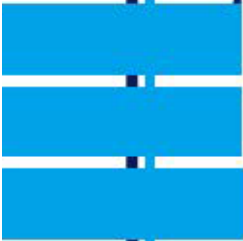




INOVA HEALTH SYSTEM



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

**Fiscal Year Ended
December 31, 2024**

Inova Health System

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

Year Ended December 31, 2024

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

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

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Report of Independent Auditors

Management and 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, 2024 and 2023, and the related consolidated statements of operations, 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, 2024 and 2023, and the results of its operations 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.



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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 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' 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' ability to continue as a going concern for a reasonable period of time.



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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 28, 2025. The accompanying Schedule of Expenditures of Federal Awards, 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 audits 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 28, 2025 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 28, 2025, except for our report on the
Schedule of Expenditures of Federal Awards
for which the date is November 14, 2025

Inova Health System
Consolidated Balance Sheets
December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 557,679 | \$ 714,595 |
| Assets whose use is limited, current | 183,275 | 196,810 |
| Patient accounts receivable, net | 630,727 | 543,220 |
| Other current assets | 351,752 | 331,472 |
| Total Current Assets | 1,723,433 | 1,786,097 |
| Property, Equipment and Leasehold Interests, net (Note 5) | 3,218,980 | 2,950,599 |
| Assets Whose Use Is Limited (Notes 2, 6, 7, 13) | | |
| Held by bond trustee | 355,202 | 39,396 |
| By board for plant replacement and expansion | 8,105,376 | 7,390,972 |
| By board for construction projects | 617,205 | 182,027 |
| By donor | 267,797 | 235,668 |
| For professional liability | 41,038 | 37,525 |
| | 9,386,618 | 7,885,588 |
| Less amounts required to meet current obligations | (183,275) | (196,810) |
| Total Assets Whose Use Is Limited, non-current | 9,203,343 | 7,688,778 |
| Other Assets | | |
| Investments in and receivables from affiliates (Note 8) | 13,644 | 13,871 |
| Goodwill and other intangible assets, net (Note 9) | 57,028 | 67,322 |
| Long-term right-of-use asset (Note 12) | 282,274 | 254,104 |
| Long-term investments | 39,794 | 43,941 |
| Interest rate swap (Note 11) | 21,529 | 19,668 |
| Other long-term assets | 113,691 | 122,869 |
| Total Other Assets | 527,960 | 521,775 |
| TOTAL ASSETS | \$ 14,673,716 | \$ 12,947,249 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and other accrued expenses | \$ 739,558 | \$ 629,993 |
| Third-party settlements | 73,341 | 68,604 |
| Notes payable and other liabilities | 13,688 | 15,109 |
| Current portion of long-term debt (Note 10) | 212,524 | 320,214 |
| Current lease liability (Note 12) | 40,877 | 37,890 |
| Total Current Liabilities | 1,079,988 | 1,071,810 |
| Non-current Liabilities | | |
| Long-term debt, less current portion (Note 10) | 2,133,125 | 1,824,233 |
| Long-term lease liability (Note 12) | 287,375 | 261,964 |
| Interest rate swap (Note 11) | 216 | 838 |
| Other non-current obligations | 84,777 | 74,936 |
| Total Non-current Liabilities | 2,505,493 | 2,161,971 |
| Net Assets | | |
| Without donor restrictions | 10,688,887 | 9,336,092 |
| With donor restrictions | 353,790 | 322,348 |
| Total Net Assets Attributable to IHS | 11,042,677 | 9,658,440 |
| Non-controlling interest | 45,558 | 55,028 |
| Total Net Assets | 11,088,235 | 9,713,468 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 14,673,716 | \$ 12,947,249 |

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Operations
For the Years Ended December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|--|---------------------|---------------------|
| Operating Revenues | | |
| Net patient service revenue | \$ 6,114,028 | \$ 5,387,479 |
| Other operating revenue | 415,374 | 353,024 |
| Total Operating Revenues | 6,529,402 | 5,740,503 |
| Operating Expenses | | |
| Salaries and benefits | 3,363,634 | 3,054,400 |
| Other operating expenses | 2,349,539 | 2,082,868 |
| Depreciation and amortization | 378,244 | 344,930 |
| Interest | 71,214 | 73,251 |
| Total Operating Expenses | 6,162,631 | 5,555,449 |
| Operating Income | 366,771 | 185,054 |
| Investment income and other, net | 1,003,940 | 971,457 |
| Excess of Revenues Over Expenses | 1,370,711 | 1,156,511 |
| Less: Non-controlling interest | (23,811) | (23,870) |
| Excess of Revenues Over Expenses, Attributable to IHS | \$ 1,346,900 | \$ 1,132,641 |

