




INOVA HEALTH SYSTEM



**Audited Consolidated
Financial Statements
and Supplementary
Information, Including
Uniform Guidance
Reports and Schedule**

**Fiscal Year Ended
December 31, 2023**

Inova Health System

Audited Consolidated Financial Statements and Supplementary Information, Including Uniform Guidance Reports and Schedule

Year Ended December 31, 2023

Contents

Report of Independent Auditors	1
Audited Consolidated Financial Statements	
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Supplementary Information	
Schedule of Expenditures of Federal Awards	29
Notes to the Schedule of Expenditures of Federal Awards	36
Uniform Guidance Reports and Schedule	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39
Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	41
Schedule of Findings and Questioned Costs	46



Ernst & Young LLP
Suite 310
1201 Wills Street
Baltimore, MD 21231

Tel: +1 410 539 7940
Fax: +1 410 783 3832
ey.com

Report of Independent Auditors

The Board of Trustees
Inova Health System

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Inova Health System (“IHS”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of IHS at December 31, 2023 and 2022, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 IHS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 of 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 IHS’ ability to

continue as a going concern for one year after the date that the financial statements are available to be issued.

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 of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 *Government Auditing Standards* 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 *Government Auditing Standards*, 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 IHS'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 IHS'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to March 22, 2024. The Schedule of Expenditures of Federal Awards for the year ended December 31, 2023, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024 on our consideration of IHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of IHS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IHS' internal control over financial reporting and compliance.

Ernst + Young LLP

March 22, 2024, except for our report on the schedule of expenditures of federal awards for which the date is October 29, 2024

Inova Health System
Consolidated Balance Sheets
December 31, 2023 and 2022
(in thousands)

	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 714,595	\$ 658,935
Assets whose use is limited, current	196,810	197,275
Patient accounts receivable, net	543,220	522,879
Other current assets	331,472	320,098
Total Current Assets	1,786,097	1,699,187
Property, Equipment and Leasehold Interests, net (Note 5)	2,950,599	2,803,233
Assets Whose Use Is Limited (Notes 2, 6, 7, 13)		
Held by bond trustee	39,396	8,998
By board for plant replacement and expansion	7,390,972	6,513,002
By board for construction projects	182,027	174,904
By donor	235,668	181,084
For professional liability	37,525	29,125
	7,885,588	6,907,113
Less amounts required to meet current obligations	(196,810)	(197,275)
Total Assets Whose Use Is Limited, non-current	7,688,778	6,709,838
Other Assets		
Investments in and receivables from affiliates (Note 8)	13,871	101,732
Goodwill and other intangible assets, net (Note 9)	67,322	77,816
Long-term right-of-use asset (Note 12)	254,104	218,153
Long-term investments	43,941	31,172
Interest rate swap (Note 11)	19,668	15,459
Other long-term assets	122,869	78,875
Total Other Assets	521,775	523,207
TOTAL ASSETS	\$ 12,947,249	\$ 11,735,465
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and other accrued expenses	\$ 629,993	\$ 604,544
Third-party settlements	68,604	69,645
Notes payable and other liabilities	15,109	114,763
Current portion of long-term debt (Note 10)	320,214	363,806
Current lease liability (Note 12)	37,890	38,805
Total Current Liabilities	1,071,810	1,191,563
Non-current Liabilities		
Long-term debt, less current portion (Note 10)	1,824,233	1,734,283
Long-term lease liability (Note 12)	261,964	212,448
Interest rate swap (Note 11)	838	1,627
Other non-current obligations	74,936	64,455
Total Non-current Liabilities	2,161,971	2,012,813
Net Assets		
Without donor restrictions	9,336,092	8,204,113
With donor restrictions	322,348	266,776
Total Net Assets Attributable to IHS	9,658,440	8,470,889
Non-controlling interest	55,028	60,200
Total Net Assets	9,713,468	8,531,089
TOTAL LIABILITIES AND NET ASSETS	\$ 12,947,249	\$ 11,735,465

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Operations
For the Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
Operating Revenues		
Net patient service revenue	\$ 5,387,479	\$ 4,846,376
Other operating revenue	353,024	275,680
Total Operating Revenue	5,740,503	5,122,056
Operating Expenses		
Salaries and benefits	3,054,400	2,778,858
Other operating expenses	2,082,868	1,886,662
Depreciation and amortization	344,930	314,912
Interest	73,251	62,440
Total Operating Expenses	5,555,449	5,042,872
Operating Income	185,054	79,184
Investment income (losses) and other, net	971,457	(985,779)
Excess (Deficiency) of Revenues Over Expenses	1,156,511	(906,595)
Less: Non-controlling interest	(23,870)	(16,540)
Excess (Deficiency) of Revenues Over Expenses, Attributable to IHS	\$ 1,132,641	\$ (923,135)

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements Changes in Net Assets
For the Years Ended December 31, 2023 and 2022
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Balance at December 31, 2021	\$ 9,121,690	\$ 282,352	\$ 73,906	\$ 9,477,948
Deficiency of revenues over expenses (from page 4)	(923,135)	–	16,540	(906,595)
Unrealized loss on investments, net	–	(4,044)	–	(4,044)
Gifts and bequests	–	25,869	–	25,869
Restricted investment loss	–	(4,191)	–	(4,191)
Net assets released from restriction for the purchase of property and equipment	2,223	(2,223)	–	–
Net assets released from restriction	–	(30,988)	–	(30,988)
Changes in non-controlling equity interest	–	–	(30,300)	(30,300)
Other	3,335	1	54	3,390
Change in net assets	<u>(917,577)</u>	<u>(15,576)</u>	<u>(13,706)</u>	<u>(946,859)</u>
Balance at December 31, 2022	8,204,113	266,776	60,200	8,531,089
Excess of revenues over expenses (from page 4)	1,132,641	–	23,870	1,156,511
Unrealized loss on investments, net	397	1,264	–	1,661
Gifts and bequests	–	86,254	–	86,254
Restricted investment income	–	2,920	–	2,920
Net assets released from restriction for the purchase of property and equipment	708	(708)	–	–
Net assets released from restriction	–	(33,600)	–	(33,600)
Changes in non-controlling equity interest	–	–	(29,041)	(29,041)
Other	(1,767)	(558)	(1)	(2,326)
Change in net assets	<u>1,131,979</u>	<u>55,572</u>	<u>(5,172)</u>	<u>1,182,379</u>
Balance at December 31, 2023	<u>\$ 9,336,092</u>	<u>\$ 322,348</u>	<u>\$ 55,028</u>	<u>\$ 9,713,468</u>

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022
(in thousands)

	2023	2022
Operating Activities		
Change in net assets	\$ 1,182,379	\$ (946,859)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	344,930	314,912
Gain on extinguishment of debt	(11,819)	(15,697)
Net realized and unrealized losses (gains) on investments	(804,219)	1,063,962
Change in fair value of interest rate swaps	(4,997)	(19,027)
Equity investment losses, net	6,852	36,806
Gain on sale of long lived assets	–	(17,533)
Gain on sale of business ventures and other non-operating	(32,301)	–
Increase in accounts receivable and third-party settlements, net	(32,976)	(91,994)
Decrease (increase) in other current assets	11,150	(54,378)
Increase in accounts payable and other current liabilities	29,236	66,622
Increase (decrease) in other non-current obligations	6,170	(4,776)
Restricted contributions and investment income	(89,174)	(21,679)
Other	2,548	12,011
Net Cash Provided by Operating Activities	607,779	322,370
Investing Activities		
Capital expenditures	(490,188)	(389,350)
Proceeds from sale of long-lived assets	–	12,885
Proceeds from sale of business ventures	113,855	–
Investments in and advances to joint ventures and affiliates	(5,980)	(32,946)
Purchases of investments	(1,721,849)	(2,102,795)
Proceeds from sale of investments	1,577,408	2,045,676
Purchase of business acquisition	–	(1,771)
Purchase of land	–	(137,092)
Net Cash Used in Investing Activities	(526,754)	(605,393)
Financing Activities		
Principal payments on long-term debt	(112,040)	(39,071)
Proceeds from issuance of long-term debt	233,795	800,071
Refunding of long-term debt	(54,865)	(399,890)
Repayment of commercial paper obligation	(100,000)	–
Restricted contributions and investment income	45,985	30,348
Other	5,139	(5,724)
Net Cash Provided by Financing Activities	18,014	385,734
Net Increase in Cash, Cash Equivalents, and Restricted Cash	99,039	102,711
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	779,194	676,483
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	878,233	779,194
Less: Restricted cash included in assets whose use is limited (Note 2)	163,638	120,259
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 714,595	\$ 658,935

See notes to the consolidated financial statements.

Inova Health System
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

1. Nature of Operations

Organization: Inova Health System Foundation (the “Foundation”) d.b.a. Inova Health System (“IHS”), is an integrated, not-for-profit health care delivery system that owns, operates and manages clinical, educational, research and hospital facilities located in Northern Virginia, serving Northern Virginia, the Washington, D.C. metropolitan area and contiguous counties in Virginia and Maryland. The principal line of business for IHS is the delivery of acute care hospital services at five hospitals located in Northern Virginia. IHS also operates an integrated network of health services including a medical group, ambulatory care, home health care, senior services, assisted living, and other health-related services.

2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Foundation; Inova Health Care Services (“IHCS”); Inova Holdings, Inc. (“IHI”); and their majority-owned subsidiaries and controlled affiliates (collectively, “System Offices”). All intercompany accounts and transactions have been eliminated in consolidation.

The Foundation is a tax-exempt, non-stock corporation that controls its affiliated corporations through its authority to appoint the governing boards of the tax-exempt, non-stock affiliates or its stock ownership. The Foundation also supports and maintains the programs, services, and facilities of IHS’ health care delivery system in part through the solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt affiliates.

IHCS is a tax-exempt, non-stock corporation that serves the health care needs of the community by establishing, maintaining, and operating hospital and health care facilities, programs, and other shared and integrated health care delivery arrangements. IHCS operates the following facilities, among others: Inova Fairfax Hospital (“Fairfax”), Inova Mount Vernon Hospital (“Mount Vernon”), Inova Fair Oaks Hospital (“Fair Oaks”), Inova Alexandria Hospital (“Alexandria”), and Inova Loudoun Hospital (“Loudoun”). IHCS also provides and manages the clinical, non-hospital facilities and programs whose services include senior services, assisted living facilities, addiction treatment services for adults and adolescents, outpatient rehabilitation services, urgent care and other outpatient health care services. IHCS also maintains a group of primary care and specialty physicians operating as the Inova Medical Group.

IHI is a wholly owned subsidiary of the Foundation and is the parent holding company for various taxable entities within IHS, including Technical Dynamics Inc., a biomedical equipment maintenance and engineering company. IHI and its subsidiaries operate facilities providing a variety of health care and support services to patients and to affiliated health care providers.

Cash and Cash Equivalents: IHS classifies as cash equivalents all highly liquid financial instruments with a maturity of three months or less when purchased, excluding those held in short-term investments and assets limited as to use.

