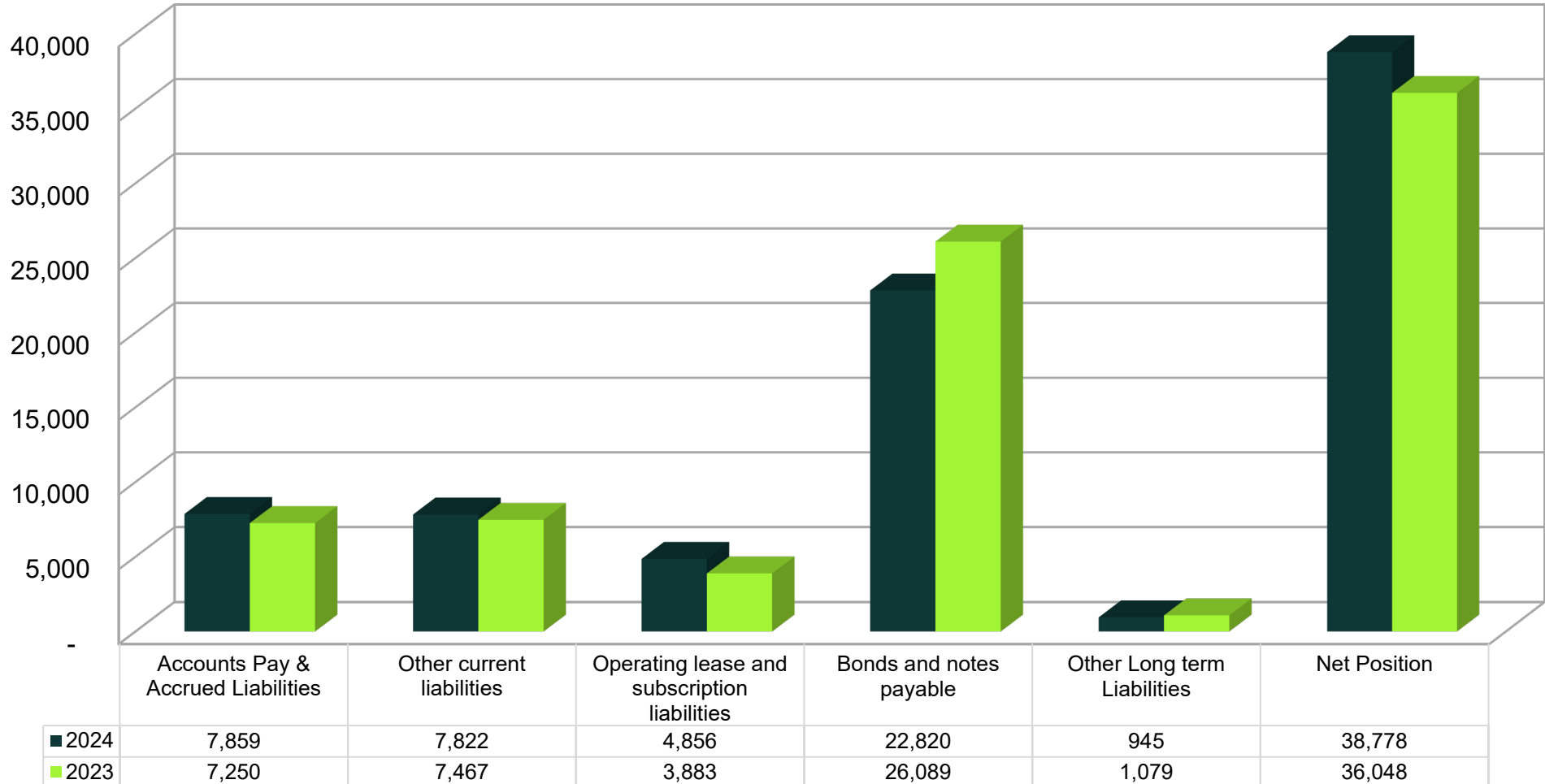


Statements of Net Position

Assets (in thousands)

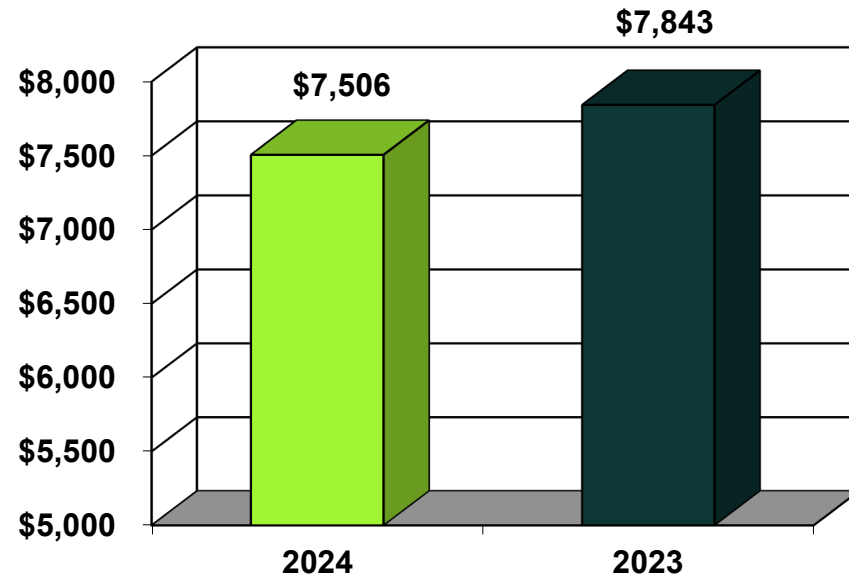


Liabilities and Net Position (in thousands)

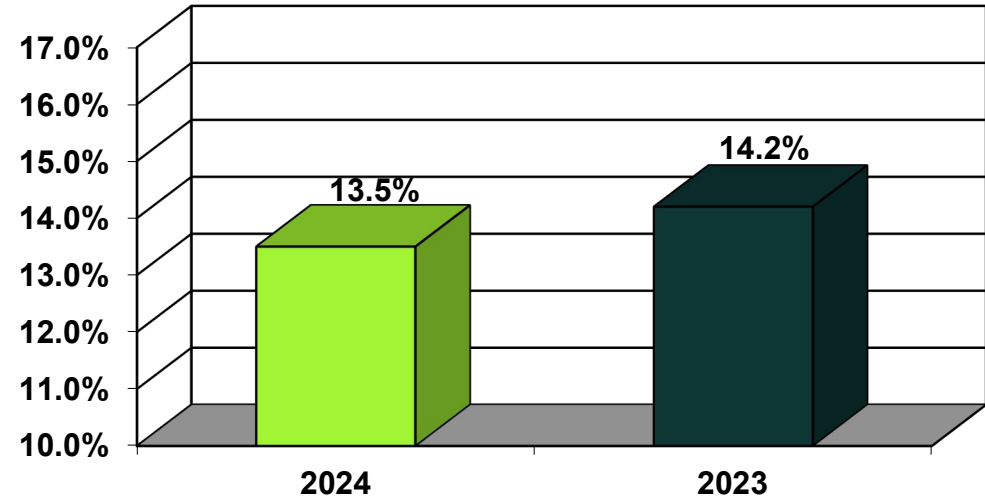


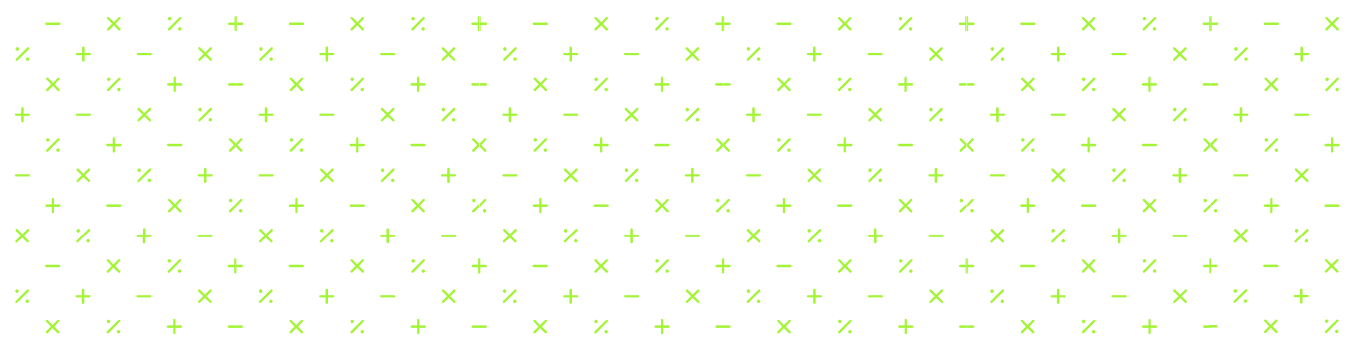
Net Patient Service Accounts Receivable

Dollars (in thousands)



% Net Revenues

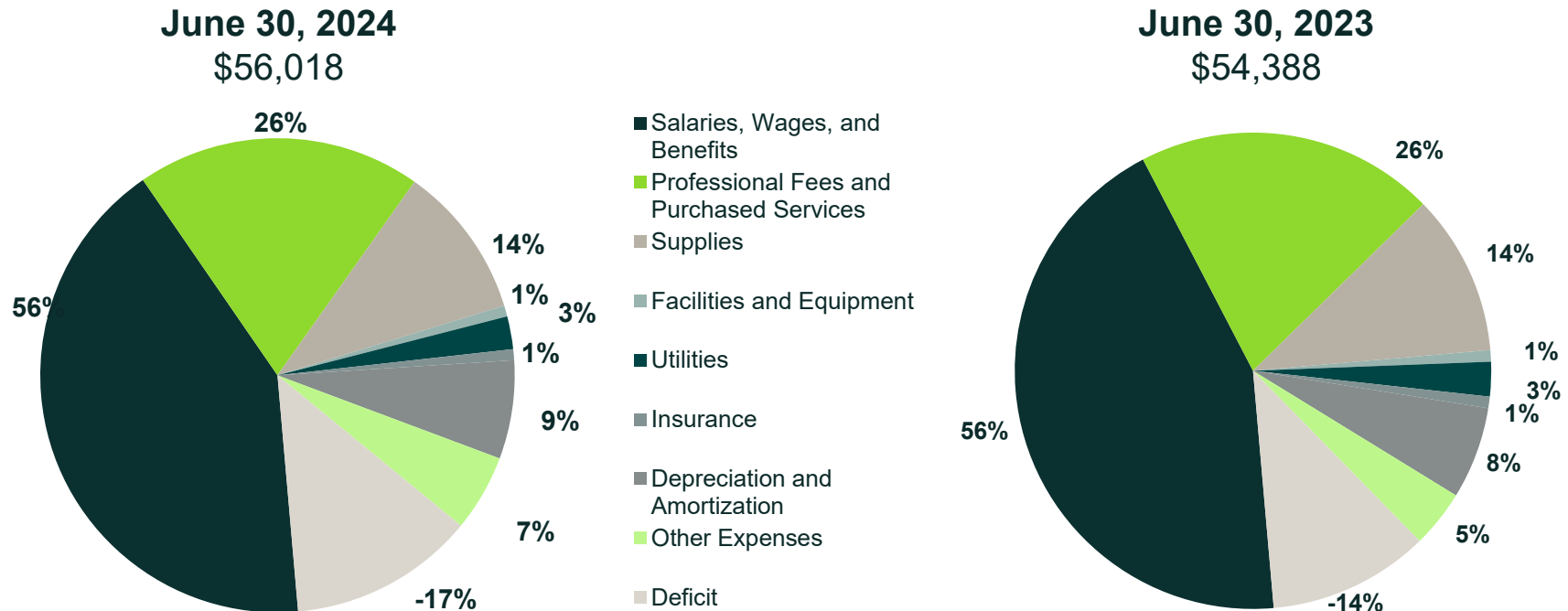


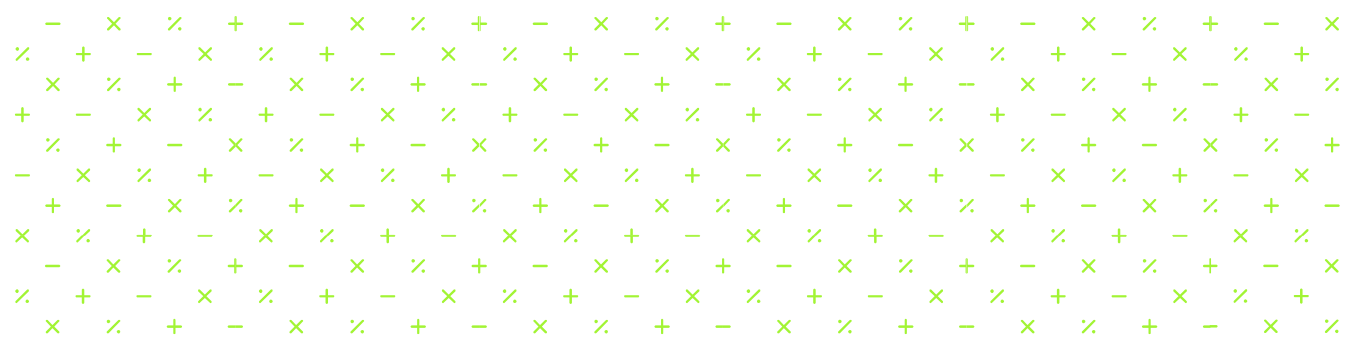


Operations

Income Statements Year to Year Comparison

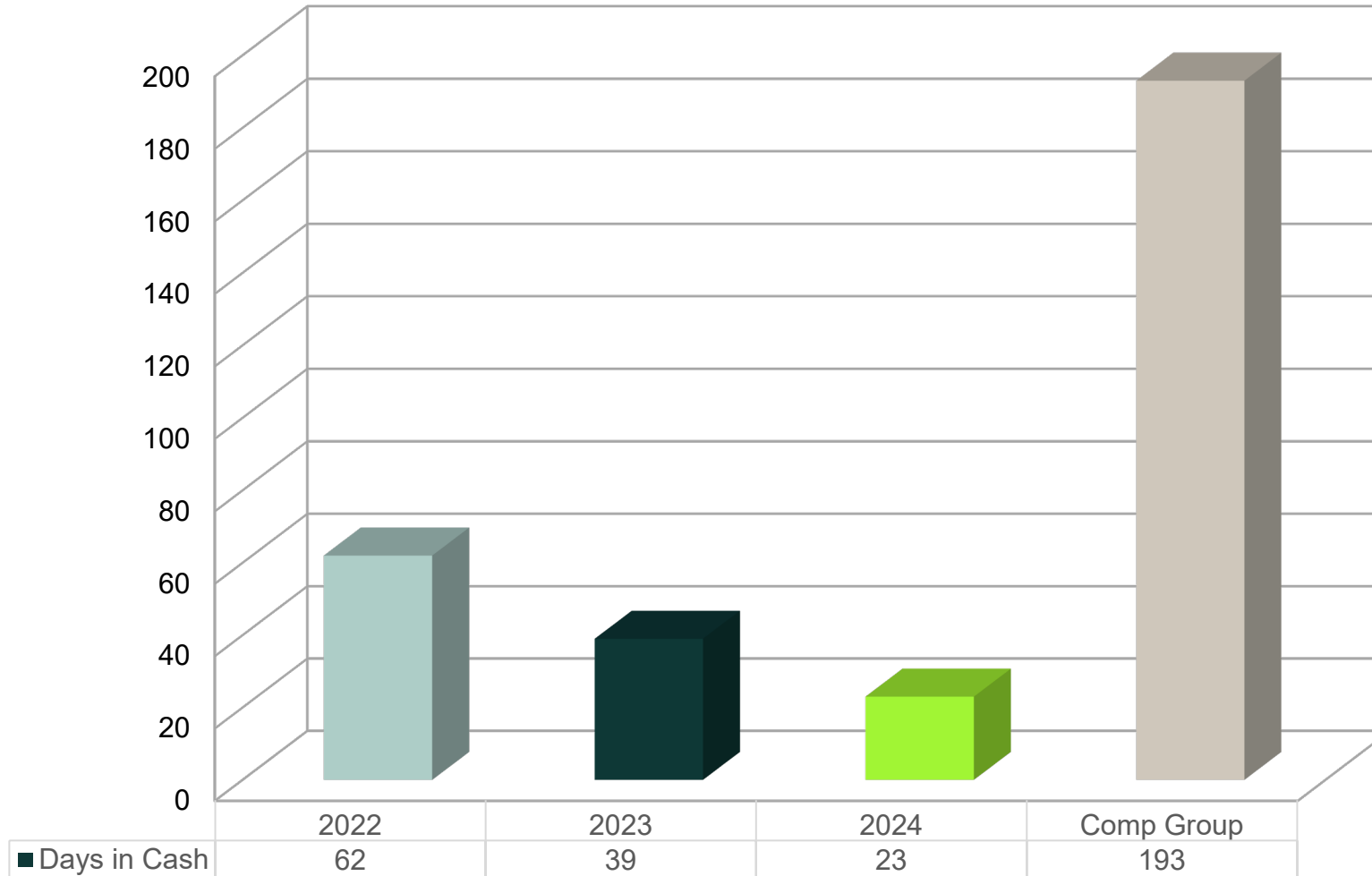
Total Operating Revenue (in thousands)