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2024 and 2023
(in thousands)

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Non-controlling Interest</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|-------------------------------------|----------------------|
| Balance at December 31, 2022 | \$ 8,204,113 | \$ 266,776 | \$ 60,200 | \$ 8,531,089 |
| Excess of revenues over expenses (from page 5) | 1,132,641 | – | 23,870 | 1,156,511 |
| Unrealized gains 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 | 9,336,092 | 322,348 | 55,028 | 9,713,468 |
| Excess of revenues over expenses (from page 5) | 1,346,900 | – | 23,811 | 1,370,711 |
| Unrealized gains on investments, net | 2,467 | 5,284 | – | 7,751 |
| Gifts and bequests | – | 50,106 | – | 50,106 |
| Restricted investment income | – | 4,632 | – | 4,632 |
| Net assets released from restriction for the purchase of property and equipment | 2,609 | (2,609) | – | – |
| Net assets released from restriction | – | (23,499) | – | (23,499) |
| Changes in non-controlling equity interest | – | – | (33,281) | (33,281) |
| Other | 819 | (2,472) | – | (1,653) |
| Change in net assets | <u>1,352,795</u> | <u>31,442</u> | <u>(9,470)</u> | <u>1,374,767</u> |
| Balance at December 31, 2024 | <u>\$ 10,688,887</u> | <u>\$ 353,790</u> | <u>\$ 45,558</u> | <u>\$ 11,088,235</u> |

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023
(in thousands)

| | 2024 | 2023 |
|---|--------------------|-------------------|
| Operating Activities | | |
| Change in net assets | \$ 1,374,767 | \$ 1,182,379 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 378,244 | 344,930 |
| Loss (gain) on extinguishment of debt | 28 | (11,819) |
| Net realized and unrealized gains on investments | (727,889) | (804,219) |
| Change in fair value of interest rate swaps | (2,483) | (4,997) |
| Equity investment (gains) losses, net | (5,294) | 6,852 |
| Gain on sale of business ventures and other non-operating | (148,589) | (32,301) |
| Increase in accounts receivable and third-party settlements, net | (50,593) | (32,976) |
| (Increase) decrease in other current assets | (39,539) | 11,150 |
| Increase in accounts payable and other current liabilities | 82,031 | 29,236 |
| Increase in other non-current obligations | 12,072 | 6,170 |
| Restricted contributions and investment income | (54,738) | (89,174) |
| Other | (8,957) | 2,548 |
| Net Cash Provided by Operating Activities | 809,060 | 607,779 |
| Investing Activities | | |
| Capital expenditures | (595,819) | (490,188) |
| Proceeds from sale of business ventures and other non-operating | 152,339 | 113,855 |
| Investments in and advances to joint ventures and affiliates | (9,695) | (5,980) |
| Purchases of investments | (3,560,982) | (1,721,849) |
| Proceeds from sale of investments | 2,805,376 | 1,577,408 |
| Other | (409) | - |
| Net Cash Used in Investing Activities | (1,209,190) | (526,754) |
| Financing Activities | | |
| Principal payments on long-term debt | (191,822) | (112,040) |
| Proceeds from issuance of long-term debt | 405,597 | 233,795 |
| Refunding of long-term debt | - | (54,865) |
| Repayment of commercial paper obligation | - | (100,000) |
| Restricted contributions and investment income | 54,556 | 45,985 |
| Other | (2,817) | 5,139 |
| Net Cash Provided by Financing Activities | 265,514 | 18,014 |
| Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash | (134,616) | 99,039 |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Year | 878,233 | 779,194 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR | 743,617 | 878,233 |
| Less: Restricted cash included in assets whose use is limited (Note 2) | 185,938 | 163,638 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 557,679 | \$ 714,595 |
| Supplemental Disclosure of Cash Flow Information | | |
| Capital expenditures included in accounts payable | \$ 52,177 | \$ 29,041 |

See notes to the consolidated financial statements

Inova Health System
Notes to Consolidated Financial Statements
December 31, 2024 and 2023

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, 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 clinical, non-hospital facilities and programs whose services include 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 Provider and Advanced Practice Provider Services.