Patient Accounts Receivable: Patient accounts receivable include charges for amounts due from all patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid and other insurers. The estimated implicit price concessions are based upon

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the price concessions based upon historical experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance. The results of this review are then used to make any modifications to the estimated implicit price concessions. There have been no significant changes in the current year to the underlying assumptions used by IHS to estimate the amount expected to be received. Patient accounts receivable is written off after collection efforts have been followed in accordance with IHS policies.

Assets Whose Use Is Limited: Assets whose use is limited include board-designated funds for plant replacement and expansion and construction projects, funds restricted by donors for charitable purposes, funds restricted to cover self-insurance liabilities, and trustee-held assets restricted for the retirement of long-term liabilities. The related restricted cash and cash equivalents included in funds by donor, for professional and health liabilities, and held by bond trustee are included on the accompanying Consolidated Statements of Cash Flows for the years ended December 31, 2023 and 2022.

Investments in equity securities with readily determinable fair values and all investments in debt securities held by IHS' custodian are designated as trading securities. Investment income (losses) (including realized gains and losses, unrealized gains and losses, interest, and dividends), inclusive of investment return on alternative investments discussed further below, is included in excess (deficiency) of revenues over expenses unless such earnings are subject to donor-imposed restrictions. Investment income (losses) restricted by donor stipulations is reported as an increase in net assets with donor restrictions. Realized gains and losses are determined using the average cost method. Interest and dividend income is reported net of investment-related expenses.

IHS also holds investments in limited partnerships as a conduit for investments that are not actively traded and consist of marketable securities, as well as securities that do not have readily determinable values. The values of the securities held by limited partnerships that do not have readily determinable values are determined by the general partner and are based on historical cost, appraisals, or other valuation estimates that require varying degrees of judgment. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for the securities existed. The investments in limited partnerships are summarized as alternative investments. Alternative investments are accounted for under the equity method of accounting using the net asset value ("NAV") practical expedient. The financial statements of the limited partnerships within alternative investments are audited annually.

Investment securities and limited partnerships, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risks associated with certain investment securities and limited partnerships, it is reasonably possible that changes in the value of the investments could occur in the short-term and that changes could materially affect the amounts reported in the IHS' consolidated financial statements.

Fair Value Measurements: IHS evaluates assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them for each reporting period. See Note 7.

Property, Equipment and Leasehold Interests: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The general range of useful lives is 5 to 25 years for land improvements; 5 to 40 years for buildings, fixed equipment, and leasehold improvements; and 5 to 10 years for major movable equipment. Software and other IT equipment are included in major movable equipment with useful lives of three to five years. Equipment under finance leases obligations is amortized using the straight-line method over the shorter period of the lease term

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization on the accompanying Consolidated Statements of Operations and Changes in Net Assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repairs and maintenance are expensed as incurred.

Donated assets are recorded at their fair value at the date of donation. Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Leases: IHS enters into lease agreements for equipment, office space and certain facilities in conducting its normal business operations. Operating leases are included in long-term right-of-use assets, current lease liability and long-term lease liability in IHS' accompanying Consolidated Balance Sheets.

Right-of-use assets represent IHS' right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. At the inception of any contract, IHS evaluates the agreement to determine whether the contract contains a lease. If the contract contains a lease, IHS then evaluates the term and whether the lease is an operating or finance lease. Most leases include one or more options to renew or may have a termination option. IHS determines whether these options are reasonably certain to be exercised at the inception of the lease. The depreciable life of right-of-use assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain to be exercised at the inception of the lease. The lease expense is recognized on a straight-line basis on the accompanying Consolidated Statements of Operations and Changes in Net Assets over the terms of the respective leases. Leases with an initial term of 12 months or less are not recorded on the accompanying Consolidated Balance Sheets. IHS has lease agreements that require payments for lease and non-lease components and has elected to account for these as a single lease component.

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. When measuring the present value, the lease payments are discounted using the interest rate implicit in the lease. If such implicit rate cannot be readily determined, a risk-free rate is used. The lease liability is subsequently increased by interest expense recognized and reduced by lease payments made.

Net Assets: Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated funds.

Net Assets with Donor Restrictions: Net assets with donor restrictions are those whose use by IHS has been limited by donors to a specific time period or purpose, or in perpetuity. Annual changes in fair value are reported as increases or decreases in net assets with donor restrictions.

Donor-restricted Gifts: Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Contributions received are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as assets without donor restrictions and reported on the accompanying Consolidated Statements of

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Operations and Changes in Net Assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received and contributions received where no restrictions were stipulated are reflected as contributions without donor restrictions and reported in the accompanying consolidated financial statements as other operating revenue. Contributed nonfinancial assets received from donors are subsequently monetized.

Excess (Deficiency) of Revenues over Expenses: The accompanying Consolidated Statements of Operations and Changes in Net Assets include the excess (deficiency) of revenues over expenses as the performance indicator. Changes in unrestricted net assets that are excluded from the excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using grants or contributions, which by donor restriction were to be used for the purposes of acquiring such assets) and cumulative effect of changes in accounting principles, if any.

Investments in and Receivables from Affiliates: IHS makes investments in corporations and other forms of businesses. Investments where less than 50% of the voting common stock is owned by IHS as well as certain partnership and limited liability company investments in which IHS does not have the ability to exercise significant influence are accounted for using the equity method. See Note 8. Investments where IHS has greater than 50% ownership or ability to exercise significant influence are included in the accompanying consolidated financial statements. The proportionate share owned by third parties is included within non-controlling interest. All intercompany transactions have been eliminated.

Goodwill and Other Intangible Assets: Goodwill has resulted from business combinations and is based on the purchase price in excess of the fair values of assets acquired and liabilities assumed at the acquisition date. Intangible assets other than goodwill are recorded at fair value in the period of acquisition. Intangible assets with finite lives that consist primarily of patient medical records and non-compete agreements, are amortized over their estimated useful lives. IHS has elected the accounting alternative that allows goodwill and other intangible assets with indefinite lives to be amortized on a straight-line basis over ten years, or less if management demonstrates that another useful life is more appropriate, and tested for impairment upon the occurrence of a triggering event at the entity level. See Note 9.

Interest Rate Swap Agreements: IHS has entered into interest rate swap agreements to manage the net exposure to interest rate changes related to its borrowings and to manage its overall borrowing costs. For designated cash flow hedges, the change in its fair value is recorded as a change in other unrestricted net assets. For interest rate swaps not designated or qualifying as hedges, changes in fair value are recorded in investment (losses) income and other, net. See Note 11.

Long-term Investments: IHS maintains a strategic portfolio of investments in various funds and other unaffiliated companies. IHS does not have the ability to exert significant influence over the investees. These investments are measured at fair value with any changes recognized within investment income (losses) and other, net. IHS measures those investments using the measurement alternative. The measurement alternative measures those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Other Long-term Assets: Other long-term assets primarily include pledges receivable, net of current portion, capitalized costs incurred for a service contract with the requirements for capitalizing costs incurred to develop or obtain internal use software and net investments in sales-type leases.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Income Taxes: The Foundation and IHCS are not-for-profit corporations and have been determined to be exempt from federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code. Therefore, these entities will not incur any liability for federal income tax, except for possible unrelated business income. IHI and its subsidiaries are taxable organizations. Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. Accounting principles generally accepted in the United States require management to evaluate uncertain tax positions taken by IHS. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has concluded that as of December 31, 2023 and 2022, there are no uncertain positions taken or expected to be taken. IHS has recognized no interest or penalties related to uncertain tax positions. IHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that IHS is no longer subject to income tax examinations for years prior to 2019.

Non-controlling Interest: The non-controlling interest in applicable subsidiaries is presented within net assets on IHS' accompanying Consolidated Balance Sheets and Consolidated Statements of Operations and Changes in Net Assets and represents the proportionate share owned by third parties. IHS presents the unrestricted non-controlling interest and the amount of consolidated changes in net assets on the accompanying Consolidated Statements of Operations and Changes in Net Assets. The carrying amount of the non-controlling interest is adjusted based on an allocation of subsidiary earnings based on ownership interest.

Other Operating Revenue: Other operating revenue consists of pharmacy prescription sales, medical equipment revenue, cafeteria sales, grant revenues, net assets released from restriction, and other non-patient service revenue.

Subsequent Events: IHS has evaluated subsequent events that have occurred for recognition and disclosure through March 22, 2024, the date the accompanying consolidated financial statements were issued.

Risk Factors: IHS' ability to maintain and/or increase future revenues or income could be adversely affected by (i) the pressure to contain costs and assume risks that may result from payors promoting alternative methods for health care delivery or payment of services, such as discounted fee for service networks, valued-based payments, and capitated fee arrangements; (ii) increased competition from other hospital facilities and integrated health care delivery systems in IHS' service areas; (iii) new statutory, legal or regulatory requirements, or structural, operational or payment changes to the health care industry, resulting from changes in health care reform measures; (iv) changes in revenue mix, or delays in receiving payments from third-party payors, including any payments from the state of Virginia that may result if there were delays in appropriations and state budget deficits; (v) proposed and/or future changes in the laws, rules, regulations and policies relating to the definition, activities, and/or taxation of non-profit tax-exempt entities; (vi) future legislation, regulation or other actions by federal, state and local governments and their agencies, which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for health care services; (vii) future legislation or adverse trends affecting the costs related to professional liability coverage; (viii) the future of Virginia's Certificate of Need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate IHS' ability to expand new services; (ix) changes in general and local economic conditions that could influence patients' ability to pay for services or the adequacy of patients' health insurance coverage; (x) a potential shortage of physicians, qualified nurses and other skilled health care professionals in the local employment market; (xi) potential threat of cyber security attacks or breaches to IHS or supporting third party vendor systems; and (xii) changes in general and local economic conditions that could cause volatility in investments, capital and debt markets and may impose limitations to timely access to debt markets.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The ASU was adopted effective January 1, 2023. The adoption of the ASU did not have a material impact on the accompanying consolidated financial statements.

3. Net Patient Service Revenue

IHS’ revenues generally relate to contracts with patients in which its performance obligations are to provide health care services. Revenues are recorded during the period the obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with third-party payors for services provided to patients typically specify payments at amounts less than IHS’ standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

IHS’ net patient service revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements and are recognized as explicit price concessions. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect.

IHS has elected the practical expedient utilizing the portfolio approach and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to IHS’ expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, IHS does, in certain circumstances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

3. Net Patient Service Revenue (continued)

	2023		2022	
Medicare	\$ 841,667	14.7%	\$ 782,228	15.3%
Medicaid	642,189	11.2%	558,712	10.9%
Commercial and other	3,903,623	68.0%	3,505,436	68.4%
Net Patient Service Revenue	5,387,479	93.9%	4,846,376	94.6%
Other operating revenue	353,024	6.1%	275,680	5.4%
Total Operating Revenue	\$ 5,740,503	100.0%	\$ 5,122,056	100.0%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and IHS' historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022.

The collection of outstanding receivables for Medicare, Medicaid, managed care payors, other third-party payors and patients is IHS' primary source of cash and is critical to its operating performance. IHS' practice is to assign a patient to the primary payor and not reflect other uninsured balances as self-pay. Therefore, the payors listed above contain patient responsibility components such as deductibles and copayments. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections; business and economic conditions; trends in federal, state and private employer health care coverage; and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of IHS' revenues and patient accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of patient accounts receivable.