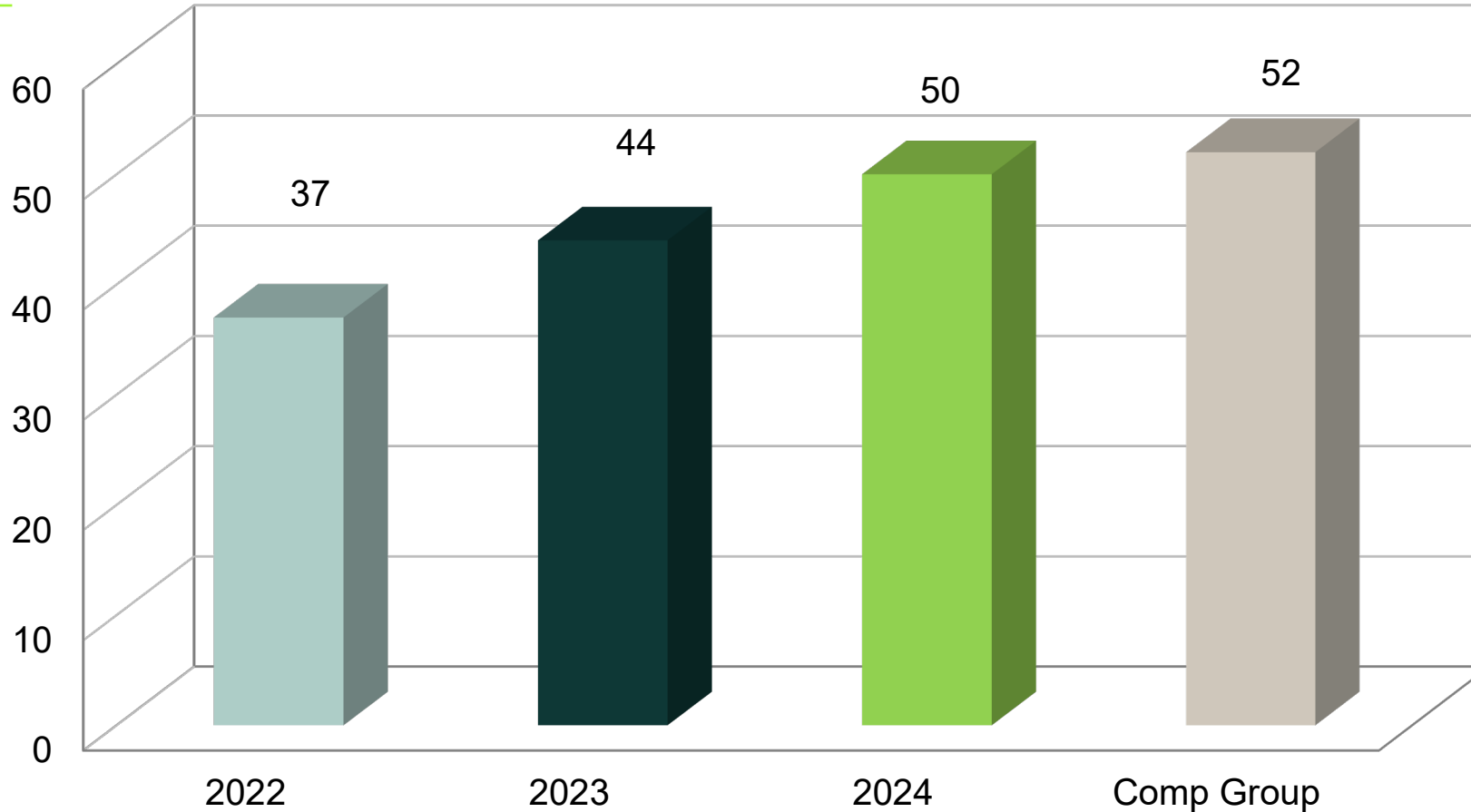


Other information

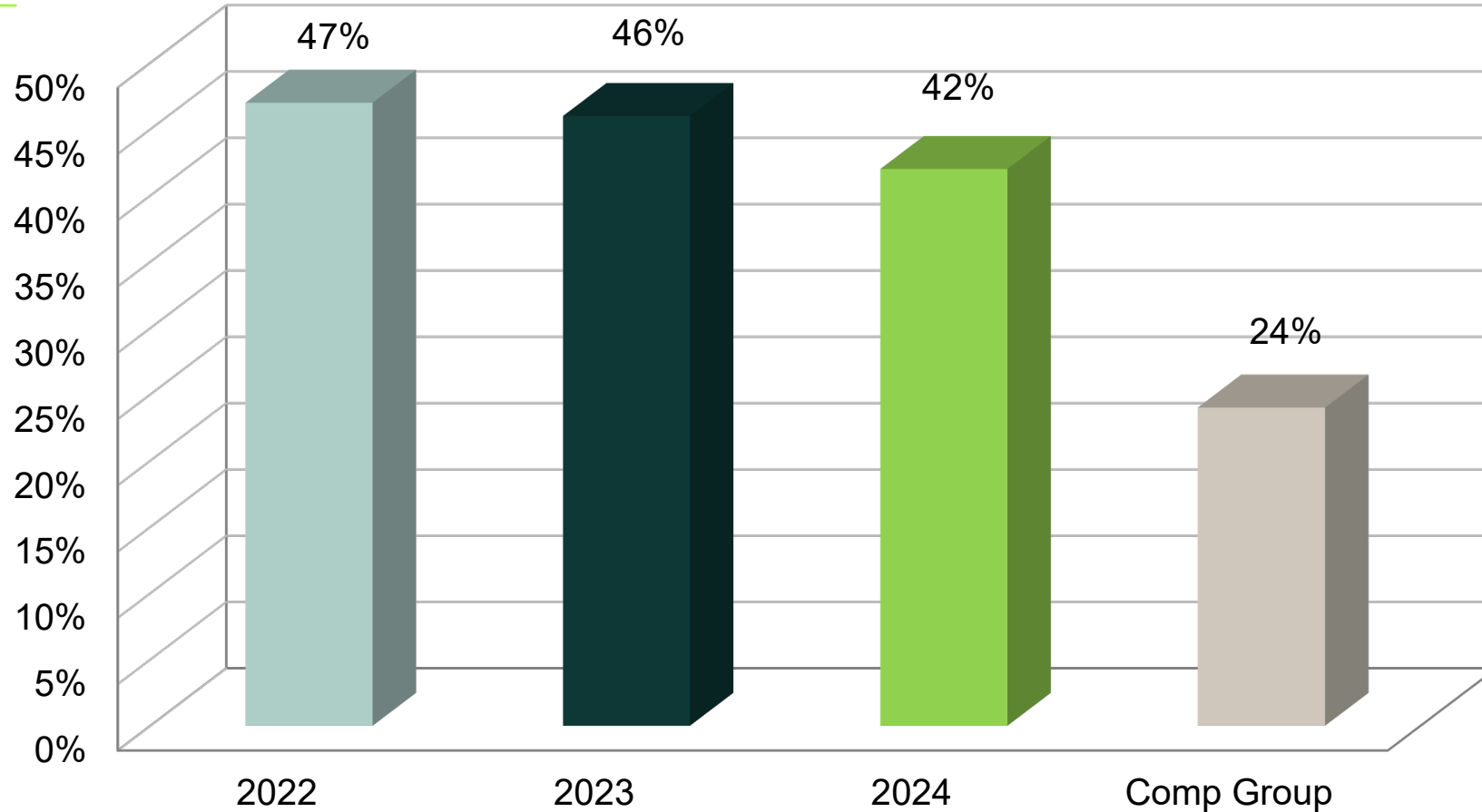
Days in Unrestricted Cash and Investments



Days in Net Accounts Receivable



Debt to Capitalization



Important Board Communications

- AU-C Section 260 – *The Auditor's Communication with Those Charged with Governance*
- Significant accounting policies
- Accounting estimates are reasonable
- No audit adjustments
- No issues discussed prior to our retention as auditors
- No disagreements with management
- No awareness of instances of fraud or noncompliance with laws and regulations



GASB Accounting Updates

- GASB Statement No. 101, Compensated Absences. Effective for the District beginning July 1, 2024.



Your Service Team



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**THANK
YOU**





Communications with Those
Charged with Governance

Sonoma Valley Health Care District

June 30, 2024

Communications with Those Charged with Governance

The Board of Directors
Sonoma Valley Health Care District

We have audited the financial statements of Sonoma Valley Health Care District (the District) as of and for the year ended June 30, 2024, and have issued our report thereon dated November 12, 2024. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated May 10, 2024, we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), and the California Code of Regulations, Title 2 Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. As part of an audit conducted in accordance with the standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we considered the District's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statements audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 10, 2024.

Significant Audit Findings and issues

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 2 to the financial statements. During the year ended June 30, 2024, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. No other new accounting policies were adopted and there were no changes in the application of existing policies during the year. We noted no transactions entered into by the District during the year for, which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. We evaluated the key factors and assumptions used to develop the estimated net realizable amounts. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible. Sonoma Valley Hospital provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. We evaluated the key factors and assumptions used to develop the provision for uncollectible accounts. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management's estimated liability for workers' compensation claims is recognized based on management's estimate of historical claims experience and known activity subsequent to year end. We evaluated the key factors and assumptions used to develop the actuarial estimates of uninsured losses for professional liabilities and workers' compensation. We found management's basis to be reasonable in relation to the financial statements taken as a whole.
- Management's estimates of useful lives of capital assets are based on the intended use and are within accounting principles generally accepted in the United States of America. We found management's basis to be reasonable in relation to the financial statements taken as a whole.

- Management's estimates of the discount rate, useful lives, lease terms related to the District's operating lease right-of-use assets and lease liabilities. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the District's financial statements taken as a whole.
- Management's estimates of the discount rate, subscription terms, and other assumptions related to the District's subscription assets and subscription liabilities. We have gained an understanding of management's key factors and assumptions and examined the documentation supporting the estimates. We found management's basis to be reasonable in relation to the District's financial statements taken as a whole.

Actual results could differ from these estimates. In accordance with accounting principles generally accepted in the United States of America, any change in these estimates is reflected in the financial statements in the year of change.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear, and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were disclosures relating to significant concentration of net patient service revenue, capital assets, bonds and notes payable, operating leases, and subscription-based IT arrangements.

Significant Unusual Transactions

We encountered no significant unusual transactions during our audit of the District's financial statements.

Significant Difficulties Encountered in Performing the Audit

Professional standards require us to inform you of any significant difficulties encountered in performing the audit. No significant difficulties were encountered during our audit of the District's financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Circumstances that Affect the Form and Content of the Auditor's Report

There may be circumstances in, which we would consider it necessary to include additional information in the auditor's report in accordance with auditing standards generally accepted in the United States of America (GAAS) and the California Code of Regulations, Title 2 Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. There were no circumstances that affected the form and content of the auditor's report.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no uncorrected financial statement misstatements whose effects, as determined by management, are material, either individually or in the aggregate, to the financial statements taken as a whole.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2024.

Management Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Audit Findings or Issues

We are required to communicate to you other findings or issues arising from the audit that are, in our professional judgment, significant and relevant to your oversight of the financial reporting process. There were no such items identified.

This information is intended solely for the use of the Board of Directors and management of the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

San Francisco, California
November 12, 2024

November 12, 2024

Moss Adams LLP
101 Second Street, Suite 900
San Francisco, CA 94105

We are providing this letter in connection with your audit of the financial statements of Sonoma Valley Health Care District (the District), which comprise the statement of net position as of June 30, 2024, statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than \$70,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 10, 2024, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
4. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

8. The District has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities
9. The following have been properly recorded or disclosed in the financial statements:
 - Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - Guarantees, whether written or oral, under which the District is contingently liable.
 - Significant estimates and material concentrations known to management that are required to be disclosed in accordance with Government Accounting Standards Board (“GASB”) Codification Section C50, Claims and Judgments. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
10. The mix of patient accounts receivable, disclosed in Note 2, of the financial statements referred to above, are fairly presented.
11. The amounts disclosed in the supplementary information related to community support is fairly presented and properly supported by our books and records.
12. We have appropriately reconciled our books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material un-reconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a statement of net position account, which should have been written off to a statement of changes in net position account and vice versa.

13. We acknowledge our responsibility for presenting the Management's Discussion and Analysis and supplemental pension and postretirement benefit information, as required by GASB Codification 2600, Reporting Entity and Component Unit Presentation and Disclosure, in accordance with accounting principles generally accepted in the United States of America and we believe the Management's Discussion and Analysis and supplemental pension information are measured and presented in accordance with the prescribed guidelines. The methods of measurement and presentation of the Management's Discussion and Analysis and supplemental pension information have not changed from those used in the prior periods, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the required supplementary information
14. All costs reflected on cost reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors. Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payers, or other regulatory agencies. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
15. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. Although management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate. Provision has been made, when material, for estimated retroactive adjustments by third-party payors under reimbursement agreements.
16. We confirm we are subject to the audit requirements of the California Code of Regulations, Title 2, Section 1131, State Controller's Minimum Audit Requirements for California Special Districts and the State Controller's Office prescribed reporting guidelines.
17. We have reviewed all recently released accounting pronouncements and have evaluated those that may have an effect on the District in the current and subsequent periods. The District adopted the following GASB pronouncements as of and for the year ended June 30, 2024, which is accurately and appropriately reflected in the financial statements:
 - GASB Statement No. 100, Accounting Changes and Error Corrections
18. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared;

- c. Additional information that you have requested from us for the purpose of the audit;
 - d. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
19. All transactions have been properly recorded in the accounting records and are reflected in the financial statements.
20. We have retained copies of all information we provided to you during the engagement and have been provided copies of all necessary financial and non-financial schedules, memos, data, and other information related to all services performed by you, such that in our opinion our records are complete, including our records supporting our financial statements and all related accounting policies and positions. Furthermore, you do not act as the sole host of any financial or non-financial information system for us, nor do you provide any electronic security or back-up services for our data or records.
21. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
22. We have no knowledge of any fraud or suspected fraud that affects the entity and involves—
- a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others when the fraud could have a material effect on the financial statements.
23. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
24. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
25. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements other than those disclosed in the financial statements.
26. There are no—
- Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - Possible illegal acts brought to the attention of management.

- Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.
27. Adequate consideration has been given to, and appropriate provision made for, estimated adjustments to revenue, such as for denied claims and changes to contracted fee schedules. Recorded valuation allowances are necessary, appropriate, and properly supported.
 28. All peer review organizations, fiscal intermediary, and third-party payor reports and information have been made available.
 29. Recorded valuation allowances are necessary, appropriate, and properly supported.
 30. The District is in compliance with all covenants under all of its long-term obligations.
 31. Provision has been made, when material, for estimated retroactive adjustments by third-party payors under reimbursement agreements.
 32. The District is in compliance with bond indentures or other debt instruments.
 33. For each of its outstanding bond issues, the District is in compliance with post issuance requirements, as specified in the Internal Revenue Code, including but not limited to, the areas of arbitrage and private business use.
 34. We have made available to you all known reviews, surveys and inquiries from Federal, state and local regulatory authorities completed or ongoing. We confirm that we are not aware of any non-compliance with laws and regulations, other than what we have disclosed to you.
 35. There have been no oral or written communications from regulatory agencies, governmental representatives, employees, or others concerning the investigations or allegations of noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters, other than what we have disclosed to you, that could have a material adverse effect on the financial statements.
 36. No violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, in any jurisdiction, whose effects are considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements. This is including, but not limited to, the antikickback statute of the Medicare and Medicaid Patient and Program Protection Act of 1987, limitations on certain physician referrals (the Stark law), and the False Claims Act.

37. Billings to third-party payors comply in all material respects with applicable coding guidelines (for example, ICD-10-CM and CPT-4) and laws and regulations, including those dealing with Medicare and Medicaid antifraud and abuse, and billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies (for example, the Food and Drug Administration), if required; and properly rendered.
38. There have been no internal or external investigations relating to compliance with applicable laws and regulations, including investigations in progress that would have an effect on the amounts reported in the financial statements or on the disclosure in the notes to the financial statements.
39. We agree with the findings of specialists in evaluating the liabilities for workers' compensation liability expenses and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
40. All required Medicare, Medicaid, and similar reports have been properly filed.
41. Management is responsible for the accuracy and propriety of all filed cost reports.
42. Pending changes in the organizational structure, financing arrangements, or other matters that could have a material effect on the financial statements of the District are properly disclosed.
43. In relation to the District's existing line of credit agreement, the District had a line of credit agreement with a bank for an amount not to exceed \$6,750,000 that matured on January 31, 2022. On this date, the line of credit was extended for an amount not to exceed \$5,500,000, with an interest rate of 8.25% plus Term SOFR, and a maturity date of January 31, 2024. The line of credit was renewed on January 23, 2024, and was due in full on April 30, 2024. On June 6, 2024, the District entered into an amendment with U.S. Bank National Association, to extend the maturity date to August 31, 2024. On August 31, 2024, the District entered into an amendment with U.S. Bank National Association, to extend the maturity date to November 28, 2024. The line of credit is collateralized with the District's cash, cash equivalents and receivables. The District had unused credit remaining on the line of credit of \$526,266 at June 30, 2024 and 2023, respectively. The District entered into a new banking arrangement as of October 30, 2024. This arrangement refinanced the existing line of credit the District had previously held with U.S. Bank for the entire principal outstanding. On this date, the District entered into a term loan with Summit State Bank with a principal amount of \$1,900,000 and an annual interest rate of 7.75%. The maturity date of the loan is November 16, 2029.

44. As it relates to Sonoma Valley Hospital Foundation, management has performed an evaluation under the criteria of GASB 14, as amended, and concluded that the Foundation is not considered a component unit of the District because the Foundation is not controlled by the District. The District further evaluated the inclusion of all component units for the District, whether blended or discretely presented, in accordance with applicable accounting principles and the financial reporting entity criteria under GASB (Governmental Accounting Standards Board) Statement No. 14, as amended. To the best of our knowledge and belief, all component units that meet the criteria for inclusion have been appropriately reflected in the financial statements. We have also disclosed any known instances of component units that were considered but excluded from the reporting entity and the rationale for their exclusion.
45. As it relates to GASB 96, *Subscription Based Information Technology Arrangement*, the District has performed an assessment of all of its existing subscription-based contracts and have concluded that all material contracts have been recorded.


The District has recorded subscription assets as a result of implementing GASB No. 96. The subscription assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any contract payments made to the SBITA vendor at the commencement of the subscription term, capitalizable initial implementation cost, less any incentive payments received from the SBITA vendor at the commencement of the subscription term. The subscription assets are amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying assets.

46. As it relates to GASB 87, *Leases*, the District performed an assessment of all of its existing contracts and have concluded that there were no material embedded leases as of June 30, 2024. The District has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.
47. We have performed an assessment of the District's ability to continue as a going concern for a reasonable period of time, one year from the financial statement date. Based on our assessment, we have considered all relevant conditions and events, both known and reasonably knowable, that could raise substantial doubt about the entity's ability to continue as a going concern. We have disclosed to you, all significant uncertainties related to the District's ability to meet its obligations as they become due, and concluded that no conditions or events have been identified that would lead to substantial doubt about the entity's ability to continue as a going concern.


48. We confirm that all tax revenues of the District have been properly recognized, measured, and classified in accordance with applicable accounting principles under GASB standards. We have made available all relevant information regarding tax levies, collections, and outstanding balances for the fiscal year under audit. We assert that the presentation of District tax revenues, including any deferred inflows or inflows of resources, is appropriate and consistent with the terms of tax laws and regulations governing such revenues. Additionally, we have disclosed all significant assumptions and methods used in estimating any revenue amounts or allowances for uncollectible taxes

49. In regards to your assistance with drafting the financial statements, we have:


- Made all management decisions and performed all management functions
- Designated an individual with suitable skill, knowledge, or experience to oversee the services.
- Evaluated the adequacy and results of the services performed.
- Accepted responsibility for the results of the services
- Established and maintained internal controls, including monitoring of ongoing activities

DocuSigned by:

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John Hennelly, CEO

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Benjamin Armfield, MBA, CFO

Signed by:

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Lois Fruzynski, MBA, Accounting Manager



Report of Independent Auditors and
Financial Statements with
Supplementary Information

Sonoma Valley Health Care District

June 30, 2024 and 2023

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Management's Discussion and Analysis

Sonoma Valley Health Care District Management's Discussion and Analysis Years Ended June 30, 2024, 2023, and 2022

Introduction

This management's discussion and analysis of the financial performance of Sonoma Valley Health Care District (the District), provides an overview of the District's financial activities for the years ended June 30, 2024 and 2023. The District operates Sonoma Valley Hospital (the Hospital) located in Sonoma, California. Management's discussion and analysis should be read in conjunction with the accompanying financial statements and notes to financial statements of the District.

Financial highlights

- The District's net position before restricted funds decreased by approximately \$2,790,000 in 2024 and \$1,870,000 in 2023. After consideration of capital contributions, the District's net position increased in 2024 by approximately \$2,730,000 or 8%, and increased in 2023 by approximately \$1,068,000 or 3%. After consideration of depreciation, the District generated a positive EBDA (Earnings Before Depreciation and Amortization) excluding restricted funds of approximately \$2,480,000 in 2024 compared to approximately \$2,680,000 in 2023.
- Cash and cash equivalents decreased in 2024 by approximately \$2,574,000 or 41% and decreased in 2023 by approximately \$3,016,000 or 32%. The decrease in 2024 was primarily due to the loss of the hospital's busiest surgeon during the year, repayments of two zero-interest bridge loans from CHFFA totaling over \$700,000, as well as incremental cash outlay to complete the hospital's new electronic medical record (EMR). The decrease in 2023 was primarily driven by an increase in operating expenses and incremental cash outlays to fund the implementation of the hospital's EMR. The District also made a separate paydown on its existing line of credit in the amount of \$500,000 during 2023.
- Net patient accounts receivable decreased in 2024 by approximately \$337,000 or 4% and increased in 2023 by approximately \$2,547,000 or 48%. The decrease in 2024 is attributable to increased volumes offset by increased write offs compared to the prior year. The increase in 2023 is attributable primarily to the District's conversion to a new Electronic Medical Record system.
- Operating revenues increased by \$1,629,000 or 3% in 2024 compared to 2023. The increase in 2024 is due to a \$1,340,000 increase in IGT revenue compared to the prior year, as well as continued growth in key outpatient areas such as emergency medicine and outpatient physical therapy.
- Operating expenses increased by approximately \$2,640,000, or 4%, from 2023 to 2024. The increase in operating expenses primarily relates to an increase in Intergovernmental Transfer (IGT) matching fees of approximately \$826,000, or 36%, as well as increases in both salary and wages and professional fee expenses due to the filling of open positions and annual merit increases.

Sonoma Valley Health Care District Management's Discussion and Analysis Years Ended June 30, 2024, 2023, and 2022

Operational Changes and Future Plans

Fiscal year 2024 was a year of transition for the hospital and one that was marked by both challenges and opportunities. As the hospital continues to regain and surpass pre-pandemic volume levels, there was notable growth in some key service areas while other key business lines experienced declines. The unexpected loss of our busiest orthopedic surgeon presented significant financial challenges throughout the year, leading to reduced surgical volumes and contributing to an overall decline in the hospital's financial and cash position compared to the prior year. Despite these setbacks, the hospital also experienced positive developments during fiscal year 2024, including growth in key areas that are essential to its long-term success.