IHI is a wholly owned subsidiary of the Foundation and is the parent holding company for various taxable entities within IHS. 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. Cash and cash equivalents may exceed amounts insured by federal agencies and therefore, bear a risk of loss. IHS has not experienced such losses on these funds.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

2. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable: Patient accounts receivable include charges for amounts due from all patients less explicit price concessions relating to allowances for the excess of established charges over the payments expected to be received on behalf of patients covered by Medicare, Medicaid and other insurers. Implicit price concessions are estimated based upon 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, construction projects, funds restricted by donors for charitable purposes, funds restricted to cover self-insurance liabilities, and trustee-held assets restricted to fund long-lived assets.

Restricted cash and cash equivalents on the accompanying Consolidated Statements of Cash Flows is comprised of funds restricted by donor, restricted for professional and health liabilities, and held by bond trustee in the accompanying Consolidated Balance Sheets.

Investments in equity securities with readily determinable fair values and investments in debt securities, excluding those held by bond trustee, are designated as trading securities. Investment income or losses from trading securities (including realized gains and losses, unrealized gains and losses, interest, and dividends), inclusive of investment return on alternative investments discussed further below, are included in excess of revenues over expenses unless such earnings are subject to donor-imposed restrictions or laws. Investment income or losses restricted by donor stipulations are reported as an increase or decrease in net assets with donor restrictions. Investments in short duration debt securities held by bond trustee are designated as other than trading ("OTT") securities. Unrealized gains and losses from OTT securities are reported as an increase or decrease in net assets without donor restrictions. Realized gains and losses are determined using the average cost method. Interest and dividend income is reported net of investment-related expenses. Investments designated as OTT are periodically reviewed for impairment conditions, including the magnitude and duration of the decline that indicate the occurrence of an other-than-temporary decline. If such conditions exist, the investment's cost is then written down to its current market value. IHS did not identify the occurrence of other-than-temporary declines in fair value for the years ended December 31, 2024 and 2023.

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.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

2. Summary of Significant Accounting Policies (continued)

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 60 years for buildings, fixed equipment, and leasehold improvements; and 5 to 15 years for major movable equipment. Software and other IT equipment are included in major movable equipment with useful lives of 3 to 5 years. Equipment under finance leases obligations is amortized using the straight-line method over the shorter period of the lease term 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.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

2. Summary of Significant Accounting Policies (continued)

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 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 of Revenues over Expenses: The accompanying Consolidated Statements of Operations and Changes in Net Assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets that are excluded from the excess 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), realized and unrealized gains and losses on OTT securities, 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 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 interest rate swaps not designated or qualifying as hedges, changes in fair value are recorded in investment 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 and other, net.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

2. Summary of Significant Accounting Policies (continued)

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 to develop or obtain internal use software, notes receivable, and net investments in sales-type leases.

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. 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 reviews its tax position annually and has concluded that as of December 31, 2024 and 2023, there are no material uncertain positions taken or expected to be taken that require recognition in the consolidated financial statements. 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 2020.

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 retail pharmacy 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 28, 2025, 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 health care delivery providers in IHS' service areas; (iii) changes in statutory, legal or regulatory requirements, or structural, operational or payment changes resulting from health care reform measures and other changes to the operation of the federal or state governments; (iv) changes in revenue mix, or delays in receiving payments from third-party payors, including any payments from governmental payors that may result if there were delays in appropriations and 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 entities or the debt issued on their behalf; (vi) future legislation, regulation or other actions by federal, state and local governments and their agencies, which may impose additional or different requirements for non-profit health care providers, 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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

2. Summary of Significant Accounting Policies (continued)

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; (xii) public health crises including outbreaks of infectious diseases or contagious viruses, natural disasters, extreme weather events, and other impacts of climate change; and (xiii) 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.

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, 2024 and 2023

3. Net Patient Service Revenue (continued)

| | 2024 | | 2023 | |
|------------------------------------|---------------------|---------------|---------------------|---------------|
| Medicare | \$ 847,862 | 13.0% | \$ 841,667 | 14.7% |
| Medicaid | 832,998 | 12.8% | 642,189 | 11.2% |
| Commercial and other | 4,433,168 | 67.8% | 3,903,623 | 68.0% |
| Net Patient Service Revenue | 6,114,028 | 93.6% | 5,387,479 | 93.9% |
| Other operating revenue | 415,374 | 6.4% | 353,024 | 6.1% |
| Total Operating Revenue | \$ 6,529,402 | 100.0% | \$ 5,740,503 | 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 2024 or 2023.