For the years ended December 31, 2023 and 2022, estimated implicit price concessions of \$114.9 million and \$182.2 million, respectively, had been recorded as reductions to IHS' revenues and patient accounts receivable balances to enable management to record IHS' revenues and patient accounts receivable at the estimated amounts that they expect to collect.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

4. Charity Care and Other Community Benefits

All operating entities of IHS treat emergency patients and provide medically necessary treatment to patients regardless of their ability to pay. A patient is classified as a charity patient based upon established IHS' policies that consider patient income levels as well as other factors, including credit histories and demographic information. Since IHS does not pursue collection of amounts that qualify as charity care, these amounts are deducted from gross revenue and are not reported as net patient service revenue.

IHS provides health care services to patients who meet certain criteria under its charity care policy without charge (or at amounts less than the established rates). The amounts reported as charity care represent the cost of rendering such services typically based on the cost to charge ratio for each facility. Various government programs provide for the indigent, including Medicaid recipients. These programs provide a percentage of reimbursement for qualifying patients; however, payment is typically below the cost of those services.

In addition to charity and uncompensated care, IHS provides benefits to the broader community. These services include free health screenings, educational services, prevention services, and support programs. In addition, IHS incurs significant unreimbursed costs in providing medical education and performing medical research. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care.

IHS' estimated costs of providing services to the poor and broader community for the years ended December 31 are as follows (in thousands):

	2023	2022
Charity care	\$ 85,191	\$ 92,836
Unpaid cost of state programs to financially disadvantaged persons	158,457	161,848
Community health programs	35,557	35,090
Medical education and research	32,058	31,310
Total community benefits, at cost	\$ 311,263	\$ 321,084

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

5. Property, Equipment and Leasehold Interests

The components of property, equipment and leasehold interests, including finance lease assets, at cost, and the related accumulated depreciation were as follows at December 31 (in thousands):

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 414,116	\$ 407,839
Buildings, fixed equipment and leasehold improvements	3,694,236	3,530,227
Capitalized software	271,352	266,800
Major movable equipment	<u>1,872,832</u>	<u>1,891,801</u>
	6,252,536	6,096,667
Less: Accumulated depreciation and amortization	<u>(3,673,493)</u>	<u>(3,586,848)</u>
	2,579,043	2,509,819
Construction-in-progress	<u>371,556</u>	<u>293,414</u>
Total	<u>\$ 2,950,599</u>	<u>\$ 2,803,233</u>

Amortization expense on capitalized software was \$17.9 million and \$17.7 million for the years ended December 31, 2023 and 2022, respectively.

6. Assets Whose Use Is Limited

IHS' investments as of December 31 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 490,890	\$ 257,511
Equity securities	577,157	382,684
Debt securities	1,714,819	1,430,359
Alternative investments		
Global equity	3,695,723	3,399,134
Hedge funds	17,988	46,397
Private Investments	<u>1,389,011</u>	<u>1,391,028</u>
Total	<u>\$ 7,885,588</u>	<u>\$ 6,907,113</u>

Income from alternative investments is recorded in investment (losses) income and other, net on the accompanying Consolidated Statements of Operations and Changes in Net Assets. IHS invests in an array of alternative investments, primarily global equity funds, hedge funds and private investment funds. A substantial portion of the underlying securities held by these funds are in actively traded marketable securities.

The private investment funds invest primarily in domestic companies. The hedge funds may invest in multiple strategies, including long and short equity, other non-directional, distressed securities, and various forms of arbitrage. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements and typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution, while the underlying investments are liquidated. For global equity funds and hedge funds, the redemption frequency ranges from daily to every three years with redemption notice periods from 1 to 60 days. For private investment funds, IHS' liquidity is at the fund managers' discretion and may apply to all or portions of a particular invested amount.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

6. Assets Whose Use Is Limited (continued)

There are approximately \$1.4 billion of funds that are subject to lock up restrictions and are not available to be redeemed until certain time restrictions are met, which can be up to 15 years. Total unfunded commitments to alternative investment funds are \$319.9 million and \$384.1 million as of December 31, 2023 and 2022, respectively.

7. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date. ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy distinguishes between market participant assumptions based on independent sources (observable inputs classified within Levels 1 and 2) and the reporting entity's own notions about market participant assumptions (unobservable inputs classified within Level 3).

The fair value levels are as follows:

- Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that IHS has the ability to access at the measurement date.
- Level 2 inputs are other observable inputs for the assets or liabilities, either directly or indirectly. These may include quoted prices for similar assets and liabilities in active markets, interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the assets or liabilities that are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Fair value level assignment for assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety. IHS' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets and liabilities.

Alternative investments represent funds included on the balance sheet that are reported using the NAV practical expedient as prescribed by ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partner. Fair value is based on the proportionate share of the NAV based on the most recent partner's capital statements received from the general partners. This valuation methodology is consistent with the equity method.

The following tables present IHS' assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022, respectively. Certain assets such as open purchases and sales do not have fair values classified within a level in the valuation hierarchy (in thousands).

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

7. Fair Value Measurements (continued)

	December 31, 2023	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 490,890	\$ 490,890	\$ –	\$ –
U.S. government and agency securities	536,937	–	536,937	–
Corporate and other bonds				
– Asset-backed securities	174,563	–	174,563	–
– Corporate and other bonds	139,531	–	139,531	–
– Other government securities	18,120	–	18,120	–
Equity securities				
– Domestic	148,367	148,367	–	–
– International	255,942	255,942	–	–
Mutual fund / ETF				
– Equity	172,848	172,848	–	–
– Fixed income and other	845,668	845,668	–	–
	<u>2,782,866</u>	<u>1,913,715</u>	<u>869,151</u>	<u>–</u>
Interest rate swap asset	19,668	–	19,668	–
Total assets	<u>\$ 2,802,534</u>	<u>\$ 1,913,715</u>	<u>\$ 888,819</u>	<u>\$ –</u>
Liabilities:				
Interest rate swap liability	\$ (838)	\$ –	\$ (838)	\$ –
Total liabilities	<u>\$ (838)</u>	<u>\$ –</u>	<u>\$ (838)</u>	<u>\$ –</u>

	December 31, 2022	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 257,511	\$ 257,511	\$ –	\$ –
U.S. government and agency securities	445,213	–	445,213	–
Corporate and other bonds				
– Asset-backed securities	153,426	–	153,426	–
– Corporate and other bonds	149,039	–	149,039	–
– Other government securities	15,449	–	15,449	–
Equity securities				
– Domestic	138,742	138,742	–	–
– International	207,845	207,845	–	–
Mutual fund / ETF				
– Equity	36,097	36,097	–	–
– Fixed income and other	667,232	667,232	–	–
	<u>2,070,554</u>	<u>1,307,427</u>	<u>763,127</u>	<u>–</u>
Interest rate swap asset	15,459	–	15,459	–
Total assets	<u>\$ 2,086,013</u>	<u>\$ 1,307,427</u>	<u>\$ 778,586</u>	<u>\$ –</u>
Liabilities:				
Interest rate swap liability	\$ (1,627)	\$ –	\$ (1,627)	\$ –
Total liabilities	<u>\$ (1,627)</u>	<u>\$ –</u>	<u>\$ (1,627)</u>	<u>\$ –</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

7. Fair Value Measurements (continued)

The fair value of IHS' securities is determined by management using third-party service providers utilizing various methods dependent upon the specific type of investment. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Where significant inputs, including benchmark yields, broker-dealer quotes, issuer spreads, bids, offers, and measures of volatility, are used by these third-party dealers or independent pricing services to determine fair values, the securities are classified within Level 2.

Assets utilizing Level 1 inputs include cash and cash equivalents held within the assets whose use is limited, exchange-traded equity securities, equity and fixed income mutual funds and exchange-traded funds.

Assets and liabilities utilizing Level 2 inputs include U.S. government and agency securities, corporate and municipal bonds, certain mortgage-backed securities, asset-backed securities, and foreign government issued securities. IHS entered into interest rate swap agreements in conjunction with the issuance of variable rate bonds. The swap contracts are valued using models based on readily observable market parameters for all substantial terms of the contract. See Note 11 for additional information.

8. Investments in and Receivables from Affiliates

IHS makes strategic investments in corporations and other forms of businesses. IHS generally accounts for investments with less than 50% ownership under the equity method of accounting and includes IHS' net equity interest in investments in and receivables from affiliates on the accompanying Consolidated Balance Sheets.

IHS invested in a joint venture with Aetna that established Innovation Health ("IHealth"), a licensed health plan serving Northern Virginia. IHealth commenced operations in July 2013. IHealth provides employers and consumers access to more affordable, coordinated and integrated health care in the region. IHS held a 50% interest in IHealth at December 31, 2022, which was accounted for using the equity method of accounting. During the year ended December 31, 2023, IHS exited its investment in IHealth and recognized a gain of \$3.9 million in Investment income (losses) and other, net on the consolidated statements of operations.

IHS' ownership in significant nonconsolidated entities and the amounts included in IHS' consolidated financial statements as of December 31 are as follows (in thousands):

	Carrying Value		Equity Method (Losses) Income	
	2023	2022	2023	2022
IHealth	\$ —	\$ 91,159	\$ 141	\$ 10,034
Other investments accounted for under equity method	13,871	10,573	(6,993)	(46,840)
Total investments in affiliates	\$ 13,871	\$ 101,732	\$ (6,852)	\$ (36,806)

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

9. Goodwill and Other Intangible Assets

A summary of goodwill and other intangible assets at December 31 is as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Intangible assets	\$ 14,906	\$ 14,906
Accumulated amortization	<u>(7,529)</u>	<u>(7,103)</u>
Total intangibles, net	7,377	7,803
Goodwill	105,341	105,341
Accumulated amortization	<u>(45,396)</u>	<u>(35,328)</u>
Total goodwill, net	59,945	70,013
Total goodwill and intangibles	<u>\$ 67,322</u>	<u>\$ 77,816</u>

Amortization expense of goodwill and intangible assets was \$10.5 million and \$10.6 million, for the years ended December 31, 2023 and 2022, respectively.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

10. Long-Term Debt

Long-term debt issues consisted of the following as of December 31 (in thousands):