Although the direct effects of the COVID-19 pandemic have lessened compared to prior years, the hospital continues to deal with lingering financial implications resulting from the epidemic, with elevated per unit operational costs still putting pressure on the hospital's resources. An ongoing national staffing shortage, amplified by the COVID-19 pandemic, added additional pressures for the hospital in the recruitment and retention of hospital staff. Operational strategies and initiatives were implemented to mitigate these pressures, which helped contain rising operational costs as much as possible.

Part of the operational disruption in 2024 was related to the loss of an orthopedist, who was the hospital's most active surgeon. This orthopedist also staffed the orthopedics clinic, which is managed by Marin Health and operated out of the hospital. This loss drove a reduction in surgical and ancillary revenue as the hospital experienced a sharp drop in orthopedic surgeries and imaging volumes related to those cases. Therapy remained busy despite the loss of referral source. The District was successful in the recruitment of a local orthopedist which will backfill the recent departure. The orthopedics clinic restarted in June 2024 and the new orthopedic recruit started performing surgeries at the hospital in August 2024.

Work continues on the hospital's expansive Outpatient Diagnostic Center (ODC) project which seeks to revamp outpatient ancillary services at the hospital. While the 1st phase of the CT project was completed and operationalized during fiscal year 2023, construction work continues on the 2nd phase of the CT project, which is focused on the repurposing of the vacated space in the Radiology Department along with a few remaining required improvements. This work is anticipated to be completed during fiscal year 2025. Work also continues on the MRI project, which is the 2nd phase of the Outpatient Diagnostic Center project. The scope for fiscal year 2025 includes construction of the permanent MRI module slated to house the new MRI in its final destination. The project is estimated to be completed during fiscal year 2025. The hospital was successful in operationalizing a temporary MRI structure that allows the hospital to gain occupancy of the new 3-Tesla MRI prior to the completion of the permanent module. While initially planned to receive occupancy by the end of calendar year 2023, numerous external factors pushed that timeline to the summer. The hospital officially gained occupancy of the temporary structure in August 2024.

Earlier in fiscal year 2024 the District's Board of Directors approved hospital management to enter into a formal agreement to receive \$3.1 million in funding as part of the Distressed Hospital Loan Program (DHLP). This funding was used to paydown existing liabilities that were tied to variable interest rates. Although the loan was approved in December of 2023, funding was not fully complete until July 2024. This funding will help alleviate the pressures of volatile interest rates and will deliver significant cost savings starting in fiscal year 2025.

Sonoma Valley Health Care District Management's Discussion and Analysis Years Ended June 30, 2024, 2023, and 2022

The hospital was again recognized by the Lown Institute for the facility's high performance across all spectrums of their survey. The Lown Institute is a non-profit think tank focused on transforming the American healthcare system to make it more equitable, affordable, and effective. The institute is known for its Lown Institute Hospitals Index, which ranks hospitals across the United States based on metrics such as social responsibility, patient outcomes, value of care, and equity, aiming to promote accountability and improvements in healthcare institutions. In 2023 the hospital was ranked in the top 25 of all hospitals surveyed across the country. This past year in 2024 the hospital was recognized as the 10th best hospital in the country based upon their metrics, and the 2nd best hospital in California.

Despite the challenges faced this past year, the hospital demonstrated resilience through various strategic initiatives that helped mitigate the impact of the various disruptions. Positive movement was observed in key service lines, and management remains focused on leveraging these growth areas in fiscal year 2025. The recruitment of an additional orthopedic surgeon, operationalizing the 3T MRI Magnet, and completing construction on the expansion of the hospital's outpatient physical therapy area will enhance operational performance in the years ahead. Furthermore, efforts to increase Intergovernmental Transfer (IGT) funding as well as the renegotiation of specific payor reimbursement contracts have been successful, providing additional financial support to sustain operations and planned improvements. These mitigating actions, along with upcoming investments in technology, facility upgrades, and community outreach, have positioned the hospital for enhanced operational performance in the years ahead. While the challenges of the past year were considerable, the hospital remains focused on its mission to provide high-quality patient care and improve overall financial stability.

Using this Annual Report

The District's financial statements consist of three statements—statement of net position, a statement of revenues, expenses and change in net position, and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position

The statements of net position and the statement of revenues, expenses and change in net position report information about the District's resources and its activities. One of the most important questions asked about the District's finances is, "Is the District as a whole, better or worse off as a result of the year's activities?" The statements of net position and the statement of revenues, expenses and change in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**Sonoma Valley Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2024, 2023, and 2022**

These two statements report the District's net position and changes thereto. The District's net position – the difference between assets and liabilities – is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base and measures of the quality of service it provides to the community, should be considered, as well as local economic factors.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to questions such as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the statement of net position. The District's net position increased by approximately \$2,730,000, or 8% in 2024 from 2023, and increased by approximately \$1,068,000, or 3% in 2023 from 2022, as shown in Table 2.

**Sonoma Valley Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2024, 2023, and 2022**

Table 1: Statements of Net Position

	2024	2023	2022
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 3,748,581	\$ 6,322,741	\$ 9,338,887
Patient accounts receivable, net of allowance for doubtful accounts of \$4,353,661, \$1,806,659, and \$1,426,077 in 2024, 2023, and 2022, respectively	7,505,623	7,842,950	5,295,597
Estimated third-party payor settlements	-	61,347	168,520
Property tax receivable	303,260	179,983	192,599
Other receivables	1,520,491	1,663,396	1,533,590
Inventories	913,408	978,625	1,037,597
Prepaid expenses and other current assets	637,493	1,160,940	828,300
Total current assets	14,628,856	18,209,982	18,395,090
Capital assets, net			
Nondepreciable	6,394,562	8,567,864	12,363,023
Depreciable, net of accumulated depreciation and amortization	49,855,214	43,402,253	39,758,374
Total capital assets, net	56,249,776	51,970,117	52,121,397
Operating right-of-use assets, net	1,498,904	1,033,640	1,429,057
Subscription assets, net	4,744,851	4,827,627	-
Investment restricted for debt service	5,957,336	5,774,189	5,754,812
Total noncurrent assets	68,450,867	63,605,573	59,305,266
Total assets	\$ 83,079,723	\$ 81,815,555	\$ 77,700,356
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 7,859,449	\$ 7,249,685	\$ 6,511,304
Accrued payroll and related liabilities	2,703,820	2,406,779	2,560,559
Estimated third-party payor settlements	144,884	-	-
Line of credit	4,973,734	4,973,734	5,473,734
Bonds payable, current portion	2,406,000	2,277,000	2,159,000
Notes payable, current portion	1,142,589	992,688	45,648
Other current liabilities	-	85,976	174,908
Operating lease obligations, current portion	286,518	372,131	393,336
Subscription liability, current portion	1,030,797	1,536,345	-
Total current liabilities	20,547,791	19,894,338	17,318,489
LONG-TERM LIABILITIES			
Accrued workers' compensation liability	945,000	1,079,260	945,000
Bonds payable, net of current portion	18,047,000	20,453,000	22,730,000
Other liabilities	-	-	71,314
Notes payable, net of current portion	1,224,003	2,366,484	608,487
Operating lease obligations, net of current portion	1,213,244	692,446	1,046,818
Subscription liability, net of current portion	2,325,128	1,282,029	-
Total long-term liabilities	23,754,375	25,873,219	25,401,619
Total liabilities	44,302,166	45,767,557	42,720,108
NET POSITION			
Net investment in capital assets	28,456,450	20,821,235	20,858,306
Restricted for debt service	5,957,336	5,774,189	5,754,812
Unrestricted	4,363,771	9,452,574	8,367,130
Total net position	38,777,557	36,047,998	34,980,248
Total liabilities and net position	\$ 83,079,723	\$ 81,815,555	\$ 77,700,356

Sonoma Valley Health Care District Management's Discussion and Analysis Years Ended June 30, 2024, 2023, and 2022

Receivables

As discussed previously, net patient accounts receivable decreased in 2024 by approximately \$337,000 or 4%, which is attributable primarily to increased volumes offset by increased write offs compared to the prior year. In 2024, estimated third party cost report settlement receivables decreased by approximately \$61,000 or 100% compared to 2023. Property tax receivable increased by approximately \$123,000 or 68% from 2023. Other receivables decreased by approximately \$143,000 or 9% from 2023. The majority of the balance sitting in other receivables relates to the hospital's insurance claim resulting from a cyberattack the hospital experienced in November of 2020.

Capital Assets

At the end of 2024 and 2023, the District had approximately \$56,250,000 and \$51,970,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 8 to the financial statements.

Debt

At June 30, 2024 and 2023, the District had approximately \$22,820,000 and \$26,089,000, respectively, in bonds, equipment notes payable and notes payable outstanding as detailed in Note 12 to the financial statements.

The District had a line of credit agreement with a bank for an amount not to exceed \$5,500,000 with an interest of 8.25% plus Term SOFR and maturity date of January 31, 2024. This letter of credit was due in full in April 30, 2024, and subsequently amended to mature November 28, 2024. The outstanding balance was \$4,973,734 at both June 30, 2024 and 2023.

**Sonoma Valley Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2024, 2023, and 2022**

Table 2: Statements of Revenues, Expenses and Changes in Net Position

In 2024 the District's operating loss increased by \$1,013,000 or 12% from 2023. In 2023 the operating loss increased by \$578,000 or 7% from 2022, as shown in Table 2 below:

	2024	2023	2022
OPERATING REVENUES			
Net patient service revenue	\$ 55,773,479	\$ 54,185,879	\$ 49,882,545
Capitation revenue	244,147	202,502	218,140
	<u>56,017,626</u>	<u>54,388,381</u>	<u>50,100,685</u>
OPERATING EXPENSES			
Salaries and wages	25,142,587	24,777,605	23,150,818
Employee benefits	6,153,443	5,859,077	5,488,972
Purchased services	4,750,529	5,222,623	5,464,343
Professional fees, medical	7,487,831	6,938,546	6,426,196
Professional fees, non medical	2,059,989	1,960,260	2,042,947
Supplies	7,693,639	7,882,605	7,569,438
Facilities and equipment	407,419	358,744	398,062
Utilities	1,945,774	1,813,069	1,589,238
Insurance	819,515	658,491	614,358
Depreciation and amortization	5,267,168	4,550,776	3,006,014
Other expenses	3,901,723	2,965,788	2,371,883
	<u>65,629,617</u>	<u>62,987,584</u>	<u>58,122,269</u>
Total operating expenses	<u>65,629,617</u>	<u>62,987,584</u>	<u>58,122,269</u>
Loss from operations	<u>(9,611,991)</u>	<u>(8,599,203)</u>	<u>(8,021,584)</u>
Nonoperating income (expenses)			
General obligation bond tax assessment revenues	2,928,571	2,628,829	2,521,572
Parcel tax assessment revenues	3,702,140	3,776,123	3,784,676
General obligation bond interest	(521,562)	(578,627)	(838,430)
Interest expense	(710,443)	(519,385)	(275,108)
Gain on sale of assets	45,915	-	-
Provider relief funds	-	-	1,377,724
Contributions from Prima Medical Foundation	-	-	121,360
Investment income	305,860	171,954	19,312
Other income, net	1,073,399	1,250,587	1,011,410
	<u>6,823,880</u>	<u>6,729,481</u>	<u>7,722,516</u>
Total nonoperating income (expenses), net	<u>6,823,880</u>	<u>6,729,481</u>	<u>7,722,516</u>
Capital contributions	5,517,670	2,937,472	884,739
Changes in net position	<u>2,729,559</u>	<u>1,067,750</u>	<u>585,671</u>
Net position, beginning of year	<u>36,047,998</u>	<u>34,980,248</u>	<u>34,394,577</u>
Net position, end of year	<u>\$ 38,777,557</u>	<u>\$ 36,047,998</u>	<u>\$ 34,980,248</u>

*The District's net patient service revenue is comprised of comprehensive services that span the continuum of healthcare services: inpatient and outpatient hospital patient care services and emergency room services. Net patient service revenue represents payments made by government programs, insurance companies and patients and is not the gross billed charges.

**Sonoma Valley Health Care District
Management's Discussion and Analysis
Years Ended June 30, 2024, 2023, and 2022**

The following chart shows the percentage of government programs (Medicare, Medicare HMO, Medi-Cal, and Medi-Cal Managed Care), commercial insurance and other net patient revenue. Government programs generally do not cover the cost of providing patient care services and; therefore, are augmented by commercial insurance payments. The District's payor mix is the reason that the parcel tax is so critical to the ongoing operations of the District.

Payor mix - distribution of net patient revenue:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Medicare	23.6%	23.4%	24.8%
Medicare HMO	10.0%	10.7%	10.9%
Medi-Cal	1.4%	1.4%	1.0%
Medi-Cal Managed Care	19.5%	20.2%	17.5%
Commercial Insurance	36.6%	34.5%	34.5%
Workers Compensation	2.1%	3.1%	3.3%
Capitated	1.0%	0.8%	0.1%
Self-pay/Other	2.3%	2.1%	3.4%
Other Government	3.5%	3.8%	4.5%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Over the period, the District has continued to experience the shift from inpatient to outpatient care. The District's experience with this shift in patient care services is consistent across all hospitals in the United States. Insurance companies, including Medicare, the District's largest payor, are more frequently requiring services to be provided in the outpatient setting.

Operating Revenues

Total operating revenues increased by \$1,629,000 or 3% in 2024 compared to 2023. Total operating revenues increased by \$4,288,000 or 9% in 2023. The increase in 2024 is due to continued growth in key outpatient areas such as emergency room and outpatient physical therapy. The hospital also experienced an increase in Intergovernmental Transfer (IGT) revenue compared to the prior year.

Operating Losses

The first component of the overall change in the District's net position is its operating income or loss; generally, the difference between net patient services and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's operating history as the District was formed and operates primarily to serve residents of Sonoma Valley, regardless of their ability to pay. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

Sonoma Valley Health Care District Management's Discussion and Analysis Years Ended June 30, 2024, 2023, and 2022

Operating Expenses

Salaries and wages and benefits increased in 2024 by \$659,000 or 2% compared to 2023 and increased in 2023 by \$1,997,000 or 7% compared to 2022. Salaries, wages, and benefits increased during 2023 in clinical departments related to a continued increase in patient volumes, particularly in outpatient departments, including outpatient physical therapy, and emergency services.

Purchased services decreased in 2024 by \$472,000 or 9% compared to 2023 and decreased in 2023 by \$242,000 or 4% compared to 2022. The decrease in 2024 is due to a reduction in various third-party expenses related to IT as well as a reduction in EMR training costs that were incurred during 2023. The decrease in 2023 is due to decreased costs related to COVID-19, including a reduction in the outsourcing of test processing and COVID screening resources.

Medical professional fees increased in 2024 by \$549,000 or 8% from 2023 due to renegotiation of various physician service agreements during the year. Medical professional fees increased in 2023 by \$512,000 or 8% from 2022 due to continued increases in usage of nursing and clinical registry staff to fill critical vacancies, and incremental costs related to the renegotiation of various physician service agreements during the year.

Non-medical professional fees increased in 2024 by \$100,000, or 5% from 2023 due to the filling of some key senior management positions that had been vacant for portions of the prior year. Non-medical professional fees decreased in 2023 by \$83,000, or 4% from 2022. The primary driver of this decrease is due to specific short-term vacancies in the District's senior management positions. Both the CMO and IT Director roles were vacant for portions of 2023, resulting in a reduction in spend compared to 2022.

Supplies decreased in 2024 by \$189,000 or 2% from 2023, due to a reduction in surgical implant costs associated with the departure of the hospital's key orthopedic surgeon in March of 2024. Supplies increased in 2023 by \$313,000 or 4% from 2022. The primary driver in this increase is continued growth in patient volumes year over year, specifically with outpatient, emergency, and procedural volumes. High inflation during the year also increased overall supply spend.

Facilities and equipment increased in 2024 by \$49,000 or 14% from 2023 due to an increase in general facilities repair and maintenance expenses throughout the hospital. Facilities and equipment decreased in 2023 by \$39,000 or 10% from 2022 due to the reduction in the right-of-use lease assets liability.

Depreciation and amortization increased in 2024 by \$716,000 or 16% from 2023 and increased in 2023 by \$1,545,000 or 51% from 2022 due to operationalizing large components of the Outpatient Diagnostic Center in both fiscal years, as well as the implementation of a new audit standard, Governmental Accounting Standards Board (GASB) No. 96, *Subscription-Based Information Technology Arrangements*.

Other expenses increased in 2024 by \$1,229,000 or 23% compared to 2023 and increased in 2023 by \$862,000 or 19% compared to 2022. The primary driver of this increase in both fiscal years is due to an increase in the IGT matching fee that was paid during the year.

Sonoma Valley Health Care District Management's Discussion and Analysis Years Ended June 30, 2024, 2023, and 2022

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of general obligation bond tax assessment revenues, parcel taxes levied by the District, investment income, interest expense and noncapital grants and gifts.

General obligation bond tax assessment revenues increased in 2024 by \$300,000 or 11% compared to 2023. General obligation bond tax assessment revenues increased in 2023 by \$107,000 or 4% compared to 2022. Parcel taxes decreased in 2024 by \$74,000 or 2% compared to 2023. Parcel taxes decreased in 2023 by \$9,000 compared to 2022. In 2024, general obligation bond and other interest expense increased by \$134,000 or 12% primarily due to a full year of interest payments on a CHFFA Help II Loan that was executed during the 4th quarter of 2023. In 2023, interest expense increased by \$16,000 or 1% due to a significant change in interest rates, which started during the 4th quarter of fiscal year 2022. This primarily impacted interest expense on the hospital's line of credit.

Capital Grants and Gifts

The District received gifts from Sonoma Valley Hospital Foundation and various individuals for the construction costs related to the outpatient diagnostic center and to purchase capital assets in the amount of \$5,518,000 in 2024, and \$2,937,000 in 2023; an increase of \$2,580,000 in 2024 compared to 2023. Capital grants and gifts increased by \$2,052,000 in 2023 over 2022.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, as discussed earlier.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report, and requests for additional financial information should be directed to the Chief Financial Officer by telephoning (707) 935-5003.

Report of Independent Auditors

The Board of Directors
Sonoma Valley Healthcare District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sonoma Valley Healthcare District (the District), which comprise the statement of net position as of June 30, 2024, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Sonoma Valley Healthcare District as of June 30, 2024, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Prior Period Financial Statements

The financial statements of Sonoma Valley Health Care District as of and for the year ended June 30, 2023, were audited by other auditors whose report thereon dated March 21, 2024, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 10 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying supplemental schedule of community support on page 42 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California
November 12, 2024

Financial Statements

Sonoma Valley Health Care District
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,748,581	\$ 6,322,741
Patient accounts receivable, net of allowance for uncollectible accounts of \$4,353,661 and \$1,806,659 in 2024 and 2023, respectively	7,505,623	7,842,950
Estimated third-party payor settlements	-	61,347
Property tax receivable	303,260	179,983
Other receivables	1,520,491	1,663,396
Inventories	913,408	978,625
Prepaid expenses and other current assets	637,493	1,160,940
Total current assets	14,628,856	18,209,982
Capital assets, net		
Nondepreciable	6,394,562	8,567,864
Depreciable, net of accumulated depreciation and amortization	49,855,214	43,402,253
Total capital assets, net	56,249,776	51,970,117
Operating right-of-use assets, net	1,498,904	1,033,640
Subscription assets, net	4,744,851	4,827,627
Investment restricted for debt service	5,957,336	5,774,189
Total noncurrent assets	68,450,867	63,605,573
Total assets	\$ 83,079,723	\$ 81,815,555

See accompanying notes.

Sonoma Valley Health Care District
Statements of Net Position (Continued)
June 30, 2024 and 2023

	2024	2023
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,859,449	\$ 7,249,685
Accrued payroll and related liabilities	2,703,820	2,406,779
Estimated third-party payor settlements liability	144,884	-
Line of credit	4,973,734	4,973,734
Bonds payable, current portion	2,406,000	2,277,000
Notes payable, current portion	1,142,589	992,688
Other current liabilities	-	85,976
Operating lease obligations, current portion	286,518	372,131
Subscription liability, current portion	1,030,797	1,536,345
Total current liabilities	20,547,791	19,894,338
Long-term liabilities		
Accrued workers' compensation liability	945,000	1,079,260
Bonds payable, net of current portion	18,047,000	20,453,000
Notes payable, net of current portion	1,224,003	2,366,484
Operating lease obligations, net of current position	1,213,244	692,446
Subscription liability, net of current position	2,325,128	1,282,029
Total long-term liabilities	23,754,375	25,873,219
Total liabilities	44,302,166	45,767,557
Net position		
Net investment in capital assets	28,456,450	20,821,235
Investment restricted for debt service	5,957,336	5,774,189
Unrestricted	4,363,771	9,452,574
Total net position	38,777,557	36,047,998
Total liabilities and net position	\$ 83,079,723	\$ 81,815,555

See accompanying notes.