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, 2024 and 2023, estimated implicit price concessions of \$146.8 million and \$114.9 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.

4. Financial Assistance and Other Community Benefits

IHS provides medically necessary treatment to all patients regardless of their ability to pay. IHS offers financial assistance to all qualifying patients. A patient may qualify for financial assistance based on criteria defined in IHS' financial assistance policy such as patient income levels, credit histories, demographic information, and other factors. Since IHS does not pursue collection of amounts that qualify as financial assistance, these amounts are deducted from gross revenue and are not reported as net patient service revenue. These amounts are included as financial assistance in the table below and represent the unreimbursed cost of rendering such services typically based on the cost to charge

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

4. Financial Assistance and Other Community Benefits (continued)

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 financial assistance, IHS provides benefits to the broader community. These community benefits 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 services to qualifying members of the community.

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

| | <u>2024</u> | <u>2023</u> |
|--|--------------------------|--------------------------|
| Financial assistance | \$ 150,933 | \$ 103,139 |
| Unreimbursed cost of state programs to financially disadvantaged persons | 200,354 | 206,990 |
| Community health programs | 51,690 | 43,207 |
| Medical education and research | 31,312 | 32,058 |
| Total community benefits, at cost | <u>\$ 434,289</u> | <u>\$ 385,394</u> |

5. Property, Equipment and Leasehold Interests

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

| | <u>2024</u> | <u>2023</u> |
|---|----------------------------|----------------------------|
| Land and land improvements | \$ 427,710 | \$ 414,116 |
| Buildings, fixed equipment and leasehold improvements | 3,864,982 | 3,694,236 |
| Capitalized software | 269,929 | 271,352 |
| Major movable equipment | 1,835,422 | 1,872,832 |
| | <u>6,398,043</u> | <u>6,252,536</u> |
| Less: Accumulated depreciation and amortization | (3,668,854) | (3,673,493) |
| | <u>2,729,189</u> | <u>2,579,043</u> |
| Construction-in-progress | 489,791 | 371,556 |
| Total | <u>\$ 3,218,980</u> | <u>\$ 2,950,599</u> |

Amortization expense on capitalized software was \$8.9 million and \$17.9 million for the years ended December 31, 2024 and 2023, respectively. Unamortized capitalized software balances totaled \$18.2 million and \$17.8 million as of December 31, 2024 and 2023, respectively.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

6. Assets Whose Use Is Limited

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

| | <u>2024</u> | <u>2023</u> |
|---------------------------|----------------------------|----------------------------|
| Cash and cash equivalents | \$ 804,001 | \$ 490,890 |
| Equity securities | 608,948 | 577,157 |
| Debt securities | 2,402,632 | 1,714,819 |
| Alternative investments | | |
| Global equity | 4,142,826 | 3,666,587 |
| Private Investments | 1,428,211 | 1,436,135 |
| Total | <u>\$ 9,386,618</u> | <u>\$ 7,885,588</u> |

Income from alternative investments is recorded in investment 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 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. 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, the redemption frequency ranges from daily to weekly with redemption notice periods from 1 to 4 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. 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 \$300.4 million and \$319.9 million as of December 31, 2024 and 2023, respectively.

Investments in short duration high-quality debt securities designated as OTT totaled \$215.8 million and \$14.5 million as of December 31, 2024 and 2023, 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.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

7. Fair Value Measurements (continued)

- 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, 2024 and 2023, respectively. Certain assets such as open purchases and sales do not have fair values classified within a level in the valuation hierarchy (in thousands).