	<u>2023</u>	<u>2022</u>
Long-term Debt of the IHS Obligated Group		
1993A Hospital Revenue Refunding Bonds; maturing 8/15/23; semi-annual interest at a fixed rate of 2.75% to 5.25%	\$ -	\$ 8,475
2005A Health Care Revenue Bonds; maturing 5/15/35; monthly interest at a variable rate and maximum of 12.0%	54,865	109,730
2010A-2 Health Care Revenue Bonds; maturing 5/15/39; monthly interest at a variable rate and maximum of 12.0%	95,000	95,000
2013 Health Care Revenue Bonds; maturing 12/1/23; monthly interest at a fixed rate of 2.15%	-	13,548
2014A Health Care Revenue Bonds; maturing 5/15/44; semi-annual interest at a fixed rate of 2.5% to 5.0%	180,000	180,000
2016A Health Care Revenue Bonds; maturing 5/15/31; semi-annual interest at a fixed rate of 5.0%	88,720	94,420
2016B Health Care Revenue Bonds; maturing 5/15/26; semi-annual interest at a fixed rate of 5.0%	31,295	31,295
2016C Health Care Revenue Bonds; maturing 5/15/42; monthly interest at a variable rate and maximum of 12%	96,810	97,275
2018A Health Care Revenue Bonds; maturing 5/15/48; semi-annual interest at a fixed rate of 3.0% to 5.0%	192,665	195,080
2018B-2 Health Care Revenue Bonds; maturing 5/15/57; semi-annual interest at a fixed rate of 5.0%	67,280	75,000
2018C Health Care Revenue Bonds; maturing 5/15/33; monthly interest at a variable rate and maximum of 12.0%	100,000	100,000
2020 Senior Notes; maturing 05/15/48; semi-annual interest at a fixed rate of 2.67%	260,000	260,000
2022 Health Care Revenue Refunding Bonds; maturing 5/15/44; semi-annual interest at a fixed rate of 3.5% to 5.0%	367,850	371,810
2022A Taxable Bonds; maturing 5/15/52; semi-annual interest at a fixed rate of 4.068%	400,000	400,000
2023 Health Care Revenue Bonds; maturing 5/15/32; semi-annual interest at a fixed rate of 5.0%	132,805	-
Total Long-term Debt of the IHS Obligated Group	<u>2,067,290</u>	<u>2,031,633</u>
Less: Current Portion of Long-term Debt	(317,020)	(361,238)
Net Original Issue Premium	78,460	69,704
Net Deferred Financing Costs	(11,230)	(11,227)
Net Long-term Debt of the IHS Obligated Group	<u>\$ 1,817,500</u>	<u>\$ 1,728,872</u>
Total Long-term Debt of Non-Obligated IHS Affiliates	\$ 9,927	\$ 7,979
Less: Current Portion of Long-term Debt	(3,194)	(2,568)
Net Long-term Debt of Non-Obligated IHS Affiliates	<u>\$ 6,733</u>	<u>\$ 5,411</u>
Total Net IHS Long-term Debt	<u>\$ 1,824,233</u>	<u>\$ 1,734,283</u>

The majority of the long-term debt of the non-obligated IHS affiliates represents construction loans of \$2.0 million, \$2.2 million, \$3.1 million and \$1.4 million with maturity dates of August 28, 2026, July 25, 2027, December 12, 2028 and August 28, 2028, respectively, and fixed interest rates of 4.00%, 3.65%, 5.30% and 6.25%, respectively, as of December 31, 2023.

The majority of IHS' debt is tax-exempt revenue bonds issued under a Master Trust Indenture with the Industrial Development Authority of Fairfax County, Virginia that defines the obligated subsidiaries and affiliates under the bonds. The Members of the IHS Obligated Group consist of the Foundation and IHCS.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

10. Long-Term Debt (continued)

In May 2023, IHS issued Series 2023 Tax-Exempt Bonds in the aggregate principal amount of \$132.8 million and remarketed Series 2018B-2 Tax-Exempt Bonds in the aggregate principal amount of \$67.3 million. The Series 2023 Tax-Exempt bonds are comprised of fixed rate term bonds with principal payment starting in the year 2030. Interest is payable semi-annually on May 15 and November 15 of each year, commencing November 15, 2023. Premium received was \$21.6 million. Total proceeds from the offering were \$154.4 million. Proceeds of the Series 2023 Tax-Exempt bonds were used to repay previously issued tax-exempt revenue bonds and will finance various capital projects. The remarketed 2018B-2 Tax-Exempt bonds are comprised of fixed rate coupon bonds with principal payment starting in May 2033. Interest is payable semi-annually on May 15 and November 15 of each year, commencing November 15, 2023. Premium received was \$7.7 million. Total proceeds from the offering were \$75.0 million. The remarketed 2018B-2 bonds have a mandatory tender date of May 15, 2030 when the current Long-Term Rate Period ends.

In April 2022, IHS issued Series 2022 Tax-Exempt Bonds in the aggregate principal amount of \$371.8 million and Series 2022A Taxable Bonds in the aggregate principal amount of \$400 million. The Series 2022 Tax-Exempt bonds are comprised of fixed rate serial and term bonds with principal payment starting in the year 2023. Interest is payable semi-annually on May 15 and November 15 of each year, commencing November 15, 2022. The premium received was \$28.1 million. The total proceeds from the offering were \$399.9 million. The proceeds of the Series 2022 Tax-Exempt Bonds were used to repay previously issued tax-exempt revenue bonds. The Series 2022A Taxable bonds bear fixed interest rate at 4.068% through maturity on May 15, 2052. Interest is payable semi-annually on May 15 and November 15 of each year, commencing November 15, 2022. The bonds were issued at par.

IHS Obligated Group debts are secured by an interest in all funds held by the bond trustee for purposes of debt service, construction and equipment acquisition. Each Member of the IHS Obligated Group covenants that it will not pledge or grant a security interest in (except as may be otherwise provided in the Master Trust Indenture) any of its property. The Master Trust Indenture for the IHS Obligated Group requires that certain minimum financial ratios be met. IHS was in compliance with the financial ratio requirements as of December 31, 2023 and 2022.

The interest rate on the variable rate bonds ranged between 1.68% and 4.55% in 2023 and 0.04% and 3.86% in 2022. The variable rate bonds include an optional tender feature that allows the bond holder to tender the bonds on a weekly interest payment date.

The tender feature of the 2016C and 2018C bonds and certain variable rate bonds requires IHS to maintain current assets of \$183.3 million and \$196.8 million as of December 31, 2023 and 2022, respectively, to provide for redemption of the tendered bonds. These assets are included in the current portion of assets whose use is limited.

Costs incurred in the issuance or conversion of long-term debt are deferred and amortized over the life of the related debt using the principal balance outstanding method.

Certain bonds are subject to mandatory sinking fund redemption and to earlier redemption under certain circumstances as defined in the respective bond indenture agreements. Maturities of long-term debt for the five years succeeding December 31, 2023, are as follows (in thousands):

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>Thereafter</u>	<u>Total</u>
Scheduled maturities	\$ 136,939	\$ 83,398	\$ 66,276	\$ 35,765	\$ 36,924	\$ 1,534,640	\$ 1,893,942
Bonds under remarketing agreement and subject to mandatory tender	183,275	-	-	-	-	-	183,275
Total	<u>\$ 320,214</u>	<u>\$ 83,398</u>	<u>\$ 66,276</u>	<u>\$ 35,765</u>	<u>\$ 36,924</u>	<u>\$ 1,534,640</u>	<u>\$ 2,077,217</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

10. Long-Term Debt (continued)

IHS maintains a taxable commercial paper (“CP”) program authorized for borrowings up to \$100.0 million with maturity dates from one to 270 days. Proceeds from this issuance were used for a variety of working capital requirements. IHS maintains a self-liquidity program that would be used to repurchase any CP that is not remarketed. All outstanding CP was included in notes payable and other liabilities in the current liabilities section of the accompanying Consolidated Balance Sheets. During the year ended December 31, 2023, IHS repaid its \$100.0 million CP obligation in full.

Total interest paid was \$86.2 million and \$70.0 million for the years ended December 31, 2023 and 2022, respectively.

IHS maintained unsecured lines of credit with two large commercial banks with a combined available principal amount of \$250.0 million. These lines of credit expired during the year ended December 31, 2023 and one was renewed for an available principal amount of \$250.0 million. The newly increased line of credit is scheduled to expire on July 31, 2024, at which time management intends to renew. As of December 31, 2023 and 2022, IHS had not drawn on its line(s) of credit.

11. Derivative Financial Instruments

IHS entered into interest rate swap agreements in order to hedge the variability of cash flows related to changes in market interest rates on underlying variable rate debt. Below is a summary of the interest rate swap agreements as of December 31 (in thousands):

Counter Party	Notional Amount	Maturity Date	Type	Payer Rate	Receiver Rate	Fair Value	Collateral Threshold
As of December 31, 2023							
Merrill Lynch Capital Services, Inc.	\$ 50,000	5/15/2034	Fixed Payer	1.65%	67% of SOFR**	\$ 3,981	\$ 30,000
Citibank, N.A.	100,000	1/15/2034	Variable Payer	67% of SOFR**	67% of the USD-ISDA-Swap Rate minus 0.387%	(838)	45,000
JPMorgan Chase Bank, N.A.	69,495	5/15/2034	Fixed Payer	1.45%	67% of SOFR**	5,791	25,000
	100,000	5/1/2042	Variable Payer	USD-SIFMA Municipal Swap Index	104% of USD-SOFR-COMPOUND	9,896	
Total	<u>\$ 319,495</u>					<u>\$ 18,830</u>	<u>\$ 100,000</u>
As of December 31, 2022							
Merrill Lynch Capital Services, Inc.	\$ 50,000	5/15/2034	Fixed Payer	1.65%	67% of one-month USD LIBOR	\$ 4,517	\$ 30,000
Citibank, N.A.	100,000	1/15/2034	Variable Payer	67% of USD-LIBOR-BBA	67% of the USD-ISDA-Swap Rate minus 0.387%	(1,627)	45,000
JPMorgan Chase Bank, N.A.	69,495	5/15/2034	Fixed Payer	1.45%	67% of one-month UDS LIBOR	6,324	25,000
	100,000	5/1/2042	Variable Payer	USD-SIFMA Municipal Swap Index	104% of USD-SOFR-COMPOUND	4,618	
Total	<u>\$ 319,495</u>					<u>\$ 13,832</u>	<u>\$ 100,000</u>

** Following the discontinuation of LIBOR on June 30, 2023, IHS’ interest rate swaps switched to SOFR as the reference rate in place of 1-month LIBOR. IHS adhered to the ISDA 2020 IBOR Fallbacks Protocol on February 8, 2023. IHS’ receiver rates have been updated to reflect SOFR, but they are equivalent to the receiver rates previously listed using LIBOR. The changes in basis points reflect the adjustment recommended by the Alternative Reference Rates Committee (ARRC) to achieve SOFR equivalency with 1-month LIBOR by adding 11.448 basis points to SOFR.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

12. Leases

IHS leases equipment, office space and certain facilities. Included in the other operating expenses of the accompanying Consolidated Statements of Operations and Changes in Net Assets are lease expenses of approximately \$68.0 million and \$61.9 million in 2023 and 2022, respectively. The following table summarizes the components of IHS' lease expense for the years ended December 31, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Finance lease cost		
Amortization	\$ 658	\$ 575
Interest	791	620
Total finance lease cost	1,449	1,195
Operating lease cost	42,887	41,441
Short-term lease cost	18,836	13,874
Variable lease cost	4,857	5,373
Total lease cost	<u>\$ 68,029</u>	<u>\$ 61,883</u>

IHS recognized \$254.1 million and \$218.2 million in right-of-use assets on the accompanying Consolidated Balance Sheets as of December 31, 2023 and 2022, respectively, all of which were associated operating leases and classified as noncurrent. The following table summarizes the components of operating and finance lease liabilities classified as current and noncurrent on the accompanying Consolidated Balance Sheets as of December 31 (in thousands):