Sonoma Valley Health Care District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Net patient service revenue	\$ 55,773,479	\$ 54,185,879
Capitation revenue	244,147	202,502
Total operating revenues	56,017,626	54,388,381
OPERATING EXPENSES		
Salaries and wages	25,142,587	24,777,605
Employee benefits	6,153,443	5,859,077
Purchased services	4,750,529	5,222,623
Professional fees, medical	7,487,831	6,938,546
Professional fees, non medical	2,059,989	1,960,260
Supplies	7,693,639	7,882,605
Facilities and equipment	407,419	358,744
Utilities	1,945,774	1,813,069
Insurance	819,515	658,491
Depreciation and amortization	5,267,168	4,550,776
Other expenses	3,901,723	2,965,788
Total operating expenses	65,629,617	62,987,584
Loss from operations	(9,611,991)	(8,599,203)
NONOPERATING INCOME (EXPENSES)		
General obligation bond tax assessment revenues	2,928,571	2,628,829
Parcel tax assessment revenues	3,702,140	3,776,123
General obligation bond interest	(521,562)	(578,627)
Interest expense	(710,443)	(519,385)
Gain on sale of assets	45,915	-
Investment income	305,860	171,954
Other income, net	1,073,399	1,250,587
Total nonoperating income, net	6,823,880	6,729,481
Capital contributions	5,517,670	2,937,472
Change in net position	2,729,559	1,067,750
NET POSITION, beginning of year	36,047,998	34,980,248
NET POSITION, end of year	\$ 38,777,557	\$ 36,047,998

See accompanying notes.

Sonoma Valley Health Care District
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third parties	\$ 56,704,089	\$ 51,954,197
Cash payments to contractors, vendors, and suppliers	(28,713,512)	(27,342,107)
Cash payments to employees and benefit programs	<u>(31,133,249)</u>	<u>(30,656,202)</u>
Net cash used in operating activities	<u>(3,142,672)</u>	<u>(6,044,112)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants, contributions, and other	1,073,399	1,114,785
District tax revenues	<u>3,739,667</u>	<u>3,788,739</u>
Net cash provided by noncapital financing activities	<u>4,813,066</u>	<u>4,903,524</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(6,571,603)	(2,791,349)
Proceeds from sale of capital assets	53,700	-
Principal payments on notes payable	(992,580)	(45,623)
Principal payments on lease obligations	(377,544)	(571,529)
Principal payments on subscription obligations	(1,255,672)	(3,186,276)
Principal payments on bonds payable	(2,277,000)	(2,159,000)
Interest paid on long-term debt	(1,232,005)	(1,091,318)
Proceeds on notes payable	-	2,750,660
Paydown of line of credit	-	(500,000)
Tax revenue related to general obligation bonds	2,767,767	2,628,829
Capital grants and gifts	<u>5,517,670</u>	<u>2,937,472</u>
Net cash used in capital financing activities	<u>(4,367,267)</u>	<u>(2,028,134)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,767,767)	(19,377)
Sale of investments	2,820,826	-
Investment income	<u>69,654</u>	<u>171,953</u>
Net cash provided by investing activities	<u>122,713</u>	<u>152,576</u>
Net decrease in cash and cash equivalents	(2,574,160)	(3,016,146)
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,322,741</u>	<u>9,338,887</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,748,581</u>	<u>\$ 6,322,741</u>

See accompanying notes.

Sonoma Valley Health Care District
Statements of Cash Flows (Continued)
Years Ended June 30, 2024 and 2023

	2024	2023
RECONCILIATION OF LOSS FROM OPERATIONS TO		
NET CASH USED IN		
OPERATING ACTIVITIES		
Loss from operations	\$ (9,611,991)	\$ (8,599,203)
Adjustments to reconcile loss from operations to net		
cash used in operating activities		
Depreciation and amortization	5,267,168	4,550,776
Provision for doubtful accounts	2,547,002	1,850,000
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,209,675)	(4,391,357)
Inventories	65,217	58,972
Prepaid expenses and deposits	523,447	(332,640)
Estimated third-party payor settlements	206,231	107,173
Accounts payable and accrued expenses	(149,781)	731,687
Other operating assets and liabilities	219,710	(19,520)
Net cash used in operating activities	\$ (3,142,672)	\$ (6,044,112)

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Noncash acquisition of fixed assets	\$ 759,545	\$ -
Noncash acquisition of right-of-use lease assets	\$ 812,729	\$ 34,385
Noncash acquisition of lease obligation liabilities	\$ (812,729)	\$ (18,216)
Noncash acquisition of subscription assets	\$ 1,793,223	\$ 6,040,356
Noncash acquisition of subscription liabilities	\$ (1,793,223)	\$ (3,023,565)

See accompanying notes.

Sonoma Valley Health Care District

Notes to Financial Statements

Note 1 – Nature of Operations

Sonoma Valley Health Care District (the District) is a political subdivision of the State of California organized under the State of California Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The Health Care District is governed by an elected Board of Directors and is considered the primary government for financial reporting purposes.

The Health Care District owns and operates Sonoma Valley Hospital (the Hospital). The Hospital is located in Sonoma, California, and is licensed for 24 general acute care beds and 27 skilled nursing beds. It also provides 24-hour basic emergency care, outpatient diagnostic and therapeutic services. The Hospital derives a significant portion of its revenues from third-party payors, including Medicare, Medi-Cal and commercial insurance organizations.

The District Board has approved the planning phase and construction of a new outpatient diagnostic center (the Center). The construction of the center commenced during fiscal year 2020 and is funded entirely by donor contributions raised by the Sonoma Valley Hospital Foundation. See Note 16 for further discussion.

Note 2 – Summary of Significant Accounting Policies

Basis of preparation

The District's financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation, required by GASB Statements No. 34, 37, and 38 provides a full accrual basis, comprehensive, entity-wide perspective of the District's assets, results of operations and cash flows. The District follows the "business-type activities" reporting requirements of GASB Statement No. 34. For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76), which is effective for financial statements for periods beginning after June 15, 2015. The objective of GASB 76 is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. Statement no. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Proprietary fund accounting and financial statement presentation

The District utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis and the financial statements are prepared using the economic resources measurement focus.

Sonoma Valley Health Care District

Notes to Financial Statements

Net position of the District is comprised of the following three components:

Net investment in capital assets - consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those capital assets.

Investment restricted for debt service - consists of net position with limits on their use that are externally imposed by creditors (such as through debt covenants).

Unrestricted net position - consists of the remaining net position that does not meet the definition of invested in capital assets, and investment restricted for debt service.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include deposits with financial institutions and investments in highly liquid debt instruments with an original maturity of three months or less. Cash and cash equivalents exclude amounts whose use is limited by Board designation or by legal restriction.

Patient accounts receivable and concentration of credit risk

Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies, and private patients. The District manages its receivables by regularly reviewing the accounts, providing appropriate reserves for contractual allowances and uncollectible accounts based upon historical net collections, the aging of individual accounts, as well as current economic and regulatory conditions. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe there are any material credit risks associated with these governmental agencies.

Contracted and other private patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions. While the overall concentration of these other payor receivables is significant, they do not represent any individual concentrated credit risk to the District. Estimated net receivables from all Medicare and Medi-Cal programs combined account for approximately 34% and 34% of net patient accounts receivable at June 30, 2024 and 2023, respectively.

Sonoma Valley Health Care District

Notes to Financial Statements

Allowance for uncollectible patient accounts receivable

The District provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible given historical collection trends. At June 30, 2024 and 2023, the District recorded an allowance for uncollectible accounts receivable for amounts due directly from patients totaling \$4,353,661 and \$1,806,659, respectively.

Investment restricted for debt service

Noncurrent investments consist of Board designated and restricted funds set aside by the Board for future capital improvements and other operational reserves, over, which the Board retains control and may at its discretion, use for other purposes; assets set aside for qualified capital outlay projects in compliance with state law and assets restricted by donors or grantors.

Investment income realized gains and losses and unrealized gains and losses on investments are reflected as nonoperating income or expense.

Fair value measurements

GASB Statement No. 72, Fair Value Measurement and Application (GASB 72), addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The District reports the fair value of its investments in accordance with GASB 72. This standard requires an entity to maximize the use of observable inputs (such as quoted prices in active markets), and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, the District reports certain investments using the net asset value per share as determined by investment managers under the so called "practical expedient". The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met. Fair value measurement standards also require the District to classify these financial instruments into a three level hierarchy based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock-up and notice periods associated with the underlying funds.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Sonoma Valley Health Care District

Notes to Financial Statements

Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk.

Instruments with readily available active quoted prices or for, which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the District's financial statements.

Inventories

Inventories consist primarily of hospital operating supplies and pharmaceuticals and are stated at lower of cost or market basis, determined by the first-in, first-out method (FIFO).

Investment restricted for debt service

According to the terms of the General Obligation Bond indenture agreements, certain amounts are held by the bond trustee and paying agent and are maintained and managed by the trustee and are noncurrent investments. These assets are available for the settlement of future current bond obligations.

Capital assets

Capital asset acquisitions over \$5,000 are capitalized and recorded at cost. Donated property is recorded at its fair value on the date of donation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets.

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Land improvements	10 - 20 years
Buildings and improvements	20 - 40 years
Equipment	2 - 10 years

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, the District, using its best estimates and projections, reviews for impairment the carrying value of long lived identifiable assets to be held and used in the future. Any impairment losses identified are recognized when determined. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the assets, the asset's carrying value is adjusted to fair value. As of June 30, 2024 and 2023, the District has determined that no capital assets are significantly impaired.

Sonoma Valley Health Care District

Notes to Financial Statements

Right-of-use assets

The District has recorded right-of-use lease assets as a result of implementing GASB No. 87. The right-of-use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right-of-use assets are amortized on a straight-line basis over the life of the related lease.

Subscription assets

The District has recorded subscription assets as a result of implementing GASB No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The subscription assets are initially measured at an amount equal to the initial measurement of the related subscription liability plus any contract payments made to the SBITA vendor at the commencement of the subscription term, capitalizable initial implementation cost, less any incentive payments received from the SBITA vendor at the commencement of the subscription term. The subscription assets are amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying assets.

Risk management

The District is exposed to various risks of loss from torts; theft of damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental and accidents; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District maintains professional liability insurance on a claims-made basis, with liability limits of \$15,000,000 per claim and \$25,000,000 in aggregate, which is subject to a \$5,000 per claim deductible. Additionally, the District is self-insured for workers' compensation benefits. The District purchases a workers' compensation excess policy that insures claims with no limits in the amounts and a \$500,000 deductible. An actuarial estimate of uninsured losses from workers' compensation claims has been accrued as a liability in the accompanying financial statements.

Statements of revenues, expenses and change in net position

The District's statements of revenues, expenses, and change in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Other transactions such as property tax revenue, interest expense, investment income, gain on sale of capital assets, gifts and contributions, and government grants and bequests are reported as nonoperating income.

Sonoma Valley Health Care District Notes to Financial Statements

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.

The distribution of net patient revenue, which represents both cash collected and expected to be collected, by payor is as follows:

	2024	2023
Medicare	23.6%	23.4%
Medicare HMO	10.0%	10.7%
Medi-Cal	1.4%	1.4%
Medi-Cal Managed Care	19.5%	20.2%
Commercial Insurance	36.6%	34.5%
Workers Compensation	2.1%	3.1%
Capitated	1.0%	0.8%
Self-pay/Other	2.3%	2.1%
Other Government	3.5%	3.8%
	100.0%	100.0%

Charity care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Capitation revenues

The Hospital, in association with Meritage Medical Network (formerly Marin Independent Practice Association) (Meritage) has an agreement with a health maintenance organization (HMO) to provide medical services to subscribing participants. Under this agreement, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of the services actually performed by the Hospital. The Hospital is not responsible for the cost of services provided to subscribing participants by other hospitals. The Hospital reassesses the profitability of the agreements for exposure risks in the event future medical costs to provide medical services exceed the related future capitation payments.

Property tax revenues

Taxes for District operations and for debt service payments related to District General Obligation Bonds are levied annually on the taxable property within the District.

The purpose of the special parcel tax is to ensure continued local access to emergency room and acute hospital care and other medical services for residents of the District and for visitors to the area.

Sonoma Valley Health Care District Notes to Financial Statements

Property tax revenue funds were designated as follows:

	2024	2023
Designated for hospital operations	\$ 3,702,140	\$ 3,776,123
Levied for hospital operations and debt service payments	2,928,571	2,628,829
	\$ 6,630,711	\$ 6,404,952

Grants and contributions

The District receives grants as well as contributions from individuals and private organizations.

Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating income.

Compensated absences

District policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or as a cash payment upon termination. The expense and the related liability are recognized as paid time off benefits when earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of financial position date plus an additional amount for compensation related payments, such as social security and Medicare taxes computed using rates in effect at the date of computation. The following is a summary of changes in compensated absences transactions for the years ended June 30, included in accrued payroll and related liabilities in statements of net position:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2024	\$ 1,666,017	\$ 2,802,586	\$ 2,675,786	\$ 1,792,817	\$ 1,792,817

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
2023	\$ 1,614,350	\$ 2,477,299	\$ 2,425,632	\$ 1,666,017	\$ 1,666,017

Income taxes

The District operates under the purview of the Internal Revenue Code (IRC), Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income. However, income from the unrelated business activities of the District may be subject to income taxes.

Sonoma Valley Health Care District

Notes to Financial Statements

New accounting pronouncements

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections. It defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. This statement requires that (1) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (2) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (3) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The District adopted this standard in the current fiscal year. The adoption did not result in a material impact to the District's financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The Statement updates the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. The statement amends the existing requirements to disclose only the net change in the liability instead of the gross additions and deductions to the liability. This statement is effective for the fiscal year ending June 30, 2025. The District is currently evaluating the impact of the adoption of this standard on its financial statements.

Reclassifications

Certain reclassifications of prior years' balances and disclosures have been made to conform with the current year presentations. Such reclassifications did not affect the total increase in net position or total current or long-term assets or liabilities.

Subsequent events

Subsequent events are events or transactions that occur after the statements of net position date but before financial statements are available to be issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of net position, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of net position but arose after the statements of net position date and before financial statements are available to be issued.

On August 31, 2024, the District entered into an amendment with U.S. Bank National Association, to extend the maturity date of Line of Credit to November 28, 2024. See Note 11.

In October of 2024, the District executed a new term loan with a principal amount of \$1.9 million with a maturity date of November 2029, to refinance the existing line of credit previously held with US bank. See Note 11.

Sonoma Valley Health Care District

Notes to Financial Statements

In November of 2024, the District executed a new revolving line of credit with a maximum draw of \$5.5 million with a maturity date of November 2031.

The District has evaluated subsequent events through November 12, 2024, which is the date the financial statements were issued.

Note 3 – Affiliation Agreement with UCSF Health

The District has entered into an affiliation agreement with UCSF Health dated August 20, 2018, to share best practices, increase patient, family and community satisfaction with patient care and create over time a comprehensive, sustainable, and integrated health care network to serve the needs of the Sonoma Community.

The District and UCSF Health have formed a Joint Operations Committee (JOC) that is responsible for coordinating activities and discussing and negotiating any agreements necessary to support the affiliation agreement. Effective January 1, 2021, the District and UCSF Health entered into a first amendment of the affiliation agreement which extended the initial term of the agreement to commence on the effective date of the first amendment and to end on the fifth anniversary of such date. The first amendment also redefines the structure and authority of the JOC and adds a management services section whereby certain executive leadership roles are directly employed by UCSF Health and shall manage the District in accordance with the term of the affiliation agreement.

Note 4 – Cash Deposits

At June 30, 2024 and 2023, the District's cash deposits had carrying amounts of \$3,748,581 and \$6,322,741, respectively, and bank balances of \$3,929,957 and \$7,582,909, respectively.

All of these funds were held in cash deposits, which are collateralized with the California Government Code (CGC), except for \$250,000 per account that is federally insured by the Federal Deposit Insurance Corporation (FDIC). Under the provision of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage having a value of 150% of the District's deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

Note 5 – Net Patient Service Revenues

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. The difference between the Hospital's established rates and the amounts paid under third-party contracts are reflected as contractual adjustments.

Sonoma Valley Health Care District

Notes to Financial Statements

Medicare and Medi-Cal settlements are estimated and recorded in the financial statements in the year services are provided, or when amounts are estimable. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs. Changes in Medicare, Medi-Cal, or other programs or the reduction of program funding could have an adverse impact on future net patient service revenues.

A summary of the payment arrangements with major third-party payors is as follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District's classification of inpatients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the District. Most outpatient services at the District provided to Medicare beneficiaries are paid at prospectively determined rates per encounter that vary according to procedures performed. At June 30, 2024, the District's Medicare cost reports have been audited and final settled by the fiscal intermediary through June 30, 2020.

Medi-Cal - Payments for inpatient acute care services rendered to Medi-Cal program beneficiaries are reimbursed under a diagnostic related group (DRG) methodology. Under this methodology, similar to Medicare, services are paid at prospectively determined rates per discharge according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient skilled nursing care services rendered to Medi-Cal program beneficiaries are reimbursed at prospectively determined per diem rates. Outpatient services rendered to Medi-Cal program beneficiaries are reimbursed based on prospectively determined fee schedules. At June 30, 2024, the District's Medi-Cal cost reports have been audited and final settled through June 30, 2020.

Others - Payments for services rendered to other than Medicare and Medi-Cal patients are based on established rates or agreements with certain commercial insurance companies, health maintenance organizations, Napa State, and preferred provider organizations, which provide for various discounts from established rates.

Net patient service revenues consisted of the following:

	2024	2023
Services provided to Medicare patients	\$ 181,406,838	\$ 172,702,928
Services provided to Medi-Cal patients	54,526,061	60,968,241
Services provided to other patients	95,942,535	90,292,533
Gross patient service revenues	331,875,434	323,963,702
Contractual allowances and allowance for doubtful accounts	(276,101,955)	(269,777,823)
Total net patient service revenue	\$ 55,773,479	\$ 54,185,879

Sonoma Valley Health Care District Notes to Financial Statements

The District receives funds under Assembly Bill No. 915 legislation for MediCal services provided through an Inter-Governmental Transfer (IGT) whereby funds are advanced by the District to be matched by the federal government. The District recognized gross revenues of \$8,243,787 and IGT expense of \$3,097,493 for the year ended June 30, 2024. As a result of participation in the Hospital Provider Fee and the Rate Range IGT programs, the District recognized gross revenues of \$6,075,168 and IGT expense of \$2,271,852 for the year ended June 30, 2023. Revenue and expense under these programs are recorded upon notification by the Department of Health Care Services of final earned amounts for MediCal services in the specific service year of calculation. The revenues recognized under these programs are recorded within net patient service revenues, and the IGT expense paid into the programs is reflected within other expenses.

Note 6 – Investments Restricted for Debt Service

District investment balances and average maturities were as follows at June 30, 2024:

	Fair Value	Less than 1 year	1 to 5 years
Money market mutual fund	\$ 5,957,336	\$ 5,957,336	\$ -

District investment balances and average maturities were as follows at June 30, 2023:

	Fair Value	Less than 1 year	1 to 5 years
Money market mutual fund	\$ 5,774,189	\$ 5,774,189	\$ -

The investment policy does not specifically address interest rate risk, credit risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

Inherent rate risk

Inherent rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest. The money market mutual fund has a maturity of less than one year and is redeemable in full immediately.

Credit risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2024 and 2023, the District's investment in a money market mutual fund was rated AAA by both Moody's Investors Service and Standard and Poor's.

Concentration of credit risk

This risk relates to the risk of loss attributed to the magnitude of the District's investment in a single issuer. For the years ended June 30, 2024 and 2023, the District had a single money market mutual fund investment.