	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
December 31, 2023			
Current	\$ 35,916	\$ 1,974	\$ 37,890
Long-term	252,822	9,142	261,964
Total lease liabilities	<u>\$ 288,738</u>	<u>\$ 11,116</u>	<u>\$ 299,854</u>
December 31, 2022			
Current	\$ 37,223	\$ 1,582	\$ 38,805
Long-term	206,341	6,107	212,448
Total lease liabilities	<u>\$ 243,564</u>	<u>\$ 7,689</u>	<u>\$ 251,253</u>

The following table summarizes cash flows from operating and finance leases for the years ended December 31 (in thousands):

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows paid for operating leases	\$ 40,553	\$ 40,306
Operating cash flows paid for interest portion of finance leases	371	216
Financing cash flows paid for principal portion of finance leases	2,401	1,780
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	97,555	105,080
Finance leases	5,786	2,746

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

12. Leases (continued)

The weighted average discount rates and weighted remaining lease terms as of December 31 (in thousands):

	<u>2023</u>	<u>2022</u>
Weighted average discount rate:		
Operating leases	2.85%	2.29%
Finance leases	4.90%	3.68%
Weighted average lease term:		
Operating leases	8.82	8.02
Finance leases	3.98	4.05

The following table summarizes the maturity of operating and finance lease liabilities as of December 31, 2023 (in thousands):

	<u>Operating Leases</u>	<u>Finance Leases</u>
2024	\$ 41,864	\$ 3,269
2025	42,633	3,049
2026	37,290	2,432
2027	33,820	1,791
2028	30,126	1,287
Thereafter	147,247	623
Total lease payments	<u>332,980</u>	<u>12,451</u>
Less: Imputed interest	(44,242)	(1,335)
Total lease liabilities	<u>\$ 288,738</u>	<u>\$ 11,116</u>

13. Professional and Other Insurance Liabilities

IHS maintains coverage for professional and general liability through claims-made policies issued by InovaCap, LLC (“InovaCap”). InovaCap is a wholly owned captive insurance company domiciled in Vermont. Because InovaCap is a wholly owned subsidiary of IHS, its assets, liabilities, revenues and expenses are fully consolidated in the accompanying financial statements.

InovaCap retains risk of \$2.60 million per claim and \$23 million in annual aggregate for professional liability. Additional risk is reinsured in umbrella forms through Lloyds of London, other European companies, Berkshire Hathaway, The Doctors Company, and Sompo, together providing limits of \$50 million per claim, and \$50 million in the aggregate, in excess of the InovaCap retention. The Consolidated Balance Sheets at December 31, 2023 and 2022, include in other noncurrent obligations \$40.6 million and \$33.1 million, respectively, based on actuarial estimates of payments to be made under its professional liability insurance programs for known claims, as well as for estimated losses on unfiled claims, which relate to events occurring in 2023 and prior years. The liabilities are discounted at 3.61% and 2.44% at December 31, 2023 and 2022, respectively.

Investments and other assets held by InovaCap of \$37.5 million and \$29.1 million at December 31, 2023 and 2022, respectively, are restricted by statute from being transferred to another subsidiary or obligated for any other purpose and accordingly are included as assets whose use is limited on the Consolidated Balance Sheets.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

14. Fairfax County Leases

The land upon which the majority of Inova Fairfax Hospital and the entirety of Inova Mount Vernon Hospital are located and the related buildings are leased to IHS by the Board of Supervisors of Fairfax County, Virginia (“County”), under an agreement that was partially amended in 2010 (the “County Lease”). The 2010 agreement included sale of property whereby a portion of the Inova Fairfax Hospital campus land was taken out of the County Lease and ownership of that land was conveyed to IHS. There is also land owned by IHS, off-site of the hospital campus that was conveyed to Fairfax County. Effective as of December 3, 2010, the 2010 agreement extends the County Lease for the residual land for a term of 99 years and, thus, the County Lease now expires in December 2109. Under the County Lease, the property and equipment leased from the County are recorded as leasehold interests at the cost to construct or acquire. Upon termination of the County Lease, such property, including leasehold improvements and equipment will revert to the County, subject to all related long-term liabilities of IHS incurred to finance the construction and acquisition of such property, buildings and equipment.

The County Lease also requires IHS to set aside funds in an amount at least equal to the depreciation expense on the related leasehold interests. Such funds may be expended by IHS for major repairs or alterations, construction of or additions to buildings, or the purchase or replacement of equipment. IHS’ Board of Trustees has also designated additional funds for the purpose of plant expansion.

The terms of the County Lease outline an indigent care policy to assure all individuals in the County have access to medically necessary care. Patients’ payment obligations under the policy are determined using a sliding income scale that is based on the federal poverty guidelines. During the term of the County Lease, IHS has agreed to notify the County of any intent to incur additional debt in excess of \$1.0 million. IHS has also agreed to notify the County of any intent to enter into contractual agreements for the management or operation of Inova Fairfax Hospital or Inova Mount Vernon Hospital by persons other than IHS, or any intent to change hospital rates. As of December 31, 2023, no such notifications have occurred.

15. Other Commitments and Contingencies

IHS has entered into several contracts for the acquisition of equipment and for the construction of facilities. Future commitments under these contracts at December 31, 2023 and 2022, were approximately \$253.2 million and \$286.7 million, respectively. Certain contracts included within are associated with the Eastern Region Development Plan for the construction of a new acute care hospital to replace the existing Alexandria Hospital, a new ambulatory center and a Healthplex facility. IHS currently anticipates that these projects will be financed with a combination of bond proceeds, funds generated from earnings and donations. These projects include expansion and renovation of Fairfax, Mount Vernon, Loudoun, Alexandria and Fair Oaks hospitals and the Inova Center for Personalized Health campus.

IHS is currently under investigation by the Office of Civil Rights within the Office of the Attorney General of the Commonwealth of Virginia for various claims related to IHS’ administration of its COVID-19 vaccine requirement. IHS is also currently subject to several individual claims or lawsuits related to the administration of its COVID-19 vaccine requirement. IHS intends to defend these claims vigorously, and while these claims continue to be assessed, liabilities are not reasonably estimable at this time; however, the ultimate resolution of these claims and investigation in future periods could have a material impact on the consolidated financial statements.

IHS is subject to various other legal claims and contingencies arising in the ordinary course of its business. While the outcomes of such matters are uncertain, management believes that their ultimate resolution will not have a material adverse effect on IHS’ financial position or on the changes in its net assets or cash flows.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

16. Functional Expenses

IHS' primary program service is serving the health care needs of the community by establishing; maintaining; and operating hospital facilities, programs, and other services. Natural expenses attributable to more than one functional expense category are allocated across IHS on a variety of bases, where appropriate, including employee salaries, square footage, and operating expenses.

Expenses by functional classification for the years ended December 31 consist of the following (in thousands):

	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
2023			
Salaries and benefits	\$ 2,554,876	\$ 499,524	\$ 3,054,400
Other operating expenses	1,854,286	228,582	2,082,868
Depreciation and amortization	248,849	96,081	344,930
Interest	1,720	71,531	73,251
Total Operating Expenses	<u>\$ 4,659,731</u>	<u>\$ 895,718</u>	<u>\$ 5,555,449</u>
2022			
Salaries and benefits	\$ 2,345,491	\$ 433,367	\$ 2,778,858
Other operating expenses	1,656,194	230,468	1,886,662
Depreciation and amortization	227,480	87,432	314,912
Interest	46,944	15,496	62,440
Total Operating Expenses	<u>\$ 4,276,109</u>	<u>\$ 766,763</u>	<u>\$ 5,042,872</u>

17. Net Assets with Donor Imposed Restrictions

Net assets with donor restrictions are restricted for the following purposes (in thousands):

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose		
Healthcare services and programs	\$ 267,454	\$ 212,462
Employee education, recognition and support	10,870	11,931
Research	17,282	21,454
Buildings and equipment	26,742	20,929
Total net assets with donor restrictions	<u>\$ 322,348</u>	<u>\$ 266,776</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2023 and 2022

18. Pledges Receivable

Pledges receivable are included in the other current assets and other long-term assets on the accompanying Consolidated Balance Sheets. Amounts due in less than one year, one to five years, and more than five years were as follows as of December 31 (in thousands):

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 27,406	\$ 13,220
One to five years	65,137	41,800
More than five years	30,792	3,382
Total pledges receivable	123,335	58,402
Present value discount	(15,324)	(6,423)
Allowance for uncollectible pledges	(22,200)	(9,356)
Net pledges receivable	<u>\$ 85,811</u>	<u>\$ 42,623</u>

19. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following at December 31, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 714,595	\$ 658,935
Patient accounts receivable, net	543,220	522,879
Pledge receivables, net	21,459	10,530
Other receivables	31,809	79,433
Investments with three-day liquidity	5,874,221	4,867,021
Total	<u>\$ 7,185,304</u>	<u>\$ 6,138,798</u>

Investments with three-day liquidity includes investments whose use is limited by Board of Directors. The Board of Directors is able to redirect funds for expenditures which is why these investments are available for general expenditure.

Supplementary Information

Inova Health System

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Federal Awards				
Department of Justice, Office of Justice Programs:				
Pass-through Virginia Department of Criminal Justice Services:				
Crime Victim Assistance	16.575	Subaward 22-C4119VP20 & Subaward 24- D4119VP22	\$ 109,515	\$ –
Total Department of Justice, Office of Justice Programs			<u>109,515</u>	<u>–</u>
Department of the Treasury:				
Pass-Through Act for Alexandria:				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFR0122	6,073	–
Total Department of the Treasury			<u>6,073</u>	<u>–</u>
Department of Health and Human Services (“DHHS”):				
COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution				
	93.498		808,634	–
DHHS, U.S. Health Resources and Services Administration (“HRSA”):				
Pass-through University of Pittsburgh:				
AIDS Education and Training Centers	93.145	Subaward CNVA00050178 (136319-4) & Subaward CNVA00050178 (137979-4)	163,492	–

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153		\$ 688,909	\$ –
Pass-through Virginia Health Care Foundation: Children’s Health Insurance Program	93.767		167,129	–
Pass-through District of Columbia Department of Health: HIV Emergency Relief Project Grants	93.914	Subaward 22F066 & Subaward23G066	203,144	–
Pass-through Virginia Department of Health: HIV Care Formula Grants	93.917	INORWB611-GY22, INORPS611-FY23, & INORWB611-GY23	2,544,548	–
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		3,903,023	–
DHHS, Centers for Disease Control and Prevention (CDC):				
Pass-through Virginia Department of Health: Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	Subaward INOSER610-GY22	27,056	–
HIV Prevention Activities Non-Governmental Organization Based	93.939		620,250	231,457
Pass-through Virginia Department of Health: HIV Prevention Activities Health Department Based	93.940	Subaward INOCHTP611GY22	8,652	–
Total (“DHHS”)			9,134,837	231,457

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Research & Development Cluster:				
Department of Defense, U.S. Army Medical R & D Command:				
Military Medical Research and Development	12.420		\$ 205,717	\$ -
Pass-through Vanderbilt University Medical Center, then The Johns Hopkins University:				
Military Medical Research and Development	12.420	Subaward 2004765109	88,967	-
Pass-through Charlotte-Mecklenburg Hospital Authority/Atrium Health then The Johns Hopkins University:				
Military Medical Research and Development	12.420	Subaward 2005197550	17,033	-
Pass-through University of Utah then The Johns Hopkins University:				
Military Medical Research and Development	12.420	Subaward 2005165481	84,615	-
Pass-through University of Pittsburgh:				
Military Medical Research and Development	12.420	Subaward AWD00003140 (417116-2)	206,738	-
Pass-through University of Arkansas Systems:				
Military Medical Research and Development	12.420	Subaward FP 54998 & Subaward FP 55599	66,119	-
Pass-through The University of Melbourne:				
Military Medical Research and Development	12.420	Subaward W81XWH-21-1-0401-INOVA	14,021	-
Pass-through The Ohio State University:				
Military Medical Research and Development	12.420	Subaward SPC-1000005071/GR123803 & Subaward SPC-1000006795/GR128055	23,070	-

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-through Trustees of the University of Pennsylvania: Military Medical Research and Development	12.420	Subaward 583239	\$ 22,245	\$ —
Pass-through University of Maryland: Military Medical Research and Development	12.420	Subaward 2003879/KR19497	64,969	—
Total Federal Assistance Listing # 12.420			<u>793,494</u>	<u>—</u>
Department of Defense, Uniformed Services University of the Health Sciences: Pass-through The Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc.: Uniformed Services University Medical Research Projects	12.750	Subaward 5756, 5891, 5893, 5895, 5894, 6119, 6110, 6177, 6136	3,295,126	—
Total Department of Defense			<u>4,088,620</u>	<u>—</u>
Department of Transportation, National Highway Traffic Safety Administration (“NHTSA”): NHTSA Discretionary Safety Grants and Cooperative Agreements	20.RD	Contract No 693JJ922D000024/693JJ922F00197N	348,454	—
Total Department of Transportation			<u>348,454</u>	<u>—</u>
Department of Health and Human Services (“DHHS”): DHHS, Centers for Disease Control and Prevention (“CDC”): DHHS, Food and Drug Administration (“FDA”): Food and Drug Administration Research	93.103		1,199	—
DHHS, National Institutes of Health: NHLBI/Inova Pulmonary Vascular Program	93.RD	Contract No 75N92022P00024	63,860	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
NHLBI Graft Sample and Data Collection Project Support Services for the Lampoon Protocol IDE	93.RD	Contract No 75N92022P00123	\$ 35,272	\$ —
Enrollment Sites	93.RD	Contract No HHSN268201800037A	5,716	—
Tactile and Ultrasound Imaging Fusion for Functional Assessment of the Female Pelvic Floor	93.RD	Contract No. 2R44HD097805-02A1	157	—
Pass-through The University of Utah: Population Health Research Support	93.RD	Subaward 10050768-01	206,736	—
Total Federal Assistance Listing # 93. RD			312,940	—
Pass-through Georgetown University: Oral Disease and Disorders Research	93.121	Subaward 425744_AWD7775339-Inova	14,209	—
Pass-through The Rector and Visitors of the University of Virginia: National Center for Advancing Translational Sciences	93.350	Subaward AWD-000229.SUB00000343 & GB10667.PO#2150887	395,461	—
Pass-through The University of Chicago: 21st Century Cures Act - Beau Biden Cancer Moonshot	93.353	Subaward AWD102439 (SUB00000590)	99,481	—
Pass-through from Health Research, Inc. – Roswell Park Division: Cancer Centers Support Grants	93.397	Subaward 453-02	85,635	—
Pass-through Georgetown University: Cardiovascular Diseases Research	93.837	Subaward 425350_GR413637-IHS & Subaward 425778_AWD7773585-IHS	127,531	—
Pass-through The Ohio State University: Cardiovascular Diseases Research	93.837	GR119795 / SPC-1000004903	53	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-through Georgia Institute of Technology then The General Hospital Corporation d/b/a Massachusetts General Hospital:				
Cardiovascular Diseases Research	93.837	Subaward 235964	\$ 20,750	\$ –
Pass-through Icahn School of Medicine at Mount Sinai:				
Cardiovascular Diseases Research	93.837	Subaward 0255-A342-4605	1,525	–
Pass-through Yale University:				
Cardiovascular Diseases Research	93.837	Subaward GR104837(CON-80001529)	4,725	–
Pass-through The General Hospital Corporation d/b/a Massachusetts General Hospital:				
Cardiovascular Diseases Research	93.837	1UG3HL164285-01	50,071	–
Cardiovascular Diseases Research	93.837		479,840	–
Pass-through Trustees of Indiana University:				
Cardiovascular Diseases Research	93.837	Subaward 9576	687	–
Total Federal Assistance Listing # 93.837			685,182	–
Pass-through The Board of Trustees of the Leland Stanford Junior University:				
Lung Disease Research	93.838	Subaward 63111519-229486	2,590	–
Pass-Through Regents of the University of Michigan:				
Lung Disease Research	93.838	Subaward SUBK00014467	549	–
Total Federal Assistance Listing # 93.838			3,139	–
Pass-Through University of Kentucky Research Foundation:				
Arthritis, Musculoskeletal, and Skin Diseases Research	93.846	Subaward 3200005165-23-143	50,621	–

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-through Mayo Clinic Jacksonville: Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Subaward INO-224063-07, Subaward INO- 305533-01, & Subaward INO-290195	\$ 74,887	\$ —
Pass-through University of Cincinnati on behalf of its NIH StrokeNet, National Coordinating Center ("NCC"): Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Subaward 011337-141352, Subaward 012043- 141352, & Subaward 013888-141352	119,395	—
Pass-through The John Hopkins University: Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1R01NS120557-01A1	528	—
Total Federal Assistance Listing # 93.853			<u>194,810</u>	<u>—</u>
Pass-through Lieber Institute, Inc: Child Health and Human Development Extramural Research	93.865	Subaward A1074, Subaward A1070	9,722	—
Pass-through The Rector and Visitors of the University of Virginia: Aging Research	93.866	Subaward GB10981.169590	27,176	—
Pass-through Wake Forest University Health Sciences: Aging Research	93.866	Subaward 1479-32041-11000001166	141,864	—
Aging Research	93.866	Subaward 1575-32041-11000001260	21,808	—
Total Federal Assistance Listing # 93.866			<u>190,848</u>	<u>—</u>
Total DHHS, Research and Development			<u>2,042,048</u>	
Total Research and Development Cluster			<u>6,479,122</u>	<u>—</u>
Total Expenditures of Federal Awards			<u>\$ 15,729,547</u>	<u>\$ 231,457</u>

Inova Health System

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes all federal grant activity of the Inova Health System (“IHS” or “System”) including federal awards passed through other agencies. The accompanying Schedule is presented using the accrual basis of accounting and in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). In accordance with applicable requirements, certain programs may be presented in a fiscal period based on program-specific guidance (see Note 3). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, IHS’s consolidated financial statements.

The preparation of the Schedule 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 in the Schedule during the reporting period. Actual results could differ from those estimates.

2. Indirect Cost Rate

Direct and indirect costs are charged to awards in accordance with cost principles contained in the United States Department of Health and Human Services *Cost Principles for Hospitals* at 45 CFR Part 75 Appendix IX for Uniform Guidance awards. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. The Uniform Guidance provides for a 10% de minimis indirect cost rate election, however, IHS did not make this election and uses a negotiated indirect cost rate in the accompanying Schedule.

Inova Health System

Notes to the Schedule of Expenditures of Federal Awards (continued)

3. COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution

In accordance with the U.S. Department of Health and Human Services’ requirements specific to Federal Assistance Listing Number 93.498, COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution, the amount presented on the accompanying Schedule for the year ended December 31, 2023 for Federal Assistance Listing No. 93.498 relates to (i) Provider Relief Fund (“PRF”) payments received from January 1, 2022 through December 31, 2022 and (ii) used for PRF-eligible activity from the period January 1, 2020 through December 31, 2023. This payment receipt period and activity period and the resulting amount presented on the accompanying Schedule for the year ended December 31, 2023, reconciles to the PRF information reported to the Health Resources and Services Administration (“HRSA”) for PRF Reporting Periods 5 and 6 as follows:

Name of Reporting Entity for HRSA Reporting Period 5 PRF Report	PRF Reporting Submission Period	Type of Distribution	Total Other PRF Payments Applied to Unreimbursed Expenses Attributable to Coronavirus	Total PRF Payments Applied to Lost Revenues	Amount Included on the Accompanying Federal Schedule for the Year Ended December 31, 2023
Loudon Nursing and Rehabilitation Center	Period 5	General	\$ 335,160	-	\$ 335,160
McLean Ambulatory Surgery Center	Period 5	General	473,474	-	473,474
			<u>\$ 808,634</u>	<u>\$ -</u>	<u>808,634</u>

IHS did not receive PRF payments during Reporting Period 6.

Health and Human Services (“HHS”) has indicated the PRF Funds should be reported according to reporting requirements of the HRSA PRF Reporting Portal (the “Portal”). Payments from HHS for PRF are assigned to ‘Payment Received Periods’ (each, a Period) based upon the date each payment from the PRF was received. Each Period has a specified Period of Availability and timing of reporting requirements. Entities report into the Portal after each Period’s deadline to use the funds (i.e., after the end of the Period of Availability).

The Schedule includes \$808,634 of PRF Funds received from HHS between January 1, 2022 through December 31, 2022. The PRF-eligible expenses attributable to Coronavirus Disease 2019 (“COVID-19”) and lost revenues incurred by IHS during the period of availability for PRF Reporting Period 5 (January 1, 2020 through June 30, 2023) and PRF Reporting Period 6 (January 1, 2020 through December 31, 2023) are in excess of the general and targeted distributions received from January 1, 2022 through December 31, 2022 and, therefore, the amounts presented in the table above and on the accompanying Schedule are limited to the amount of such distributions.

Inova Health System

Notes to the Schedule of Expenditures of Federal Awards (continued)

4. Noncash Federal Assistance

IHS did not receive any noncash Federal assistance including donated personal protective equipment for the year ended December 31, 2023.