Sonoma Valley Health Care District Notes to Financial Statements

Note 7 – Fair Value Measurements

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money market mutual fund	<u>\$ 5,957,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,957,336</u>

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money market mutual fund	<u>\$ 5,774,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,774,189</u>

Note 8 – Capital Assets

Capital assets activity as of June 30, 2024, consisted of the following:

	<u>Balance, June 30, 2023</u>	<u>Purchases and Transfers</u>	<u>Sales, Transfers, and Retirements</u>	<u>Balance, June 30, 2024</u>
Non-depreciable capital assets				
Land	\$ 646,687	\$ -	\$ -	\$ 646,687
Construction in progress	<u>7,921,177</u>	<u>6,351,113</u>	<u>(8,524,415)</u>	<u>5,747,875</u>
Total non-depreciable capital assets	<u>8,567,864</u>	<u>6,351,113</u>	<u>(8,524,415)</u>	<u>6,394,562</u>
Depreciable capital assets				
Land improvements	794,811	-	-	794,811
Building and improvements	68,994,876	141,893	4,492,039	73,628,808
Equipment	<u>33,770,784</u>	<u>785,163</u>	<u>1,627,184</u>	<u>36,183,131</u>
	103,560,471	927,056	6,119,223	110,606,750
Less accumulated depreciation	<u>(60,158,218)</u>	<u>(3,044,425)</u>	<u>2,451,107</u>	<u>(60,751,536)</u>
Total depreciable capital assets	<u>43,402,253</u>	<u>(2,117,369)</u>	<u>8,570,330</u>	<u>49,855,214</u>
Total capital assets, net	<u>\$ 51,970,117</u>	<u>\$ 4,233,744</u>	<u>\$ 45,915</u>	<u>\$ 56,249,776</u>

Sonoma Valley Health Care District Notes to Financial Statements

Capital assets activity as of June 30, 2023, consisted of the following:

	<u>Balance, June 30, 2022</u>	<u>Purchases and Transfers</u>	<u>Sales, Transfers, and Retirements</u>	<u>Balance, June 30, 2023</u>
Non-depreciable capital assets				
Land	\$ 646,687	\$ -	\$ -	\$ 646,687
Construction in progress	<u>11,716,336</u>	<u>5,291,998</u>	<u>(9,087,157)</u>	<u>7,921,177</u>
Total non-depreciable capital assets	<u>12,363,023</u>	<u>5,291,998</u>	<u>(9,087,157)</u>	<u>8,567,864</u>
Depreciable capital assets				
Land improvements	794,811	-	-	794,811
Building and improvements	64,934,887	4,059,989	-	68,994,876
Equipment	<u>31,512,734</u>	<u>504,970</u>	<u>1,753,080</u>	<u>33,770,784</u>
	97,242,432	4,564,959	1,753,080	103,560,471
Less accumulated depreciation	<u>(57,484,058)</u>	<u>(2,908,243)</u>	<u>234,083</u>	<u>(60,158,218)</u>
Total depreciable capital assets	<u>39,758,374</u>	<u>1,656,716</u>	<u>1,987,163</u>	<u>43,402,253</u>
Total capital assets, net	<u>\$ 52,121,397</u>	<u>\$ 6,948,714</u>	<u>\$ (7,099,994)</u>	<u>\$ 51,970,117</u>

Note 9 – Leases

The District is a lessee for noncancellable lease of office space and equipment with lease terms through 2027. There are no residual value guarantees included in the measurement of District's lease liability nor recognized as an expense for the years ended June 30, 2024 and 2023. The District does not have any commitments that were incurred at the commencement of the leases. The District is subject to variable equipment usage payments that are expensed when incurred. There were no amounts recognized as variable lease payments as lease expense on the statements of changes of net position for the years ended June 30, 2024 and 2023. No termination penalties were incurred during the fiscal year.

Sonoma Valley Health Care District

Notes to Financial Statements

The District has the following operating right-of-use lease assets activities as of June 30:

2024	Beginning Balance	Additions	Ending Balance
Building	\$ 1,194,167	\$ 783,768	\$ 1,977,935
Equipment	351,769	28,961	380,730
	1,545,936	812,729	2,358,665
Less accumulated amortization	(512,296)	(347,465)	(859,761)
	\$ 1,033,640	\$ 465,264	\$ 1,498,904
2023	Beginning Balance	Additions	Ending Balance
Building	\$ 1,194,167	\$ -	\$ 1,194,167
Equipment	317,384	34,385	351,769
	1,511,551	34,385	1,545,936
Less accumulated amortization	(82,494)	(429,802)	(512,296)
	\$ 1,429,057	\$ (395,417)	\$ 1,033,640

The District has the following operating lease obligations activities as of June 30:

2024	Beginning Balance	Additions	Payments	Ending Balance
Buildings	\$ 858,475	\$ 783,768	\$ (263,952)	\$ 1,378,291
Equipment	206,102	28,961	(113,592)	121,471
	\$ 1,064,577	\$ 812,729	\$ (377,544)	\$ 1,499,762
2023	Beginning Balance	Additions	Payments	Ending Balance
Buildings	\$ 1,107,304	\$ -	\$ (248,829)	\$ 858,475
Equipment	332,850	18,216	(144,964)	206,102
	\$ 1,440,154	\$ 18,216	\$ (393,793)	\$ 1,064,577

For the years ended June 30, 2024 and 2023, the District recognized \$347,465 and \$429,802, respectively, in amortization expense included in depreciation and amortization expense on the statements of activities and changes in net position.

Sonoma Valley Health Care District Notes to Financial Statements

The future principal and interest lease payments as of June 30, 2024, were as follows:

Year Ending June 30,	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2025	\$ 286,518	\$ 80,316	\$ 366,834
2026	213,122	60,964	274,086
2027	204,737	56,843	261,580
2028	191,634	58,799	250,433
2029	188,429	49,496	237,925
Thereafter	415,322	68,259	483,581
	<u>\$ 1,499,762</u>	<u>\$ 374,677</u>	<u>\$ 1,874,439</u>

The District evaluated the right-of-use assets for impairment and determined there was no impairment for the years ended June 30, 2024 and 2023.

Note 10 – Subscriptions

The District has the following subscription assets activities as of June 30:

2024	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Subscription assets	\$ 6,040,356	\$ 1,793,223	\$ 7,833,579
Less accumulated amortization	<u>(1,212,729)</u>	<u>(1,875,999)</u>	<u>(3,088,728)</u>
	<u>\$ 4,827,627</u>	<u>\$ (82,776)</u>	<u>\$ 4,744,851</u>
2023	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Subscription assets	\$ -	\$ 6,040,356	\$ 6,040,356
Less accumulated amortization	<u>-</u>	<u>(1,212,729)</u>	<u>(1,212,729)</u>
	<u>\$ -</u>	<u>\$ 4,827,627</u>	<u>\$ 4,827,627</u>

Sonoma Valley Health Care District Notes to Financial Statements

The District has the following subscription liability activities as of June 30:

2024	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Subscription liabilities	<u>\$ 2,818,374</u>	<u>\$ 1,793,223</u>	<u>\$ (1,255,672)</u>	<u>\$ 3,355,925</u>
2023	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Subscription liabilities	<u>\$ -</u>	<u>\$ 3,023,565</u>	<u>\$ (205,191)</u>	<u>\$ 2,818,374</u>

For the years ended June 30, 2024 and 2023, the District recognized \$1,875,999 and \$1,212,729, respectively, in amortization expense included in depreciation and amortization expense on the statements of activities and changes in net position.

The future subscription payments as of June 30, 2024, were as follows:

Year Ending June 30,	<u>Principal Payments</u>	<u>Interest Payments</u>	<u>Total</u>
2025	\$ 1,030,797	\$ 67,575	\$ 1,098,372
2026	884,635	79,996	964,631
2027	553,103	110,057	663,160
2028	576,609	82,446	659,055
2029	310,781	30,208	340,989
	<u>\$ 3,355,925</u>	<u>\$ 370,282</u>	<u>\$ 3,726,207</u>

The District evaluated the subscription assets for impairment and determined there was no impairment for the years ended June 30, 2024 and 2023.

Note 11 – Line of Credit

The District had a line of credit agreement with a bank for an amount not to exceed \$6,750,000 that matured on January 31, 2022. On this date, the line of credit was extended for an amount not to exceed \$5,500,000, with an interest rate of 8.25% plus Term SOFR, and a maturity date of January 31, 2024. The line of credit was renewed on January 23, 2024, and was due in full on April 30, 2024. On June 6, 2024, the District entered into an amendment with U.S. Bank National Association, to extend the maturity date to August 31, 2024. On August 31, 2024, the District entered into an amendment with U.S. Bank National Association, to extend the maturity date to November 28, 2024. The line of credit is collateralized with the District's cash, cash equivalents and receivables.

As of June 30, 2024 and 2023, the District is required to comply with certain restrictive covenants. Management believes all financial covenants were met for the years ended June 30, 2024 and 2023.

The District had unused credit remaining on the line of credit of \$526,266 at June 30, 2024 and 2023, respectively.

Sonoma Valley Health Care District Notes to Financial Statements

The District entered into a new banking arrangement as of October 30, 2024. This arrangement refinanced the existing line of credit the District had previously held with U.S. Bank for the entire principal outstanding. On this date, the District entered into a term loan with Summit State Bank with a principal amount of \$1,900,000 and an annual interest rate of 7.75%. The maturity date of the loan is November 16, 2029.

Note 12 – Long-Term Debt

The District's long-term debt transactions as of June 30, 2024, consisted of the following:

	Balance, June 30, 2023	Additions	Decreases/ Amortization	Balance, June 30, 2024
GO Bond principal	\$ 22,730,000	\$ -	\$ (2,277,000)	\$ 20,453,000
Notes payable	3,359,172	-	(992,580)	2,366,592
	<u>\$ 26,089,172</u>	<u>\$ -</u>	<u>\$ (3,269,580)</u>	<u>\$ 22,819,592</u>

The District's long-term debt transactions as of June 30, 2023, consisted of the following:

	Balance, June 30, 2022	Additions	Decreases/ Amortization	Balance, June 30, 2023
GO Bond principal	\$ 24,889,000	\$ -	\$ (2,159,000)	\$ 22,730,000
Notes payable	654,135	2,750,660	(45,623)	3,359,172
	<u>\$ 25,543,135</u>	<u>\$ 2,750,660</u>	<u>\$ (2,204,623)</u>	<u>\$ 26,089,172</u>

General obligation bonds payable

In February 2014, the District issued \$12,437,000 of additional general obligation bonds (2014 General Obligation Refunding Bonds), bearing interest at 3.78% and maturing on August 1, 2029. Interest on the 2014 General Obligation Refunding Bonds is payable semi-annually at a fixed rate of 3.78% with principal payments due annually beginning August 1, 2022 through August 1, 2029. The balance of the 2014 General Obligation Refunding Bonds is \$7,493,000 and \$8,320,000 as of June 30, 2024 and 2023, respectively.

On August 10, 2021, the District issued \$15,825,000 in par value 2021 General Obligation Refunding Bonds (2021 Bonds) to refund in full the outstanding District General Obligations Bonds, Election of 2008, Series B (2010). Interest on the 2021 Bonds is payable semi-annually at a fixed rate of 1.79% with principal payments due annually beginning August 1, 2022 through August 1, 2031. The balance of the 2021 Bonds is \$12,960,000 and \$14,410,000 as of June 30, 2024 and 2023, respectively.

Sonoma Valley Health Care District Notes to Financial Statements

Notes payable

Notes payable are detailed as follows:

	2024	2023
California Health Facilities Financing Authority NDPH Bridge Loans, 3 loan agreements, 0% interest, due in fiscal year 2025. Secured by Medi-Cal payments.	\$ 750,000	\$ 1,359,147
California Health Facilities Financing Authority loan dated April 1, 2023; bearing interest at 2% with a maturity date of June 15, 2028. Secured by Medi-Cal payments.	1,616,592	2,000,000
CEC Loan Phase 1	-	25
	2,366,592	3,359,172
Current portion	(1,142,589)	(992,688)
	\$ 1,224,003	\$ 2,366,484

Debt service requirements

The future maturities of the long-term debt are as follows:

	General Obligation Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
Year Ending June 30,				
2025	\$ 2,406,000	\$ 257,609	\$ 1,142,589	\$ 28,737
2026	2,561,000	226,863	399,840	20,826
2027	2,728,000	193,583	407,911	12,755
2028	2,901,000	157,546	416,252	4,522
2029	3,091,000	118,637	-	-
2030 - 2033	6,766,000	123,433	-	-
	\$ 20,453,000	\$ 1,077,671	\$ 2,366,592	\$ 66,840

Interest costs

Interest costs incurred on all outstanding debt during the years ended June 30, 2024 and 2023 is summarized as follows:

	2024	2023
Interest cost		
Paid	\$ 1,060,979	\$ 903,145
Accrued	171,026	194,867
Total interest expense	\$ 1,232,005	\$ 1,098,012

Sonoma Valley Health Care District

Notes to Financial Statements

Note 13 – Employee Benefit Plans

Defined contribution plan

The District contributes to a defined contribution pension plan (the Plan) covering substantially all employees. Pension expense is recorded for the amount of the District's required contributions, determined in accordance with the terms of the Plan. The Plan is administered by the District's Board of Directors. The Plan provides retirement benefits to Plan members and death benefits to beneficiaries of Plan members. Benefit provisions are contained in the Plan document and are established and can be amended by action of the District's governing body. The Plan contribution by the District, expressed as a percentage of covered payroll, was 3.45% and 3.01% for 2024 and 2023, respectively.

Deferred compensation plans

The District offers its employees a deferred compensation plan (the DC Plan) created in accordance with IRC Section 457. The DC Plan is available to all employees and permits them to defer a portion of their salary. An employer match is also provided and is vested at the rate of 16.7% per year.

The District's contributions to both the defined contribution and the deferred compensation plans totaled \$563,825 and \$470,653 for 2024 and 2023, respectively.

Note 14 – Medical Malpractice Coverage and Claims

The District has joined together with other providers of health care services to form Beta Healthcare Group (Beta), a public entity risk pool (the Pool), currently operating as a common risk management and insurance program for its members. The District purchases medical malpractice insurance from the Pool under a claims-made policy. The District pays an annual premium to the Pool for its tort insurance coverage. The District purchases excess liability insurance through a commercial insurer for amounts in excess of the coverage provided under Beta. The Pool's governing agreements specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The District will accrue any malpractice losses in excess of all policy limits, if they are determined to be estimable and probable of occurrence. As of June 30, 2024 and 2023, the District has determined that no accrual is required for such losses under the various medical malpractice policies in place.

Sonoma Valley Health Care District

Notes to Financial Statements

Note 15 – Workers’ Compensation Claims

The District is self-insured for workers' compensation claims of its employees up to \$500,000, with commercial stop-loss insurance coverage purchased for claims in excess of these amounts through June 30, 2024. A liability is accrued for self-insured workers' compensation claims, including both claims reported, and claims incurred but not yet reported of \$945,000 and \$1,079,260 as of June 30, 2024 and 2023, respectively. The District utilizes an actuary to estimate the ultimate costs to settle such claims. Estimated future payments related to workers' compensation claims have been discounted at a rate of 1.5% and 1.0%, respectively at June 30, 2024 and 2023. It is reasonably possible that the District's estimate could change by a material amount in the near term. The following is a summary of changes in workers' compensation liabilities for the years ended June 30:

	Beginning Balance	Increases	Decreases	Ending Balance
2024	\$ 1,079,260	\$ -	\$ 134,260	\$ 945,000

	Beginning Balance	Increases	Decreases	Ending Balance
2023	\$ 945,000	\$ 134,260	\$ -	\$ 1,079,260

Note 16 – Transactions with Sonoma Valley Hospital Foundation

Sonoma Valley Hospital Foundation, Inc. (the Foundation) is authorized by the District to solicit contributions on behalf of the Hospital. In the absence of donor restrictions, the Foundation has discretionary control over the amounts, timing, and use of their distributions. The District recorded contributions from the Foundation of \$5,517,670 and \$2,937,472, respectively, for the years ended June 30, 2024 and 2023.

The Foundation is not considered a component unit of the District because the Foundation is not controlled by the District.

Note 17 – Commitments and Contingencies

Litigation

The District is a defendant in various legal proceedings arising out of the normal conduct of its business. In the opinion of management and its legal representatives, the District has valid and substantial defenses, and settlements or awards arising from legal proceedings, if any, will not exceed existing insurance coverage, nor will they have a material adverse effect on the financial position, results of operations, or liquidity of the District.

Sonoma Valley Health Care District

Notes to Financial Statements

Regulatory environment

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The District is subject to routine surveys and reviews by federal, state, and local regulatory authorities.

The District has also received inquiries at times from health care regulatory authorities regarding its compliance with laws and regulations. Although the District's management is not aware of any violations of laws and regulations, it has periodically received corrective action requests as a result of completed and ongoing surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Note 18 – Charity Care

During the years ended June 30, 2024 and 2023, the District incurred estimated costs of \$53,810 and \$113,240, respectively, in free or discounted services for underserved. This includes services provided to persons who have health care needs and are uninsured, under insured, and ineligible for a government program and are otherwise unable to pay for medically necessary care based on their individual financial situation. Costs are computed based on a relationship of costs to charges similar to a Medicare cost to charge ratio. During the years ended June 30, 2024 and 2023, there were 71 and 77 patient cases under this policy, respectively.

Supplementary Information

Sonoma Valley Health Care District
Supplementary Information Related to Community Support
For the Years Ended June 30, 2024 and 2023

Uncompensated care

In September 2004, the District adopted a formal community benefits policy, developed under guidelines provided by the California Hospital Association, and began to identify those patients who are medically indigent. The District's policy is to provide service to all who require it, regardless of their ability to pay. As such, it provides substantial amounts of uncompensated care. When this care is provided to patients who lack financial resources (and therefore are deemed medically indigent), it is classified as community benefits. When it is provided to patients who have the means to pay but decline to do so, it is classified as a provision for uncollectible accounts. Neither community benefits nor the provision for uncollectible accounts is reflected in net patient service revenues.

In addition, the District provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients and frequently the payments are less than the cost of rendering the services. Finally, some undetermined portion of the provision for uncollectible accounts represents care to indigent patients whom the District has been unable to identify.

Uncompensated charges relating to these services are as follows:

	2024	2023
Community benefits (charity care) allowances	\$ 93,006	\$ 113,240
State Medi-Cal and other public aid programs	54,526,061	60,919,568
Provision for uncollectible accounts	1,906,299	1,850,000
	\$ 56,525,366	\$ 62,882,808

The District's estimated costs of providing uncompensated care and community benefits to the poor and the broader community are as follows:

	2024	2023
Uncompensated costs of community benefits and uncollectible accounts	\$ 10,614	\$ 20,703
Medi-Cal and other public aid programs	6,366,939	5,976,754
	\$ 6,377,553	\$ 5,997,457

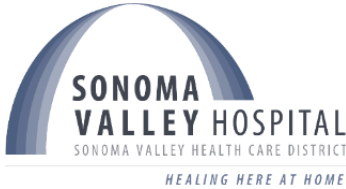
Benefits for the broader community include the unpaid costs of providing service to the elderly, providing health screenings and other health-related services, training health professionals, educating the community with various seminars and classes and the costs associated with providing free clinics and other community service programs.

Sonoma Valley Health Care District
Supplementary Information Related to Community Support
For the Years Ended June 30, 2024 and 2023

Community support

The District recorded the following amounts related to community support as follows:

	<u>2024</u>	<u>2023</u>
Noncapital gifts and grants included in nonoperating income	\$ -	\$ 15,345
Capital grants and contributions from Sonoma Valley Hospital Foundation	<u>5,517,670</u>	<u>2,922,127</u>
	<u>\$ 5,517,670</u>	<u>\$ 2,937,472</u>



To: SVHCD Finance Committee
From: Ben Armfield, Chief Financial Officer
Date: November 26, 2024
Subject: Service Unit, Service Area Revenue Analysis and Profitability

Enclosed is a revenue and profitability analysis for the hospital’s service areas during the 2024 fiscal year.

Profitability Reporting Framework

This analysis is structured to provide two complementary perspectives – an overall profitability summary of all of the hospital’s service units, and a more granular view into the profitability of the hospital’s service areas and their direct contribution to the hospital’s bottom line.

I. Revenue and Profitability by SVH Service Unit

First, profitability is examined at the **hospital service unit level**, which evaluates financial performance by individual service unit, both in terms of direct margin as well as operating margin. **Direct margin** focuses on revenues and direct expenses attributed to each unit, providing a clear snapshot of immediate financial contribution. Operating margin takes a broader view by incorporating indirect revenues, such as intergovernmental transfers (IGT), and indirect expenses, such as overhead allocations. This dual approach allows us to assess both the direct contribution of each individual service area, as well as the overall financial performance when factoring in all of our indirect costs.