Uniform Guidance Reports and Schedule



Ernst & Young LLP
Suite 310
1201 Wills Street
Baltimore, MD 21231

Tel: +1 410 539 7940
Fax: +1 410 783 3832
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Trustees
Inova Health System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of Inova Health System (“IHS” or “the System”), which comprise the consolidated balance sheets as of December 31, 2023, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes (collectively, referred to as the “financial statements”), and have issued our report thereon dated March 22, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

March 22, 2024



Ernst & Young LLP
Suite 310
1201 Wills Street
Baltimore, MD 21231

Tel: +1 410 539 7940
Fax: +1 410 783 3832
ey.com

Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Management and Board of Trustees
Inova Health System

Report of Independent Auditors on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Inova Health System’s (“IHS” or “the System”) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the System’s major federal programs for the year ended December 31, 2023. The System’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System 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 on compliance for each major federal program. Our audit does not provide a legal determination of the System’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the System's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs regarding the following:

Finding Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement
2023-001	93.917	HIV Care Formula Grants	E. Eligibility
2023-002	93.917	HIV Care Formula Grants	C. Cash Management J. Program Income
	93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	L. Reporting
2023-003	93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	I. Procurement and Suspension and Debarment

Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the System’s response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The System’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The System is responsible for preparing a corrective action plan to address each audit finding included in our auditor’s report. The System’s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be material weaknesses as follows:

Finding Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement
2023-001	93.917	HIV Care Formula Grants	E. Eligibility
2023-002	93.917	HIV Care Formula Grants	C. Cash Management
	93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	J. Program Income L. Reporting
2023-003	93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	I. Procurement and Suspension and Debarment

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the System’s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The System’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ernst + Young LLP

October 29, 2024

Inova Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditor issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiency(ies) identified?	_____	Yes	_____ <u>X</u> _____	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____	No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	_____ <u>X</u> _____	Yes	_____ _____	No
Significant deficiency(ies) identified?	_____	Yes	_____ <u>X</u> _____	None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ X _____ Yes _____ No

Identification of Major Federal Programs

Assistance Listing Numbers	Name of Federal Program or Cluster
93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
93.917	HIV Care Formula Grants
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ Yes _____ X _____ No

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

There are no matters that are required to be reported.

Section III – Federal Award Findings and Questioned Costs

Finding Reference: 2023-001 – Eligibility

Federal Program Information

Federal Agencies: Department of Health and Human Services (“HHS”)

Pass-Through Entity: Virginia Department of Health

Pass-Through Entity Number: INORWB611-GY22; INORPS611-FY23; INORWB611-GY23

Awards: Assistance Listing Number 93.917 – HIV Emergency Relief Project Grants (Part B)

Award Periods: April 1, 2022 to March 31, 2023; July 1, 2022 to March 31, 2023; April 1, 2023 to March 31, 2024

Description: Timely Completion of the 24-month Eligibility Screening

Type of Finding: Material Weakness in Internal Control Over Compliance

Criteria

In accordance with Title 2 U.S. *Code of Federal Regulations*, Part 200.303, *Internal controls*, “Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Per the terms and conditions of the pass-through entity agreement between the Virginia Department of Health (the Department) and the Inova Juniper Program (IJP), IJP is required to “conduct and complete a full RWHAP B eligibility screening for all clients for any allowable Ryan White services prior to enrollment in the RWHAP B program and every 24-months thereafter by following the procedure from the department” (INORWB611-GY22 – Scope of Services – Section

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

E, INORPS611-FY23 – Scope of Services – Section A, INORWB611-GY23 – Scope of Services – Section G1). The procedure from the department of the award requires the recipient to resubmit documents for residency, household income and proof of insurance before the 24-month eligibility period ends.

Condition

The System did not have appropriately designed internal controls in place to ensure that the documentation is obtained and reviewed to verify eligibility prior to the end of the 24-month period.

Cause

IJP has policies and procedures in place to obtain the eligibility documents from all clients and retain in their files. IJP's policies and procedures specify that an eligibility worker will meet with each client for an initial screening to verify residency, income, insurance status, and HIV status. The eligibility worker is required to meet with the client to update the required eligibility screening and include the required documentation in the client file by the 24-month period end. Additionally, at each subsequent visit, the receptionist questions each client as to whether there have been any changes in their income or insurance status. If there are changes to the client's eligibility status, another visit is scheduled with the eligibility worker. If there are delays with responses from the clients, the required documentation may not be obtained by the 24-month period end.

Effect or potential effect

Eligibility workers did not obtain and/or retain the required documentation related to the 24-month eligibility screening for certain clients before the required date. Based on the terms and conditions of the pass-through agreement with the Department, the clients whose eligibility was not completed by the deadline would not be considered eligible and should be discharged from the program.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Questioned costs

None.

Identification of a repeat finding

This is a repeat finding and relates to prior year finding 2022-002.

Context

During our audit, we selected a sample of 60 clients for testing and noted the following exceptions:

- The 24-month eligibility screening was submitted to the Department after the eligibility expiration date for one client.

For the exception identified, services were not provided prior to obtaining the full eligibility screening and therefore, there were no unallowable costs identified required for reimbursement from the Department. IJP has not completed a full review of all clients that could be impacted by the exception above.

Recommendation

Management should implement procedures to ensure completion of the eligibility screening prior to the end of the 24-month eligibility period.

View of responsible officials

Management concurs with the finding and will implement procedures to ensure that timely documentation is received with regard to eligibility.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Reference: 2023-002 – Cash Management, Program Income, and Reporting

Federal Program Information

Federal Agencies: Department of Health and Human Services (“HHS”)

Pass-Through Entity: Virginia Department of Health

Pass-Through Entity Number: INORWB611-GY22; INORPS611-FY23; INORWB611-GY23

Awards: Assistance Listing Number 93.917 – HIV Emergency Relief Project Grants (Part B)

Assistance Listing Number 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)

Award Periods: April 1, 2022 to March 31, 2023; July 1, 2022 to March 31, 2023; April 1, 2023 to March 31, 2024

May 1, 2022 to April 30, 2023; May 1, 2023 to April 30, 2024

Description: Timely Application of Program Income Prior to Requesting Additional Cash Payments

Type of Finding: Material Weakness in Internal Control Over Compliance

Criteria

In accordance with Title 2 U.S. *Code of Federal Regulations*, Part 200.303, *Internal controls*, “Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Per the terms and conditions of the pass-through entity agreement between the Virginia Department of Health (the Department) and the Inova Juniper Program (IJP), IJP is required to follow Health Resources and Services Administration (HRSA) guidelines related to the program. HRSA develops multiple policies to help grant recipients and subrecipients understand and carry out legislation applicable to Ryan White programs.

Per the Policy Clarification Notice included on the official HRSA website for Ryan White, “Under the uniform administrative requirements, to the extent available, recipients and subrecipients must disburse funds available from program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.” As such, program income must be used for the purpose and subject to the conditions of the Federal award.

The requirements within the pass-through entity agreement with the Virginia Department of Health are consistent with those required by the original Federal awarding agency, the Department of Health and Human Services (HHS), HRSA. Per the frequently asked questions (FAQs) presented by HRSA’s HIV/AIDS Bureau (HAB) for Policy Clarification Notice (PCN) 15-03, *Clarification Regarding the Ryan White HIV/AIDS Program and Program Income*, and PCN 15-04, *Utilization and Reporting of Pharmaceutical Rebates*, released on March 21, 2016, program income is gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance (or grant period). Program Income, inclusive of program income derived from the 340B Drug Pricing Program, includes the core medical and support services that HRSA considers allowable uses of Ryan White grant funds and the individuals eligible to receive those services. Unallowable uses include PrEP/nPEP materials, which are designed to promote or encourage, directly, intravenous drug use or sexual activity.

Condition

The System did not have appropriately designed internal controls in place to ensure that program income was not applied to offset expenditures prior to requesting additional cash reimbursements each month and/or quarter during the grant period.

The cash management submissions and financial reporting for Assistance Listing – 93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C), including the quarterly Federal Financial Reports and annual SF-425 Federal Financial Reports, included the incorrect 340B program income during the period, which included unallowable uses of PrEP/nPEP materials.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Cause

IJP has policies and procedures in place to ensure program income was not applied to offset expenditures in its entirety prior to the end of the grant period. However, during the grant period, program income is not timely applied prior to cash reimbursement requests.

IJP accumulates 340B program income on a monthly basis inclusive of the pharmacy income and related costs. Through management review of the costs associated within the 340B program, it was identified that PrEP/nPEP materials were inappropriately being included within program income.

Effect or potential effect

IJP did not have policies in place to ensure that program income was applied timely prior to requesting additional cash payments. As such, cash payments were being requested and reimbursed prior to application of program income.

Program income was not appropriately being calculated by including unallowable uses.

Questioned costs

None.

Identification of a repeat finding

This is not a repeat finding.

Context

During our audit, we selected a sample of 4 months for testing, which identified that program income was not timely being applied to the cash reimbursement requests. Management does ensure that program income is applied prior to the end of the grant period.

As of December 31, 2023, for Assistance Listing Number 93.917 – HIV Emergency Relief Project Grants (Part B), the cumulative program income not applied prior to cash reimbursement was \$109,593. This was not identified as questioned costs given this was subsequently applied by the end of the grant period.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

As of December 31, 2023, Assistance Listing Number 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C), for the cumulative program income not applied prior to cash reimbursement was \$84,064. This was not identified as questioned costs given the program income was subsequently applied by the end of the grant period. As of December 31, 2023, the unallowable PrEP/nPEP materials caused an overstatement of 340B program income by \$484,569. This amount was appropriately adjusted within the Schedule. As such, there were no identified question costs.

Recommendation

IJP's existing policies and procedures are not designed to ensure the program income balance is spent timely. HRSA recommends that recipients and subrecipients strive to proactively secure and estimate the extent to which program income will be accrued. IJP should accrue for the anticipated program income to ensure it is disbursed timely.

IJP should reconcile 304B expenditures to the 340B program income to ensure there are no additional expenditures reported over the amount for 340B program income allowable.

View of responsible officials

Management concurs with the finding and will implement procedures to ensure that the appropriate and timely application of program income.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding Reference: 2023-003 – Procurement and Suspension and Debarment

Federal Program Information

Federal Agencies: Department of Health and Human Services (“HHS”)

Pass-Through Entity: Virginia Department of Health

Pass-Through Entity Number: Not Applicable

Awards: Assistance Listing Number 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)

Award Periods: May 1, 2022 to April 30, 2023; May 1, 2023 to April 30, 2024

Description: Documentation of Procurement and Suspension and Debarment

Type of Finding: Material Weakness in Internal Control Over Compliance

Criteria

In accordance with Title 2 U.S. *Code of Federal Regulations*, Part 200.303, *Internal controls*, “The Non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

Part 200.320 Methods of procurement to be followed states the following: “The non-Federal entity must have and use documented procurement procedures, consistent with the standards of this section and §§ 200.317, 200.318, and 200.319” regarding the methods of procurement used for the acquisition of property or services required under a Federal award or sub-award.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Condition

As part of our testing over the operating effectiveness of internal controls over the Procurement, Suspension and Debarment assertion, we noted that the System had a procurement policy that included procedures for small purchases (i.e. purchases between \$50,000-\$250,000) in which management obtains one or more sources from suppliers or public websites in order to document justification for vendor approval. However, records were not maintained to document the rationale for the procurement method, contract type selection, contractor selection or rejection, and the basis for the contract price.

Management also validates that vendors are reviewed on a monthly basis to ensure they are not included on the suspension and debarment list. There was no documentation to support completeness and accuracy of the vendor list for suspension and debarment.

Cause

The System did not retain documentation to support compliance with the procurement policy that conforms to the provisions required by the Uniform Guidance.

The System did not retain documentation to support the completeness and accuracy of the vendor list for suspension and debarment.

Effect or potential effect

Purchasing of goods and/or servicing with the grant funds may not be in compliance with the Uniform Guidance.