II. Revenue and Profitability by SVH Service Unit & Service Area

Second, we analyze profitability at a more granular level by **service unit and service area**. For instance, within the outpatient diagnostics service unit, we further break down the financials for individual service areas such as Lab, CT, and MRI. These analyses detail direct margin both in total dollars and on a per-encounter basis, enabling us to identify specific areas of strength and opportunity within each unit.

See our specific Service Unit and Service Area groupings and definitions below:

Service Unit & Service Area Definitions

Service Units
Emergency Medicine
Inpatient
Outpatient Surgery
Outpatient Diagnostics
Rehab
Occupational Health
Special Procedures



Service Units & Service Areas	
Service Unit	Service Area
Emergency Medicine	Emergency Medicine
Inpatient	Emergency Medicine
	Surgical Services
	Internal Medicine
Outpatient Surgery	Surgical Services
Outpatient Diagnostics	Lab
	Multi Imaging
	Mammography
	Ultrasound
	MRI
	Cardiopulmonary
	CT Scan
	Nuc Med
Rehab	OP PT
	OP OT
	OP Speech
Occupational Health	Industrial Health
Special Procedures	Wound Care
	Medical Infusion

Context for Variances in Profitability

It is important to note that variances in profitability across the different types of service units are common. Hospitals receive payments that vary significantly depending on the type of service provided, payer mix, and reimbursement methodologies. Cost allocations, particularly indirect and overhead allocations, can significantly impact profitability variances as well. For example, inpatient services may have a very different financial profile compared to outpatient diagnostics or surgical services. This diversity is a normal and expected aspect of hospital operations.

Service Area Observations

While there are certainly fluctuations in profitability across the hospital's service units and service areas, what is most encouraging are the performances of the areas where we are focusing our growth efforts – Outpatient Diagnostics (MRI, CT, and Mammography), Outpatient Surgery, Outpatient Rehab and Emergency Medicine. Across the board, these areas demonstrate strong financial margins and validate the strategic decision-making in specifically targeting these areas for growth.

Ongoing Refinements and Improvements

We continue to vet and refine our cost accounting system due to the Epic EMR transition. We have invested significant amounts of time remapping our cost accounting methodologies and allocations that have allowed us to utilize meaningful reporting that is coming out of our new system. While we are very pleased with the work that has been done to this point, the reporting process remains dynamic. Our current efforts focus on refining cost allocation methodologies to ensure a more precise alignment of indirect costs and revenues with actual resource utilization.

In addition to these refinements, the new reporting capabilities introduced by Epic offer opportunities to deepen our analysis and further integrate into daily departmental operations.

Conclusion

This updated profitability report represents a significant step in understanding the hospital's financial performance as a whole. While variances in profitability are inherent to the diverse nature of healthcare delivery, the overall trends, particularly in targeted growth areas, are positive. Continued refinements will further enhance the value of this analysis, ensuring it will continue to serve as a robust foundation for our strategic and operational planning.

ATTACHMENTS:

- I. Overall Operating Margin Analysis by Service Unit – FY24
- II. Direct Margin Analysis by Service Unit & Service Area – FY24

SVH Profitability

I. Overall Operating Margin Analysis by Service Unit

Fiscal Year 2024

** Includes Direct Margin & Operating Income (Direct Margin + Indirect Revenue + Indirect Overhead Allocation)*

Service Unit	Emergency Medicine	Outpatient Surgery	Inpatient Services	Rehab	Outpatient Diagnostics	Occ Health	Special Procedures	TOTAL
Visits	9,945	1,842	823	16,592	29,524	3,970	3,141	65,837
Patient Days	-	-	3,185	-	-	-	-	-
Total Charges	115,270,152	74,859,402	70,358,494	10,018,907	52,629,045	399,640	5,200,485	328,736,125
Total Reimbursement	17,290,428	9,658,945	11,438,187	2,042,494	7,426,719	270,389	1,068,800	49,195,962
Total Direct Labor Costs	(6,870,495)	(3,855,789)	(8,876,485)	(1,338,962)	(2,815,065)	(86,533)	(700,845)	(24,544,173)
Total Direct Operational Costs	(2,264,927)	(2,878,375)	(2,771,559)	(53,800)	(1,333,009)	(14,174)	(383,367)	(9,699,211)
Total Direct Costs	(9,135,422)	(6,734,164)	(11,648,044)	(1,392,762)	(4,148,074)	(100,707)	(1,084,212)	(34,243,384)
Direct Margin	8,155,006	2,924,781	(209,857)	649,732	3,278,645	169,682	(15,412)	14,952,578
Direct Margin %	47%	30%	-2%	32%	44%	63%	-1%	30%
Indirect Revenue	1,536,053	950,902	1,140,653	-	601,890	25,102	82,594	4,337,194
Indirect Costs	(8,852,583)	(5,749,095)	(5,403,432)	(769,438)	(4,041,835)	(1,584,425)	(399,390)	(26,800,197)
Indirect Costs (less Indirect Revenue)	(7,316,530)	(4,798,193)	(4,262,779)	(769,438)	(3,439,945)	(1,559,323)	(316,796)	(22,463,003)
Operating Income (Loss)	838,477	(1,873,412)	(4,472,636)	(119,706)	(161,300)	(1,389,641)	(332,208)	(7,510,425)
Op Margin %	4.8%	-19.4%	-39.1%	-5.9%	-2.2%	-513.9%	-31.1%	-15.3%

SVH Profitability

II. Direct Margin Analysis By Service Unit & Service Area

Fiscal Year 2024

* Includes Direct Margin (Reimbursement/Payments + Directly Allocated Costs)

Service Unit / Service Area	Tot Visits	Total Dollars					Dollars per Encounter			
		Total Charges	Payments	Direct Cost	Dir Margin	Dir Marg %	Direct			
							Charges	Payments	Cost	Dir Margin
Outpatient Diagnostics	29,524	52,629,044	7,426,719	(4,148,074)	\$ 3,278,645	44%	1,783	252	(140)	\$ 111
Lab	14,919	12,079,136	1,280,356	(1,265,620)	\$ 14,736	1%	810	86	(85)	\$ 1
Multi Imaging	4,972	7,155,227	1,194,986	(1,020,775)	\$ 174,211	15%	1,439	240	(205)	\$ 35
Mammography	3,115	2,489,745	1,002,012	(372,404)	\$ 629,608	63%	799	322	(120)	\$ 202
Ultrasound	2,103	4,900,713	913,028	(470,564)	\$ 442,464	48%	2,330	434	(224)	\$ 210
MRI	1,519	8,561,140	1,170,010	(334,781)	\$ 835,229	71%	5,636	770	(220)	\$ 550
Cardiopulmonary	1,450	6,421,586	927,189	(350,061)	\$ 577,128	62%	4,429	639	(241)	\$ 398
CT Scan	1,333	9,682,021	718,618	(200,020)	\$ 518,598	72%	7,263	539	(150)	\$ 389
Nuc Med	113	1,339,476	220,520	(133,849)	\$ 86,671	39%	11,854	1,952	(1,185)	\$ 767
Rehab	16,932	10,018,907	2,042,494	(1,392,761)	\$ 649,733	32%	592	121	(82)	\$ 38
OP PT	13,843	7,807,007	1,596,085	(1,082,087)	\$ 513,998	32%	564	115	(78)	\$ 37
OP OT	2,460	1,656,633	357,312	(247,665)	\$ 109,648	31%	673	145	(101)	\$ 45
OP Speech	629	555,268	89,097	(63,009)	\$ 26,088	29%	883	142	(100)	\$ 41
Emergency Medicine	9,945	115,253,806	17,290,428	(9,135,423)	\$ 8,155,005	47%	11,589	1,739	(919)	\$ 820
Emergency Medicine	9,945	115,253,806	17,290,428	(9,135,423)	\$ 8,155,005	47%	11,589	1,739	(919)	\$ 820
Occupational Health	3,970	399,640	270,389	(100,707)	\$ 169,682	63%	101	68	(25)	\$ 43
Industrial Health	3,970	399,640	270,389	(100,707)	\$ 169,682	63%	101	68	(25)	\$ 43
Special Procedures	3,141	5,200,485	1,068,801	(1,084,212)	\$ (15,411)	-1%	1,656	340	(345)	\$ (5)
Wound Care	2,505	1,612,929	605,937	(380,730)	\$ 225,207	37%	644	242	(152)	\$ 90
Medical Infusion	636	3,587,556	462,864	(703,482)	\$ (240,618)	-52%	5,641	728	(1,106)	\$ (378)
Outpatient Surgery	1,842	74,859,590	9,658,945	(6,734,164)	\$ 2,924,781	30%	40,640	5,244	(3,656)	\$ 1,588
Surgical Services	1,842	74,859,590	9,658,945	(6,734,164)	\$ 2,924,781	30%	40,640	5,244	(3,656)	\$ 1,588
Inpatient	823	70,340,558	11,438,187	(11,648,045)	\$ (209,858)	-2%	85,468	13,898	(14,153)	\$ (255)
Emergency Medicine	718	57,303,133	9,676,559	(10,069,766)	\$ (393,207)	-4%	79,809	13,477	(14,025)	\$ (548)
Surgical Services	77	11,835,265	1,529,090	(1,293,298)	\$ 235,792	15%	153,705	19,858	(16,796)	\$ 3,062
Internal Medicine	26	1,174,075	221,904	(275,350)	\$ (53,446)	-24%	45,157	8,535	(10,590)	\$ (2,056)
ICU	2	28,085	10,634	(9,631)	\$ 1,003	9%	14,043	5,317	(4,816)	\$ 502
Grand Total	66,177	328,702,030	49,195,963	(34,243,386)	\$ 14,952,577	30%	4,967	743	(517)	\$ 226



To: SVHCD Finance Committee
 From: Ben Armfield, Chief Financial Officer
 Date: November 26, 2024
 Subject: Financial Report for October 2024

OVERALL PERFORMANCE SUMMARY

October continued the hospital’s trend of positive monthly performances, marking another month where all income indicators exceeded both budget and prior-year levels. This month reinforced the pattern of sustained growth in key strategic areas such as MRI and outpatient physical therapy, both of which posted exceptional results by setting all-time highs in volumes for their respective areas. This volume surge resulted in the hospital exceeding \$32 million in gross charges for the month, which was approximately 12% over budget and also another all-time high for the hospital.

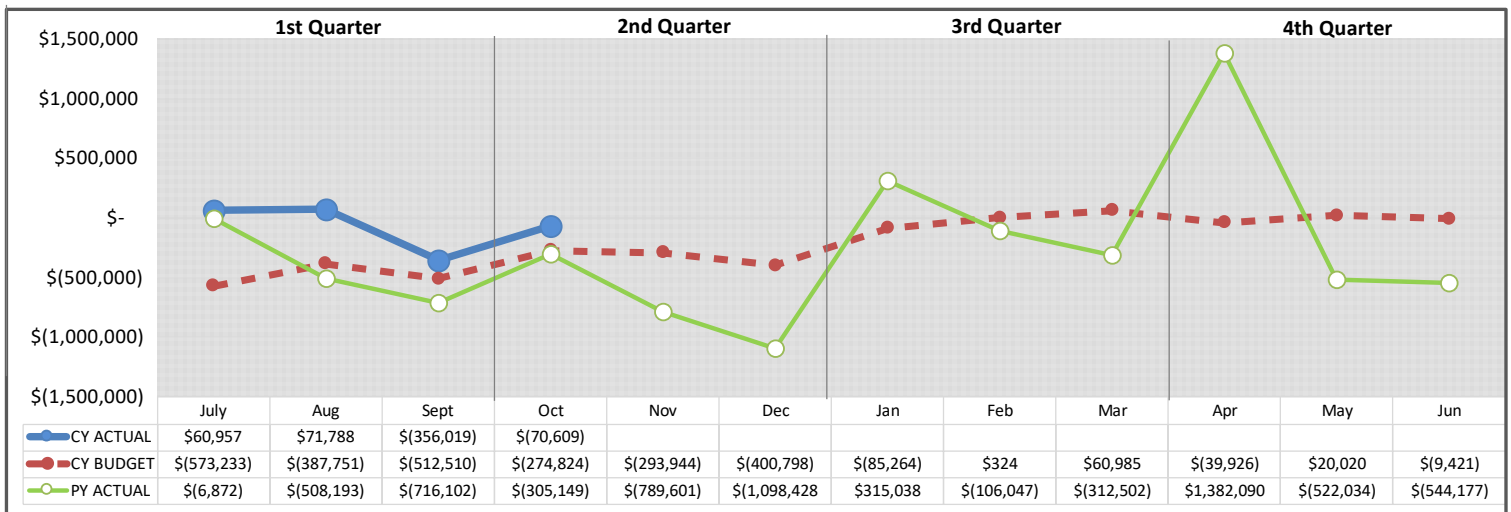
Given the marketable uptick in volumes it is not a surprise that operating revenues not only exceeded budget, but also set a new fiscal year high. In addition to MRI and OP PT, emergency room volumes continued to stay strong and we also saw an increase in overall surgical volumes, despite the loss of Dr. Kidd. Our inpatient census does continue to lag behind budget, but October did show some improvement and we anticipate further increases as we move deeper into the fall and winter months.

The hospital’s outpatient departments remain the cornerstone of our success, and it is encouraging to see the results starting to come through on some of the key strategic investments the District has funded. This has helped the hospital exceed both budget and prior year performance in each of the four months of this fiscal year.

Table 1 | Overall Performance - October 2024

Metric	Current Year Month		Variance		Current Year YTD		Variance		PY YTD		Variance	
	Actual	Budget	\$	%	Actual	Budget	\$	%	Actual	\$	%	
Operating Margin	\$ (652,853)	\$ (766,528)	\$ 113,675	15%	\$ (2,492,804)	\$ (3,800,136)	\$ 1,307,333	34%	\$ (3,213,543)	\$ 720,739	22%	
Op Margin w Parcel	\$ (336,186)	\$ (454,028)	\$ 117,842	26%	\$ (1,226,136)	\$ (2,550,136)	\$ 1,324,001	52%	\$ (1,946,875)	\$ 720,739	37%	
Operating EBDA	\$ (70,609)	\$ (274,824)	\$ 204,215	74%	\$ (293,883)	\$ (1,748,318)	\$ 1,454,435	83%	\$ (1,536,315)	\$ 1,242,433	81%	
Op EBDA w Parcel	\$ 246,058	\$ 37,676	\$ 208,382	553%	\$ 972,785	\$ (498,318)	\$ 1,471,103	295%	\$ (269,647)	\$ 1,242,433	461%	
Net Income (Loss)	\$ (102,701)	\$ (265,924)	\$ 163,223	61%	\$ (454,784)	\$ (1,797,720)	\$ 1,342,936	75%	\$ (1,048,276)	\$ 593,492	57%	

Graph 1.1 | SVH Trended Operating EBDA



DRIVERS IN MONTHLY PERFORMANCE

The drivers in October were very similar to the past couple of months, as the strategic initiatives that went live in August continue to help drive further volume and revenue generation into the hospital:

Revenues: Operating revenues exceeded the budget by 6% in October, continuing the hospital's strong financial performance this fiscal year. The primary drivers were outpatient services, with physical therapy and MRI volumes at all-time highs and emergency room visits maintaining their elevated levels. Surgical volumes also showed notable improvement, adding to the revenue growth. These strong performances helped sustain the year-to-date revenue trend, which is now 8% above budget and up significantly when comparing to prior year. | **Month vs Budget +6%, YTD vs Budget +8%, YTD vs PY +16%**

Expenses: Operating expenses totaled \$5.51 million in October, running 3% over budget for the second consecutive month. The overage was largely attributable to increased staffing and operational costs to support higher-than-budgeted volumes across outpatient services. Despite these added expenses, year-to-date operating expenses remain closely aligned with the budget, coming in just 1% over the year-to-date target. | **Month vs Budget +2%, YTD vs Budget +1%, YTD vs PY +9%**

Volumes: As highlighted above, October was a robust month for volumes, particularly on the outpatient side. While inpatient census remains below budget, we saw an uptick in inpatient activity during the month. Outpatient volumes, on the other hand, continued to significantly outpace both budget and prior-year levels. Notably, total outpatient visits were 30% over budget for the month and are now also exceeding budget by over 30% year-to-date. Emergency room and surgical volumes also exceeded expectations, contributing to the hospital's overall strong performance.

Surgical Volumes: Surgical volumes in October surpassed budget, with 146 surgeries performed compared to the monthly target of 144. This represents an 8% improvement from September and is consistent with our six-month trend of 147 surgeries. The increase in surgical activity was largely driven by orthopedic volumes, which saw a substantial spike during the month. | **Month vs Budget +1%, YTD vs Budget +/- 0%, YTD vs PY -15%**

- **Orthopedics** Orthopedic surgery was a standout performer in October, with 53 cases completed—a 40% increase from the prior month and nearly 50% above the six-month average. All orthopedic surgeons contributed to this growth, with Dr. Walter achieving remarkable results. Dr. Walter performed close to 20 cases for the second consecutive month, bringing his total volumes to nearly 50% over budget for the fiscal year, despite missing the first 1.5 months due to injury. This rapid ramp-up highlights the strong demand for orthopedic services and the effectiveness of our recruitment and operational efforts.

Other Outpatient Volumes: Other outpatient volumes have been very robust so far in this fiscal year, and October cranked that up even more as it was the best-performing month of the fiscal year so far in terms of overall volume. Total outpatient visits surged in October, exceeding prior month by over

10% and the monthly budget by over 30%, a significant achievement given where volume levels had been 5-6 months ago. This sustained growth in outpatient volumes is being driven by a combination of factors, including the operational ramp-up of the 3T MRI, the consistent growth of physical therapy services, and the strong, consistent performance of emergency room visits. Notably, outpatient visits are now trending 30% over budget on a year-to-date basis.

Efforts to further optimize referral patterns and patient scheduling are ongoing to ensure we can sustain and manage this high level of demand. | **Total Outpatient Visits** | **Month vs Budget +32%, YTD vs Budget +29%, YTD vs PY +12%,**

- **MRI Volumes** October was a landmark month for the MRI department, with over 220 exams conducted—a record high for the hospital. This performance represents a significant increase from the 180 exams recorded in September, the first full month of operation for the 3T MRI. The hospital's investment in the 3T MRI is beginning to yield tangible results, not only in terms of volume but also in the diversity of cases being handled. With improved imaging capabilities, the hospital is now able to attract referrals for more complex diagnostic needs, such as urologic and breast imaging, both of which have seen an uptick in demand. The 220 exams not only exceeded budget targets but also demonstrated the scalability of this service. October's volume equates to roughly 11 exams per day, which still leaves significant room for further growth. | **Month vs Budget +4%, YTD vs Budget -7%, YTD vs PY +40%,**
- **Emergency Room** ER volumes remained strong in October, averaging close to 30 visits per day. This performance exceeded budget by 10% and reflects the sustained demand for emergency care services in our community. The consistency in ER visits has been a critical driver of the hospital's overall financial and operational success this fiscal year. | **Month vs Budget +9%, YTD vs Budget +14%, YTD vs PY +7%,**
- **OP Physical Therapy** Physical therapy volumes reached another all-time high in October, marking the third record-setting month in the past four months. This level of demand, however, has placed significant strain on our existing infrastructure, highlighting the urgent need for the upcoming expansion project. In the meantime, we are working with the PT team to implement operational solutions to meet the growing demand without compromising the quality of care. Year-to-date, PT volumes are now averaging 25% over budget and exceed the prior year by nearly 40%! | **Month vs Budget +40%, YTD vs Budget +24%, YTD vs PY +35%,**

Cash: October was an unorthodox month from a cash perspective. In total, our cash increased by \$940,000 for the month, ending at \$3.6 million. As has been discussed, cash management has been critical given the upcoming IGT funding for the Rate Range program (\$5.1 million). October presented an additional wrinkle in that we had 3 payrolls paid out during the month which resulted in an additional \$1 million in cash outlay. Due to this additional obligation, plus the critical need to carve out the required funding in order to meet matching fee commitment, we did strategically pullback on our normal allotment of AP payments in October. This resulted in an increase in overall accounts

payable. This will get worked down as much as possible until our Rate Range funds are received in January.

Our cash increased by nearly \$1 million due to the fact we did receive our Parcel Tax advance on 10/31, which increased our cash by \$1.6 million, and was the reason our days cash on hand ended at 23.2, compared to the 13.3 that had been previously forecasted for October.

Despite all of this movement, we are still on track to end the year cash flow positive from operations and project to increase our days cash from 22.0 (start of year) to north of 30.0 days cash on hand by fiscal year-end.

Other Finance Updates:

Banking Update: Our loan fully closed with Summit State Bank earlier this month. We are currently working on transiting everything over from US Bank, but the critical components such as the \$5.5 million line of credit have been fully funded. Repayment of the \$1.9 million term loan begins in December and will continue for 60 months at a monthly payment amount of \$38,516.

Audit Update: Our fiscal year 2024 financial statement audit is now complete. Moss Adams presented our draft FY24 audit report to the SVH Audit Committee on Thursday October 24th, and the audit was fully approved by the board earlier this month.

Rate Range IGT: We officially made our matching fee pay-in for the Rate Range IGT program on 11/18. This resulted in \$5,160,000 of cash going out the door. We estimate that we will receive anywhere from \$11-\$11.5 million in proceeds come January.

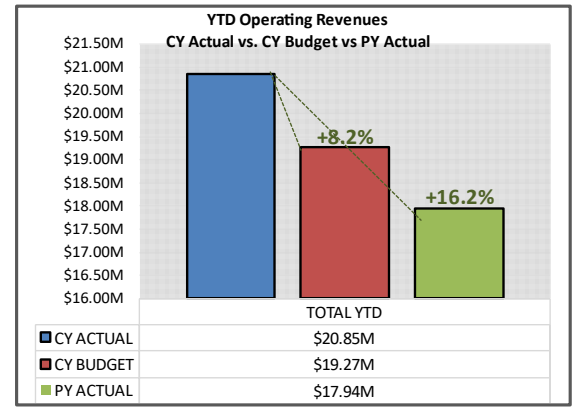
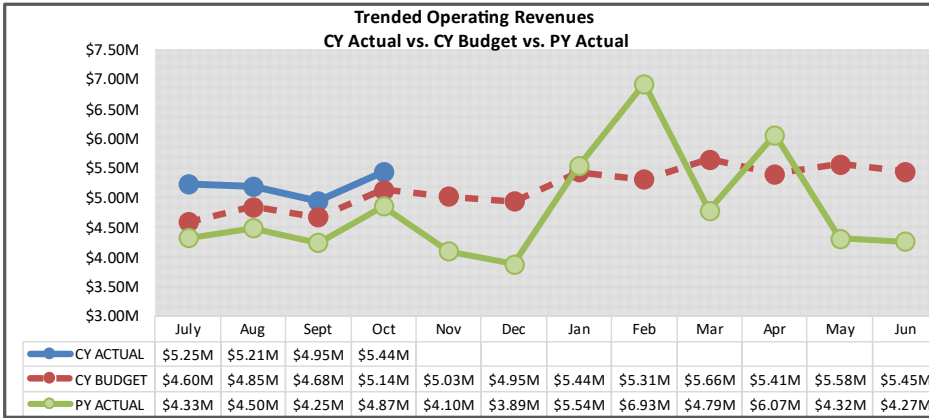
HQAF IGT: The next IGT after the Rate Range is our HQAF (Hospital Quality Assurance Fee) IGT matching fee. We've been approved to IGT \$410,000 and expect to receive \$1,334,000 back in January/February, netting \$924,000 through this program. The matching fee is due in late December, so we will both the HQAF and Rate Range payments out the door prior to having our Rate Range IGT funding received in January, so cash will be managed very tightly between now and the end of January.

2. NET REVENUE AND VOLUME SUMMARY:

Table 2 | Net Patient Revenue – Actual vs. Budget – October 2024

	Current Year Month		Variance		Current Year YTD		Variance		PY YTD		Variance	
	Actual	Budget	Var	%	Actual	Budget	\$	%	Actual	\$	%	
Gross Revenue	\$ 32.40M	\$ 29.05M	\$ 3.35M	12%	\$ 117.57M	\$ 106.91M	\$ 10.66M	10%	\$ 114.65M	\$ 2.92M	3%	
Net Patient Revenue	\$ 5.34M	\$ 5.05M	\$ 0.30M	6%	\$ 20.46M	\$ 18.90M	\$ 1.56M	8%	\$ 17.60M	\$ 2.86M	16%	
NPR as a % of Gross	16.5%	17.4%	-5.1%		17.4%	17.7%	-1.6%		15.3%	13.4%		
Total Operating Revenue	\$ 5.44M	\$ 5.14M	\$ 0.30M	6%	\$ 20.85M	\$ 19.27M	\$ 1.58M	8%	\$ 17.94M	\$ 2.91M	16%	

Graph 2.1 | SVH Trended Operating Revenue



Graph 2.2 | SVH Trended Surgeries (Total) - 13 Month Trend

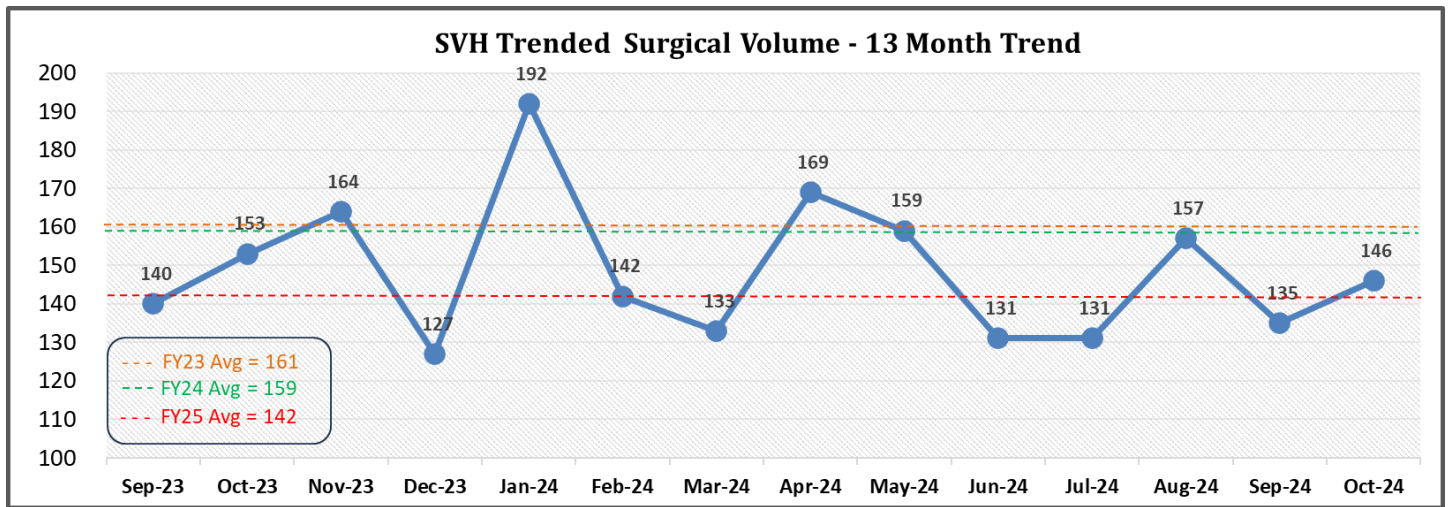


Table 2.3 | Surgical Volumes Top 4 Service Lines | October 2024 vs Prior Month & 6-Mth Trend

Service Line	Current Mth vs. Previous Mth				6 Month Trend						Current Mth vs. 6 Mth Trend		
	Oct24	Sep24	Var	% Var	Apr24	May24	Jun24	Jul24	Aug24	Sep24	6 Month Trend	Var	% Var
Orthopedics	53	37	16	43%	46	27	35	26	43	37	36	17	49%
Gastro (GI)	50	48	2	4%	73	85	53	77	71	48	68	(18)	-26%
Ophthalmology	21	26	(5)	-19%	18	20	23	14	20	26	20	1	4%
General	15	17	(2)	-12%	17	14	14	5	15	17	14	1	10%
SubTotal	139	128	11	9%	154	146	125	122	149	128	137	2	1%
Other	7	7	-	0%	15	13	6	9	8	7	10	(3)	-28%
Grand Total	146	135	11	8%	169	159	131	131	157	135	147	(1)	-1%

Table 2.4 | Patient Volumes – October 2024

	Current Year Month				Current Year YTD				PY YTD			
	Actual	Budget	Var	%	Actual	Budget	Var	%	Actual	Var	%	
Acute Patient Days	273	264	9	4%	917	1,037	(120)	-12%	1,064	(147)	-14%	
Average Daily Census	8.8	8.5	0.3	4%	7.5	8.4	(1.0)	-12%	8.7	(1.2)	-14%	
Acute Discharges	62	72	(10)	-14%	233	289	(56)	-19%	276	(43)	-16%	
IP Surgeries	6	10	(4)	-39%	33	43	(10)	-23%	61	(28)	-46%	
OP Surgeries	140	134	6	4%	536	527	9	2%	605	(69)	-11%	
Total Surgeries	146	144	2	1%	569	570	(1)	0%	666	(97)	-15%	
Total Outpatient Visits	6,147	4,647	1,500	32%	23,034	17,842	5,192	29%	20,497	2,537	12%	
Emergency Room Visits	894	821	73	9%	3,681	3,216	465	14%	3,432	249	7%	

Table 2.5 | Outpatient Volumes Trended – Last 6 Months

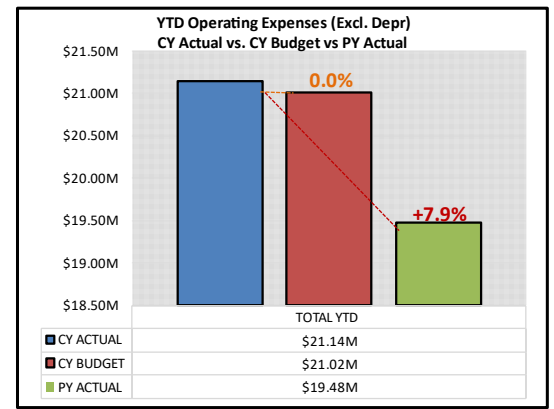
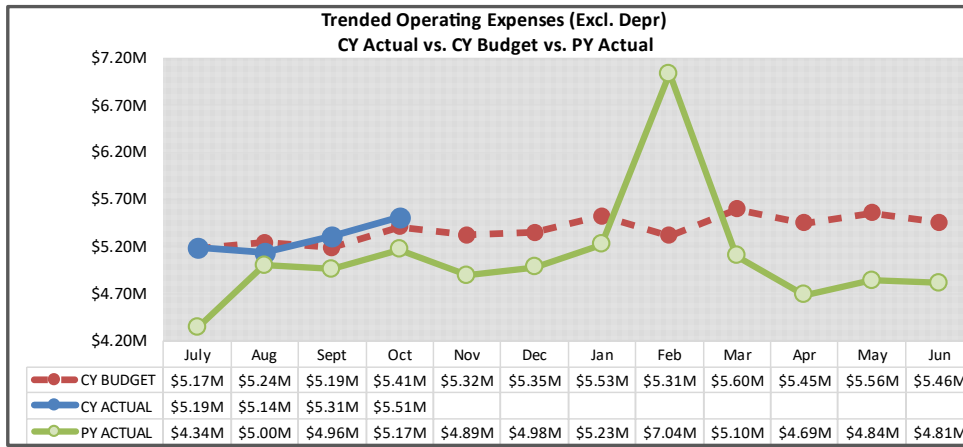
Department	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Last 6 Months
Lab	1,364	1,282	1,363	1,313	1,269	1,443	
Medical Imaging	900	830	923	947	878	1,019	
Physical Therapy	1,196	1,095	1,415	1,426	1,411	1,481	
CT Scanner	398	409	411	466	458	472	
Occ. Health	315	308	295	295	162	255	
Mammography	217	211	167	251	215	275	
Occupational Therapy	197	190	196	219	294	205	
Ultrasound	222	182	256	219	233	252	
Wound Care	213	152	205	238	209	277	
MRI	135	121	130	182	182	222	
ECHO	132	106	116	107	141	147	
Speech Therapy	43	53	93	62	66	69	
Other	25	14	23	25	26	30	
TOTAL	5,357	4,953	5,593	5,750	5,544	6,147	
Emergency Room	867	912	1,006	919	862	894	

3. OPERATING EXPENSE SUMMARY:

Table 3 | Operating Expenses – Actual vs. Budget – October 2024

Metric	Current Year Month				Current Year YTD				PY YTD			
	Actual	Budget	Var	%	Actual	Budget	\$	%	Actual	\$	%	
Operating Expenses	\$ 6.09M	\$ 5.90M	\$ 0.19M	3%	\$ 23.34M	\$ 23.07M	\$ 0.28M	1%	\$ 21.15M	\$ 2.19M	10%	
Operating Exp. Excl. Depr.	\$ 5.51M	\$ 5.41M	\$ 0.10M	2%	\$ 21.14M	\$ 21.02M	\$ 0.13M	1%	\$ 19.48M	\$ 1.67M	9%	
Worked FTEs	221.7	219.7	2.0	1%	216.9	214.4	2.5	1%	217.2	(0.2)	0%	

Graph 3.1 | SVH Trended Operating Expenses (excluding Depreciation)



4. CASH ACTIVITY SUMMARY:

Table 4 | Cash / Revenue Cycle Indicators - October 2024

	Oct-24	Sep-24	Var	%
Days Cash on Hand	23.2	17.8	5.4	30%
A/R Days	56.0	54.4	1.6	3%
A/P Days	72.1	59.9	12.2	20%

ATTACHMENTS:

- Attachment A is the Payer Mix Analysis
- Attachment B is the Operating Indicators Report
- Attachment C is the Balance Sheet
- Attachment D is the Balance Sheet Variance Analysis
- Attachment E (two pages) is the Statement of Revenue and Expense. The first page breaks out the hospital operations and page two includes all other activity.
- Attachment F is the Trended Income Statement
- Attachment G is the Cash Projection

Sonoma Valley Hospital
Payer Mix for the month of October, 2024

ATTACHMENT A

Gross Revenue	MONTH				YEAR TO DATE			
	Actual	Budget	Variance	% Variance	Actual	Budget	Variance	% Variance
Medicare	10,809,804	11,010,084	-200,279	-0.7%	42,704,114	40,657,016	2,047,098	1.9%
Medicare Managed Care	7,693,134	5,328,715	2,364,419	8.1%	24,779,026	19,617,724	5,161,302	4.8%
Medi-Cal	5,926,259	4,739,919	1,186,340	4.1%	20,867,849	17,322,824	3,545,025	3.3%
Self Pay	220,148	352,340	-132,191	-0.5%	1,453,597	1,271,731	181,866	0.2%
Commercial & Other Governn	6,609,804	6,987,869	-378,065	-1.3%	24,687,775	25,523,771	-835,996	-0.8%
Worker's Comp.	1,113,455	783,168	330,287	1.1%	2,981,785	2,837,329	144,456	0.1%
Total	32,372,604	29,202,094	3,170,510	10.9%	117,474,146	107,230,394	10,243,751	9.6%

Payor Mix	MONTH			YEAR TO DATE		
	Actual	Budget	Variance	Actual	Budget	Variance
Medicare	33.4%	37.7%	-4.3%	36.4%	37.9%	-1.6%
Medicare Managed Care	23.8%	18.2%	5.5%	21.1%	18.3%	2.8%
Medi-Cal	18.3%	16.2%	2.1%	17.8%	16.2%	1.6%
Self Pay	0.7%	1.2%	-0.5%	1.2%	1.2%	0.1%
Commercial & Other Governn	20.4%	23.9%	-3.5%	21.0%	23.8%	-2.8%
Worker's Comp.	3.4%	2.7%	0.8%	2.5%	2.6%	-0.1%
Total	100.0%	100.0%		100.0%	100.0%	

SONOMA VALLEY HOSPITAL
OPERATING INDICATORS
For the Period Ended October 31, 2024

ATTACHMENT B

CURRENT MONTH				YEAR-TO-DATE			YTD	
	Actual	Budget	Favorable (Unfavorable) Variance		Actual	Budget	Favorable (Unfavorable) Variance	Prior Year 10/31/23
	10/31/24	10/31/24	Variance		10/31/24	10/31/24	Variance	10/31/23
Inpatient Utilization								
Discharges								
1	44	54	(10)	Med/Surg	163	216	(53)	210
2	18	18	(0)	ICU	70	73	(3)	66
3	62	72	(10)	Total Discharges	233	289	(56)	276
Patient Days:								
4	175	176	(1)	Med/Surg	580	693	(113)	725
5	98	88	10	ICU	337	345	(8)	339
6	273	264	9	Total Patient Days	917	1,037	(120)	1,064
7	27	-	27	Observation days	93	-	93	74
Average Length of Stay:								
8	3.98	3.26	0.7	Med/Surg	3.56	3.20	0.36	3.45
9	5.44	4.81	0.6	ICU	4.81	4.73	0.08	5.14
10	4.40	3.65	0.8	Avg. Length of Stay	3.94	3.59	0.35	3.86
Average Daily Census:								
11	5.6	5.7	(0.0)	Med/Surg	4.7	5.6	(0.9)	5.9
12	3.2	2.8	0.3	ICU	2.7	2.8	(0.1)	2.8
13	8.8	8.5	0.3	Avg. Daily Census	7.5	8.4	(1.0)	8.7
Other Utilization Statistics								
Emergency Room Statistics								
14	894	821	73	OP ER Visits	3,681	3,216	465	3,432
Outpatient Statistics:								
15	6,147	4,647	1,500	Total Outpatients Visits	23,034	17,842	5,192	20,497
16	6	10	(4)	IP Surgeries	33	43	(10)	61
17	140	134	6	OP Surgeries / Special Procedures	536	512	24	605
18	342	351	(8)	Adjusted Discharges	1,277	1,312	(35)	1,246
19	1,508	1,294	214	Adjusted Patient Days	5,042	4,765	277	4,896
20	48.6	41.8	6.9	Adj. Avg. Daily Census	41.0	38.7	2.3	39.8
21	1.503	1.400	0.103	Case Mix Index - Medicare	1.414	1.400	0.014	1.414
22	1.470	1.400	0.070	Case Mix Index - All payers	1.433	1.400	0.033	1.368
Labor Statistics								
23	222	220	(2)	FTE's - Worked	217	214	(2.5)	217
24	240	242	2	FTE's - Paid	240	237	(3.4)	238
25	50.83	63.25	12.41	Average Hourly Rate	49.66	53.00	3.34	48.74
26	4.93	5.79	0.86	FTE / Adj. Pat Day	5.86	6.11	0.25	5.98
27	28.1	33.0	4.9	Manhours / Adj. Pat Day	33.4	34.8	1.4	34.1
28	123.8	121.9	(1.9)	Manhours / Adj. Discharge	131.9	126.6	(5.3)	134.0
29	21.8%	26.8%	5.0%	Benefits % of Salaries	23.7%	28.3%	4.6%	24.6%
Non-Labor Statistics								
30	14.0%	12.7%	-1.3%	Supply Expense % Net Revenue	11.5%	11.9%	0.4%	16.3%
31	2,178	1,821	(357)	Supply Exp. / Adj. Discharge	1,846	1,711	(135)	2,305
32	17,905	16,979	(926)	Total Expense / Adj. Discharge	18,412	17,735	(677)	17,116
Other Indicators								
33	23.2			Days Cash - Operating Funds				
34	56.0	50.0	6.0	Days in Net AR	56.6	50.0	6.6	63.4
35	108%			Collections % of Cash Goal	101%			97.8%
36	72.1	55.0	17.1	Days in Accounts Payable	72.1	55.0	17.1	-
37	16.5%	17.4%	-0.9%	% Net revenue to Gross revenue	17.4%	17.7%	-0.3%	15.4%
38	42.3%			% Net AR to Gross AR	42.3%			39.3%