The vendor list for suspension and debarment may not be complete and accurate and therefore, federal funds may be used to pay a contractor that is suspended or debarred.

Questioned costs

None.

Identification of a repeat finding

This is not a repeat finding.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Context

Small purchases were \$106,345, which represents approximately 3% of total federal expenditures of \$3,589,730 reported on the Schedule for the year ended December 31, 2023. Management subsequently documented the rationale for the procurement method, contract type selection, contractor selection or rejection, and the basis for the contract price.

As part of our testing for suspension and debarment, we did not identify any vendors that were excluded from the suspension and debarment list that were part of the grant.

Recommendation

The System should update its process to ensure documentation is retained consistent with the procurement policy and suspension and debarment for purchasing goods and/or services with federal funds.

View of responsible officials

Management concurs with the finding and will implement procedures to documentation is retained to support procurement and suspension and debarment.



**Inova Health System
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2023**

Finding Reference: 2022-001

Management did not have appropriately designed internal controls in place over the COVID 19 Provider Relief Fund (PRF) grant awards related to the review and approval of the reportable amounts on PRF payments and expenditures included in the HRSA portal submission.

Status of Resolution/Prior Corrective Action Plan: Not corrected

Management continues to enhance the design of the internal controls related to the documentation of the review of the expenditures for the HRSA portal submission to ensure that the reported amounts are accurate. Management will continue to implement procedures to ensure that HRSA reporting reports are prepared by individuals with HRSA reporting experience.

Management engaged the support of outside consultants with appropriate expertise to advise on best practices to properly monitor and ensure compliance with the funding received. Management will continue to utilize outside advisors as needed and review its internal controls to ensure approvals are more formally documented, maintained, and saved within the grant accounting's electronic files. This action plan is anticipating remediation and completion as of December 31, 2024, as there were no expenditures reported during 2023.

Finding Reference: 2022-002

Inova Juniper Program's (IJP) existing policies and procedures are in line with the requirements of the pass-through agreement with the Department; however, IJP should continue to evaluate whether appropriate oversight is performed to ensure that these policies and procedures are being followed with regard to eligibility verification for all clients.

Status of Resolution/Prior Corrective Action Plan: Partially Implemented

In response to 2022-002 management enhanced its processes and procedures ensuring appropriate documentation and oversight by qualified personnel. During 2023, managers continued the established practice of reviewing 110-120 patient charts monthly, with a 10% reaudit of those charts performed by a Business Analyst. Starting November 2022, the Senior Practice Manager implemented a peer review process of any eligibility packet submitted to VDH followed by a second independent review of each packet. Starting February 2023, VDH added a weekly quality assurance meeting to review all previously submitted packets. In addition to modified standards incorporated into the Virginia Department of Health ("VDH") contract reducing documentation burden, in January 2023, Inova effectively began using VDH's Provide Enterprise system that helped manage eligibility requirements. A robust system training was required for all team members focusing on appropriate document retention and utilizing the income



required for all team members focusing on appropriate document retention and utilizing the income calculator. In part with IJP's new policy implemented in February 2023, leadership reviewed all job descriptions for the eligibility team and determined realignments were needed to ensure eligibility responsible staff were properly qualified and given the level of detail orientation required for the position.

Finding Reference: 2022-003

The System's policy and procedures should be designed to ensure accurate reporting as required by the Uniform Guidance. Management will design and ensure written policies and procedures will be created outlining processes and control activities to ensure reporting to federal awarding agencies and pass-through entities are complete and accurate.

Status of Resolution/Prior Corrective Action Plan: Implemented

In response to 2022-003 Grants Accounting continuously collaborates with the Grants Management Office ("GMO") ensuring awards are properly reported and related expenditures are complete and accurate. This process begins with initial setup into the system of record. Award contracts are obtained and reviewed by a representative from each department to ensure terms and classification (i.e. federal or non-federal) are validated. Monthly, relevant team members from each department meet and review variance reports for their respective awards. On a quarterly basis, GMO's Compliance Committee Chair hosts a meeting with leadership present from both departments. An agenda is sent in advance and generally includes varying topics including, but not limited to, a review of expiring awards. Annually, Grants Accounting compiles a complete list of awards and performs several procedures to ensure complete and accurate reporting on the Schedule of Expenditures of Federal Awards. Those procedures include obtaining review and input from GMO, comparison to federal databases that track awards, and inquiries made of organizational leadership. As it relates to inquiries of organizational leadership, the Senior Director of Financial Reporting attends the monthly Finance Senior Leadership meeting hosted by the Chief Financial Officer ("CFO"). This meeting affords access to the CFO's direct reports and other financial leaders throughout the organization providing for added transparency related to potential awards received outside of the normal course of grant business.

Finding Reference: 2022-004

The System omitted the obligated expenditures related to the Assistance Listing Number 97.036 – COVID-19 – Disaster Grants - Public Assistance (Presidentially Declared Disasters) ("FEMA") in the Schedule. Management will design and ensure written policies and procedures will be created outlining processes and control activities to ensure the completeness of the Schedule, as well as implement training staff to ensure the appropriate understanding of the awards.

Status of Resolution/Prior Corrective Action Plan: Partially Implemented

In response to 2022-004 Grants Accounting continuously collaborates with the Grants Management Office ("GMO") ensuring awards are properly reported and related expenditures are complete and accurate. The System has trained all applicable staff on the appropriate interpretation of FEMA Public Assistance Grant



Program guidance for reporting Assistance Listing 97.036 expenditures in the SEFA. Grant Accounting has also implemented a new process of using a checklist to compile the Schedule ensuring the completeness and accuracy of the Schedule. This action plan will be remediated and completed by December 31, 2024.



**Inova Health System
Corrective Action Plan
Year Ended December 31, 2023**

Audit period: January 1, 2023 to December 31, 2023

Federal Award Finding and Questioned Costs

Finding Reference: 2023-001 – Eligibility

Federal Program Information:

Federal Agencies: Department of Health and Human Services (“HHS”)

Pass-Through Entity: Virginia Department of Health

Pass-Through Entity Number: INORWB611-GY22; INORPS611-FY23; INORWB611-GY23

Awards: Assistance Listing Number 93.917 – HIV Emergency Relief Project Grants (Part B)

Award Periods: April 1, 2022 to March 31, 2023; July 1, 2022 to March 31, 2023; April 1, 2023 to March 31, 2024

Description: Timely Completion of the 24-month Eligibility Screening

Type of Finding: Material Weakness in Internal Control Over Compliance

Recommendation: Management should formally discharge any clients that are unable to complete the eligibility screening prior to the end of the 24-month eligibility period.

View of responsible officials: Management concurs with the finding and will implement procedures to ensure that timely documentation is received with regard to eligibility.

Name(s) of the Contact Person(s) Responsible for Corrective Action:

Mara Carter, Senior Director Community Health, 703-321-2687.

Corrective Action Planned: Inova will continue to adhere to the 24-month eligibility set forth by VDH, and not provide any services to RWHAP clients who have not completed their reassessment within the required 24-month period.

Inova will update its reminder system to contact clients who are nearing the end of their eligibility period to make sure that they do not have a break in service, VDH suggests 30-45 days prior to their 24-month



eligibility date.

Inova will institute its own monthly tracking outside of Provide to more effectively track clients and their 24-month eligibility.

RWHAP clients who fail to provide reassessment documentation will be terminated from the program.

Planned Completion Date for Corrective Action Planned:

Ongoing with completion date of December 31, 2024.



Finding Reference: 2023-002 – Cash Management and Program Income

Federal Program Information

Federal Agencies: Department of Health and Human Services (“HHS”)

Pass-Through Entity: Virginia Department of Health

Pass-Through Entity Number: INORWB611-GY22; INORPS611-FY23; INORWB611-GY23

Awards: Assistance Listing Number 93.917 – HIV Emergency Relief Project Grants (Part B)

Assistance Listing Number 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)

Award Periods: April 1, 2022 to March 31, 2023; July 1, 2022 to March 31, 2023; m April 1, 2023 to March 31, 2024

May 1, 2022 to April 30, 2023; May 1, 2023 to April 30, 2024

Description: Timely Application of Program Income Prior to Requesting Additional Cash Payments

Type of Finding: Material Weakness in Internal Control Over Compliance

Recommendation: Inova Juniper Program’s existing policies and procedures are not designed to ensure the program income balance is spent timely. HRSA recommends that recipients and subrecipients strive to proactively secure and estimate the extent to which program income will be accrued. IJP should accrue for the anticipated program income to ensure it is disbursed timely.

View of responsible officials: Management concurs with the finding and will implement procedures to ensure that the appropriate and timely application of program income.

Name(s) of the Contact Person(s) Responsible for Corrective Action:

Mara Carter, Senior Director Community Health, 703-321-2687.

Corrective Action Planned

Cash Management, Program Income: Inova Juniper and Inova Grants & Awards Accounting will work collaboratively to disburse funds available from program income prior to requesting additional cash payments from RWHAP funds.

Throughout the fiscal year, the team will make projections for program income for each RWHAP grant, to create a monthly spending target. The Grants Accounting team will schedule monthly



meetings prior to month close/report submission to reconcile and reassign costs to program income to ensure that it is disbursed timely.

ALN 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C) 340B Program Income: Inova Juniper will update the 340B prescription process and retrain physicians on process to ensure patient eligibility for each prescribed medication. The new process will include the following: placing grant designation on each prescription, 100% confirmation of 340B eligibility by an IJP Leader on each prescription, 100% audit of monthly pharmacy invoice by practice managers, 100% audit of monthly pharmacy invoice by Visante (external 340B auditors). These new processes will ensure that all patients who are receiving medications under the RW 340B program are eligible for both initial prescriptions and refills. Inova Juniper will also explore EPIC capabilities with regards to recording grant delineations on clients.

Planned Completion Date for Corrective Action Planned:

Ongoing with completion date of December 31, 2024.



Finding Reference: 2023-003 – Procurement and Suspension and Debarment

Federal Program Information

Federal Agencies: Department of Health and Human Services (“HHS”)

Pass-Through Entity: Virginia Department of Health

Pass-Through Entity Number: Not Applicable

Awards: Assistance Listing Number 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)

Award Periods: May 1, 2022 to April 30, 2023; May 1, 2023 to April 30, 2024

Description: Documentation of Procurement and Suspension and Debarment

Type of Finding: Material Weakness in Internal Control Over Compliance

Recommendation: The System should update its process to ensure documentation is retained consistent with the procurement policy and suspension and debarment for purchasing goods and/or services with federal funds.

View of responsible officials: Management concurs with the finding and will implement procedures to documentation is retained to support procurement and suspension and debarment.

Name(s) of the Contact Person(s) Responsible for Corrective Action:

Mara Carter, Senior Director Community Health, 703-321-2687.

Corrective Action Planned: Management will design and ensure written policies and procedures will be created outlining processes and control activities around procurement and suspension and debarment for purchasing goods and/or services with federal funds.

Inova Juniper will ensure that documentation associated with small purchases will be maintained to include the appropriate number of quotes, contract documents and invoices.

Planned Completion Date for Corrective Action Planned:

Ongoing with completion date of December 31, 2024.