Sonoma Valley Health Care District

ATTACHMENT C

Balance Sheet
As of October 31, 2024
UNAUDITED

	<u>Current Month</u>	<u>Prior Month</u>	<u>Prior Year</u>
Assets			
Current Assets:			
1 Cash	3,613,033	2,674,451	3,103,826
3 Net Patient Receivables	9,267,645	9,483,164	10,664,349
4 Allow Uncollect Accts	(1,525,933)	(1,919,835)	(2,381,401)
5 Net A/R	7,741,712	7,563,330	8,282,948
6 Other Accts/Notes Rec	853,006	1,122,992	2,148,958
7 Parcel Tax Receivable	2,188,000	3,800,000	3,800,000
8 GO Bond Tax Receivable	2,407,523	2,407,523	2,401,190
9 3rd Party Receivables, Net	1,754,039	1,269,623	701,470
10 Inventory	939,007	932,329	1,006,348
11 Prepaid Expenses	1,056,414	772,245	1,085,074
12 Total Current Assets	\$ 20,552,734	\$ 20,542,493	\$ 22,529,813
13 Property, Plant & Equip, Net	\$ 61,206,305	\$ 61,589,796	\$ 56,867,997
14 Trustee Funds - GO Bonds	3,521,266	3,506,171	3,490,070
15 Designated Funds - Board Approved	-	-	-
16 Total Assets	\$ 85,280,305	\$ 85,638,460	\$ 82,887,880
Liabilities & Fund Balances			
Current Liabilities:			
17 Accounts Payable	\$ 8,207,681	\$ 6,651,126	\$ 6,778,660
18 Accrued Compensation	3,882,030	4,276,848	4,203,162
19 Interest Payable - GO Bonds	330,013	306,411	103,539
20 Accrued Expenses	291,053	322,466	213,569
21 Advances From 3rd Parties	-	-	-
22 Deferred Parcel Tax Revenue	2,533,332	2,849,999	2,533,332
23 Deferred GO Bond Tax Revenue	1,605,015	1,805,642	1,744,977
24 Current Maturities-LTD	217,475	217,475	217,475
25 Line of Credit - Union Bank	1,895,519	1,903,899	4,973,734
26 Other Liabilities	57,511	29,371	57,511
27 Total Current Liabilities	\$ 19,019,629	\$ 18,363,237	\$ 20,825,960
28 Long Term Debt, net current portion	\$ 26,647,124	\$ 27,619,627	\$ 26,849,924
29 Fund Balances:			
30 Unrestricted	\$ 16,238,479	\$ 16,280,524	\$ 14,566,484
31 Restricted	23,375,073	23,375,073	20,645,512
32 Total Fund Balances	\$ 39,613,552	\$ 39,655,596	\$ 35,211,995
33 Total Liabilities & Fund Balances	\$ 85,280,305	\$ 85,638,460	\$ 82,887,880

Sonoma Valley Health Care District
 Balance Sheet Variance Analysis
 As of October 31, 2024

ATTACHMENT D

Assets	Monthly Change	Current Month	Prior Month	Prior Year	Variance Commentary
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CURRENT ASSETS

Cash	938,582	3,613,033	2,674,451	3,103,826	Operating cash receipts of \$4.3 million vs. disbursements of \$5.8. October cash outlay up over prior months due to an extra payroll that hit books (worth ~\$1 million). Hospital also received last payment for cybersecurity claim (\$652K) and parcel tax advance (\$1.6M) at end of month.
Net A/R	178,382	7,741,712	7,563,330	8,282,948	Comparable
Other Receivables	(1,397,570)	7,202,568	8,600,138	9,051,618	Change relates to the receipt of \$1.612M in parcel tax revenues that were advanced from the county and received and recorded in October.
Inventory	6,678	939,007	932,329	1,006,348	Comparable
Prepaid Expenses	284,169	1,056,414	772,245	1,085,074	Recording of annual prepaid service contracts
TOTAL CURRENT ASSETS	10,241	20,552,734	20,542,493	22,529,813	

NON-CURRENT ASSETS

Net Fixed Assets	(383,491)	61,206,305	61,589,796	56,867,997	Increased depreciation expense as more CIP projects become capitalized
Trustee Funds - GO Bonds	15,095	3,521,266	3,506,171	3,490,070	
TOTAL ASSETS	(358,155)	85,280,305	85,638,460	82,887,880	

Liabilities / Fund Balance	Monthly Change	Current Month	Prior Month	Prior Year	Variance Commentary
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CURRENT LIABILITIES

Accounts Payable	1,556,555	8,207,681	6,651,126	6,778,660	Accounts payable increased by \$1.5 million in Oct. Main drivers were CHFFA Bridge Loan of \$750,000 (due in January) and ODC CIP of \$230K. Trade payables increased in Oct as well due to intentionally holding some payables at month end.
Accrued Expenses	(426,231)	4,173,083	4,599,314	4,416,731	
Interest Payable	23,602	330,013	306,411	103,539	Go Bond interest accrual
Deferred Revenues	(517,294)	4,138,347	4,655,641	4,278,309	Monthly amortization of annual Parcel Tax and IGT funds
Line of Credit	(8,380)	1,895,519	1,903,899	4,973,734	True-up of accrued interest exp for LOC
Other Liabilities	28,140	274,986	246,846	274,986	GASB amortization
TOTAL CURRENT LIABILITIES	656,392	19,019,629	18,363,237	20,825,960	

NON-CURRENT LIABILITIES

Long Term Debt	(972,503)	26,647,124	27,619,627	26,849,924	Movement of the NDPH bridge loan from long term debt to AP (\$750K), as well as amortization of GASB accounts.
TOTAL LIABILITIES	(316,111)	45,666,753	45,982,864	47,675,884	

FUND BALANCES

Fund Balance	(42,044)	39,613,552	39,655,596	35,211,995	Change in Net Position for October \$(42,044)
TOTAL LIABILITIES & FUND BALANCES	(358,155)	85,280,305	85,638,460	82,887,880	

Sonoma Valley Health Care District
Statement of Revenue and Expenses
For the Period Ended October 31, 2024

	Month				Year-To-Date							
	This Year		Variance		This Year		Variance		Variance			
	CYM Actual	CYM Budget	Var	%	YTD Actual	YTD Budget	Var	%	PYTD Actual	Var	%	
Volume Information												
1	Acute Discharges	62	72	(10)	-14%	233	289	(56)	-19%	276	(43)	-16%
2	Patient Days	273	264	9	4%	917	1,037	(120)	-12%	1,064	(147)	-14%
3	Observation Days	27	-	27	n/a	93	-	93	n/a	74	19	26%
4	Gross O/P Revenue (000's)	26,538	23,063	3,475	15%	96,129	83,370	12,760	15%	89,148	6,982	8%
Financial Results												
Gross Patient Revenue												
5	Inpatient	5,860,242	5,983,642	(123,400)	-2%	21,441,938	23,541,296	(2,099,358)	-9%	25,439,421	(3,997,483)	-16%
6	Outpatient	16,128,426	14,099,223	2,029,203	14%	55,035,151	51,071,333	3,963,818	8%	54,636,632	398,519	1%
7	Emergency	10,409,422	8,963,844	1,445,579	16%	41,094,237	32,298,403	8,795,834	27%	34,574,799	6,519,438	19%
8	Total Gross Patient Revenue	32,398,090	29,046,708	3,351,382	12%	117,571,326	106,911,031	10,660,295	10%	114,650,853	2,920,474	3%
Deductions from Revenue												
9	Contractual Discounts	(27,735,343)	(24,793,356)	(2,941,987)	12%	(99,837,474)	(91,208,578)	(8,628,896)	9%	(97,072,893)	(2,764,580)	3%
10	Bad Debt	(219,000)	(137,638)	(81,362)	59%	(705,750)	(506,337)	(199,413)	39%	(550,286)	(155,464)	28%
11	Charity Care Provision	28,140	59,132	(30,991)	-52%	(54,954)	217,530	(272,484)	-125%	(152,892)	97,939	-64%
12	IGT Program Revenue	871,547	871,547	0	0%	3,486,188	3,486,187	1	0%	723,542	2,762,646	382%
13	Total Deductions from Revenue	(27,054,656)	(24,000,316)	(3,054,340)	13%	(97,111,989)	(88,011,198)	(9,100,791)	10%	(97,052,529)	(59,460)	0%
14	Net Patient Service Revenue	5,343,434	5,046,393	297,042	6%	20,459,337	18,899,834	1,559,504	8%	17,598,323	2,861,014	16%
15	Other Operating Revenue	98,270	91,993	6,276	7%	391,191	367,974	23,217	6%	341,974	49,218	14%
16	Total Operating Revenue	5,441,704	5,138,386	303,318	6%	20,850,529	19,267,808	1,582,721	8%	17,940,297	2,910,232	16%
Operating Expenses												
17	Salary and Wages and Agency Fees	2,155,198	2,121,452	33,746	2%	8,361,859	8,216,562	145,297	2%	8,137,286	224,573	3%
18	Employee Benefits	737,835	809,729	(71,894)	-9%	3,042,321	3,246,749	(204,428)	-6%	2,924,993	117,328	4%
19	Total People Cost	2,893,033	2,931,181	(38,148)	-1%	11,404,180	11,463,311	(59,131)	-1%	11,062,278	341,901	3%
20	Med and Prof Fees (excl'd Agency)	665,243	695,735	(30,492)	-4%	2,634,103	2,673,621	(39,518)	-1%	2,271,026	363,077	16%
21	Supplies	745,969	638,646	107,323	17%	2,357,001	2,244,788	112,213	5%	2,872,806	(515,805)	-18%
22	Purchased Services	410,063	400,768	9,295	2%	1,594,568	1,652,988	(58,420)	-4%	1,526,216	68,352	4%
23	Depreciation	582,244	491,705	90,540	18%	2,198,921	2,051,818	147,102	7%	1,677,227	521,693	31%
24	Utilities	169,049	175,209	(6,160)	-4%	778,039	700,836	77,203	11%	617,430	160,608	26%
25	Insurance	85,387	74,736	10,651	14%	348,942	298,944	49,997	17%	282,928	66,014	23%
26	Interest	38,791	29,445	9,347	32%	94,556	117,778	(23,222)	-20%	213,635	(119,079)	-56%
27	Other	139,587	102,299	37,288	36%	472,259	403,095	69,164	17%	418,599	53,660	13%
28	IGT Program Expense (Matching Fees)	365,191	365,191	0	0%	1,460,764	1,460,763	1	0%	211,693	1,249,071	590%
29	Operating Expenses	6,094,557	5,904,915	189,642	3%	23,343,332	23,067,944	275,388	1%	21,153,839	2,189,493	10%
30	Operating Margin	(652,853)	(766,528)	113,675	15%	(2,492,804)	(3,800,136)	1,307,333	34%	(3,213,543)	720,739	29%

Sonoma Valley Health Care District
Statement of Revenue and Expenses
For the Period Ended October 31, 2024

	Month				Year-To- Date							
	This Year		Variance		This Year		Variance		Variance			
	CYM Actual	CYM Budget	Var	%	YTD Actual	YTD Budget	Var	%	PYTD Actual	Var	%	
Non Operating Rev and Expense												
31 Miscellaneous Revenue/(Expenses)	70,668	14,488	56,180	388%	130,336	57,950	72,386	125%	202,619	(72,283)	-36%	
32 Donations	-	(3,955)	3,955	-100%	-	(15,819)	15,819	-100%	-	-	n/a	
33 Parcel Tax Assessment Rev	316,667	312,500	4,167	1%	1,266,668	1,250,000	16,668	1%	1,266,668	-	0%	
34 Extraordinary Items	-	-	-	n/a	-	-	-	n/a	-	-	n/a	
35 Total Non-Operating Revenue/(Expense)	387,335	323,033	64,302	20%	1,397,004	1,292,131	104,873	8%	1,469,287	(72,283)	-5%	
36 Net Income / (Loss) prior to GO Bond(net)	(265,518)	(443,496)	177,977	40%	(1,095,800)	(2,508,005)	1,412,206	56%	(1,744,256)	648,456	37%	
37 GO Bond Activity, Net	162,817	177,571	(14,754)	-8%	641,016	710,285	(69,269)	-10%	695,980	(54,964)	-8%	
38 Net Income / (Loss) with GO Bond(net)	(102,701)	(265,924)	163,223	61%	(454,784)	(1,797,720)	1,342,936	75%	(1,048,276)	593,492	57%	
39 Restricted Foundation Contributions	60,658	157,410	(96,752)	-61%	1,290,778	629,638	661,140	105%	-	1,290,778	n/a	
40 Change in Net Position	(42,043)	(108,515)	66,471	61%	835,994	(1,168,082)	2,004,076	172%	(1,048,276)	1,884,270	180%	
Operating EBDA	(70,609)	(274,824)	204,215	-74%	(293,883)	(1,748,318)	1,454,435	83%	(1,536,315)	1,242,433	81%	
Total EBDA - Excl Rest Contributions	479,543	225,780	253,763	112%	1,744,137	254,098	1,490,039	586%	628,952	1,115,185	177%	

Sonoma Valley Health Care District
FY24 Trended Income Statement - Last 6 Months
For the Period Ended October 31, 2024

ATTACHMENT F

	May FY24	June FY24	July FY25	August FY25	September FY25	October FY25	FY25 YTD TOTAL	FY25 YTD Mth Avg	FY24 YTD Mth Avg	% Chg
1 Acute Discharges	63	58	65	54	52	62	233	58	68	-15%
2 Patient Days	197	201	230	208	206	273	917	229	245	-6%
3 Observation Days	22	29	18	23	25	27	93	23	22	7%
4 Gross Revenue (000's)	\$ 26,252	\$ 27,162	\$ 27,960	\$ 28,981	\$ 28,160	\$ 32,373	\$ 117,474	\$ 29,369	\$ 27,677	6%
Financial Results										
Gross Patient Revenue										
5 Inpatient	\$ 4,589,215	\$ 5,247,297	\$ 5,899,154	\$ 4,785,991	\$ 4,896,552	\$ 5,860,242	\$ 21,441,938	\$ 5,360,485	\$ 5,855,907	-8%
6 Outpatient	12,028,739	11,630,429	11,683,143	13,524,993	13,626,895	16,102,940	54,937,971	13,734,493	12,948,617	6%
7 Emergency	9,634,326	10,284,037	10,377,802	10,670,255	9,636,758	10,409,422	41,094,237	10,273,559	8,872,108	16%
8 Total Gross Patient Revenue	\$ 26,252,280	\$ 27,161,763	\$ 27,960,099	\$ 28,981,239	\$ 28,160,205	\$ 32,372,604	\$ 117,474,147	\$ 29,368,537	\$ 27,676,632	6%
Deductions from Revenue										
9 Contractual Discounts	(22,184,344)	(22,711,319)	(23,449,018)	(24,552,378)	(24,100,734)	(27,735,343)	(99,837,474)	(24,959,368)	(23,322,102)	7%
10 Bad Debt	(72,256)	(151,047)	(150,000)	(172,250)	(164,500)	(219,000)	(705,750)	(176,438)	(274,192)	-36%
11 Discounts / Other Deductions	22,408	(118,043)	(105,349)	(41,925)	64,180	28,140	(54,954)	(13,738)	(8,882)	55%
12 IGT Revenue	207,222	-	871,547	871,547	871,547	871,547	3,486,188	871,547	656,761	33%
13 Total Deductions from Revenue	\$ (22,026,970)	\$ (22,980,409)	\$ (22,832,820)	\$ (23,895,006)	\$ (23,329,507)	\$ (27,054,656)	\$ (97,111,989)	\$ (24,277,997)	\$ (22,948,415)	6%
14 Net Patient Service Revenue	\$ 4,225,310	\$ 4,181,354	\$ 5,127,279	\$ 5,086,233	\$ 4,830,697	\$ 5,317,948	\$ 20,362,158	\$ 5,090,539	\$ 4,728,217	8%
15 Other Operating Revenue	\$ 92,828	\$ 89,091	\$ 122,004	\$ 122,638	\$ 119,973	\$ 123,756	\$ 488,371	\$ 122,093	\$ 92,739	32%
16 Total Operating Revenue	\$ 4,318,138	\$ 4,270,445	\$ 5,249,283	\$ 5,208,871	\$ 4,950,671	\$ 5,441,704	\$ 20,850,529	\$ 5,212,632	\$ 4,820,956	8%
Operating Expenses										
17 Salary & Wages (w/ Agency)	\$ 2,080,929	\$ 1,996,137	\$ 2,008,288	\$ 2,135,117	\$ 2,063,255	\$ 2,155,198	\$ 8,361,859	\$ 2,090,465	\$ 2,026,203	3%
18 Employee Benefits	808,621	842,715	844,382	721,346	738,758	737,835	3,042,321	760,580	785,416	-3%
19 Total People Cost	\$ 2,889,550	\$ 2,838,852	\$ 2,852,670	\$ 2,856,463	\$ 2,802,013	\$ 2,893,033	\$ 11,404,180	\$ 2,851,045	\$ 2,811,618	1%
20 Med and Prof Fees	\$ 643,707	\$ 652,661	\$ 760,435	\$ 537,961	\$ 670,464	\$ 665,243	\$ 2,634,103	\$ 658,526	\$ 598,762	10%
21 Supplies	550,525	608,089	436,999	543,997	630,036	745,969	2,357,001	589,250	626,803	-6%
22 Purchased Services	307,662	463,462	350,330	481,692	352,482	410,063	1,594,568	398,642	413,583	-4%
23 Depreciation	441,840	500,000	519,093	578,469	519,114	582,244	2,198,921	549,730	441,044	25%
24 Utilities	135,364	227,263	204,101	199,612	205,277	169,049	778,039	194,510	162,052	20%
25 Insurance	68,544	34,172	102,750	16,650	144,155	85,387	348,942	87,235	68,293	28%
26 Interest	50,300	120,563	12,973	29,150	13,642	38,791	94,556	23,639	59,272	-60%
27 Other	108,036	88,499	102,876	106,367	123,429	139,587	472,259	118,065	100,025	18%
28 Matching Fees (IGT)	86,484	-	365,191	365,191	365,191	365,191	1,460,764	365,191	266,458	37%
29 Operating expenses	\$ 5,282,012	\$ 5,533,561	\$ 5,707,419	\$ 5,715,552	\$ 5,825,804	\$ 6,094,557	\$ 23,343,332	\$ 5,835,833	\$ 5,547,909	5%
30 Operating Margin	\$ (963,874)	\$ (1,263,116)	\$ (458,136)	\$ (506,681)	\$ (875,134)	\$ (652,853)	\$ (2,492,804)	\$ (623,201)	\$ (726,953)	14%
Expense										
31 Misc. Revenue/(Exp)	\$ 41,366	\$ 64,651	\$ (12,506)	\$ 38,607	\$ 33,567	\$ 70,668	\$ 130,336	\$ 32,584	\$ 36,743	-11%
32 Donations	-	-	-	-	-	-	-	-	(1,005)	
33 Parcel Tax Revenue	316,668	316,663	316,667	316,667	316,667	316,667	1,266,668	316,667	316,667	0%
34 Extraordinary Items	-	-	-	-	-	-	-	-	-	
35 Total Non-Op Rev/Exp	\$ 358,034	\$ 381,314	\$ 304,161	\$ 355,274	\$ 350,234	\$ 387,335	\$ 1,397,004	\$ 349,251	\$ 352,405	-1%
Net Income / (Loss) Excl GO										
36 Bond	\$ (605,840)	\$ (881,802)	\$ (153,975)	\$ (151,407)	\$ (524,899)	\$ (265,518)	\$ (1,095,800)	\$ (273,950)	\$ (374,548)	27%
37 GO Bond Activity, Net	175,187	175,188	157,691	157,691	162,817	162,817	641,016	160,254	174,790	-8%
Net Income/(Loss) Incl GO										
38 Bond	\$ (430,653)	\$ (706,614)	\$ 3,716	\$ 6,284	\$ (362,082)	\$ (102,701)	\$ (454,784)	\$ (113,696)	\$ (199,759)	43%
39 Restricted Foundation Contr	\$ 153,261	\$ 448,716	\$ 65,959	\$ 986,446	\$ 177,715	\$ 60,658	\$ 1,290,778	\$ 322,695	\$ 449,199	-28%
40 Change in Net Position	\$ (277,392)	\$ (257,898)	\$ 69,675	\$ 992,730	\$ (184,367)	\$ (42,043)	\$ 835,994	\$ 208,999	\$ 249,440	-16%
41 Operating EBDA	\$ (522,034)	\$ (763,116)	\$ 60,957	\$ 71,788	\$ (356,019)	\$ (70,609)	\$ (293,883)	\$ (73,471)	\$ (285,910)	74%
42 Total EBDA - Excl Rest Contr	\$ 11,187	\$ (206,614)	\$ 522,809	\$ 584,753	\$ 157,032	\$ 479,543	\$ 1,744,137	\$ 436,034	\$ 241,285	81%