| | December 31, | | |
|---------------------------------------|----------------------------|----------------------------|----------------------------|
| | 2024 | Level 1 | Level 2 |
| Assets: | | | |
| Cash and cash equivalents | \$ 804,001 | \$ 725,277 | \$ 78,724 |
| U.S. government and agency securities | 886,628 | – | 886,628 |
| Corporate and other bonds | | | |
| – Asset-backed securities | 208,822 | – | 208,822 |
| – Corporate and other bonds | 255,134 | – | 255,134 |
| – Other government securities | 44,499 | – | 44,499 |
| Equity securities | | | |
| – Domestic | 166,362 | 166,362 | – |
| – International | 260,267 | 260,267 | – |
| Mutual fund / ETF | | | |
| – Equity | 182,319 | 182,319 | – |
| – Fixed income and other | 1,007,549 | 1,007,549 | – |
| | <u>3,815,581</u> | <u>2,341,774</u> | <u>1,473,807</u> |
| Interest rate swap asset | 21,529 | – | 21,529 |
| Total assets | <u>\$ 3,837,110</u> | <u>\$ 2,341,774</u> | <u>\$ 1,495,336</u> |
| Liabilities: | | | |
| Interest rate swap liability | \$ (216) | \$ – | \$ (216) |
| Total liabilities | <u>\$ (216)</u> | <u>\$ –</u> | <u>\$ (216)</u> |

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

7. Fair Value Measurements (continued)

| | December 31, 2023 | Level 1 | Level 2 |
|---------------------------------------|------------------------------------|----------------------------|--------------------------|
| 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> |
| Interest rate swap asset | 19,668 | – | 19,668 |
| Total assets | <u>\$ 2,802,534</u> | <u>\$ 1,913,715</u> | <u>\$ 888,819</u> |
| Liabilities: | | | |
| Interest rate swap liability | \$ (838) | \$ – | \$ (838) |
| Total liabilities | <u>\$ (838)</u> | <u>\$ –</u> | <u>\$ (838)</u> |

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.

IHS did not have any securities classified within Level 3 of the valuation hierarchy as of December 31, 2024 and 2023.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

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 was an early investor in Genetics & IVF Institute (GIVF), an outpatient in vitro fertilization center founded in 1984 in Fairfax, Virginia. IHS accounted for its investment in GIVF using the equity method of accounting. During the year ended December 31, 2024, IHS sold its 41.2% ownership interest for total proceeds of \$166.6 million including \$15.0 million held in escrow for a period of up to three years subject to certain terms and conditions. IHS recognized a \$153.7 million gain offset by a \$16.5 million estimated tax liability on the sale in investment income and other, net.

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, which was accounted for using the equity method of accounting. During the year December 31, 2023, IHS exited its investment in IHealth and recognized a gain of \$3.9 million in investment income and other, net.

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 Income (Losses) | |
|---------------------------|----------------|-----------|-------------------------------|------------|
| | 2024 | 2023 | 2024 | 2023 |
| Investments in affiliates | \$ 13,644 | \$ 13,871 | \$ 5,294 | \$ (6,852) |

9. Goodwill and Other Intangible Assets

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

| | 2024 | 2023 |
|---------------------------------------|------------------|------------------|
| Intangible assets | \$ 14,906 | \$ 14,906 |
| Accumulated amortization | (7,755) | (7,529) |
| Total intangibles, net | 7,151 | 7,377 |
| Goodwill | 105,341 | 105,341 |
| Accumulated amortization | (55,464) | (45,396) |
| Total goodwill, net | 49,877 | 59,945 |
| Total goodwill and intangibles | \$ 57,028 | \$ 67,322 |

Amortization expense of goodwill and intangible assets was \$10.3 million and \$10.5 million, for the years ended December 31, 2024 and 2023, respectively.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

10. Long-Term Debt

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

| | <u>2024</u> | <u>2023</u> |
|--|----------------------------|----------------------------|
| Long-term Debt of the IHS Obligated Group | | |
| 2005A Health Care Revenue Bonds; maturing 5/15/35; monthly interest at a variable rate and maximum of 12.0% | \$ — | \$ 54,865 |
| 2010A-2 Health Care Revenue Bonds; maturing 5/15/39; monthly interest at a variable rate and maximum of 12.0% | — | 95,000 |
| 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% | 82,965 | 88,720 |
| 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% | 96,325 | 96,810 |
| 2018A Health Care Revenue Bonds; maturing 5/15/48; semi-annual interest at a fixed rate of 3.0% to 5.0% | 183,600 | 192,665 |
| 2018B-2 Health Care Revenue Bonds; maturing 5/15/57; semi-annual interest at a fixed rate of 5.0% | 67,280 | 67,280 |
| 2018C Health Care Revenue Bonds; maturing 5/15/33; monthly interest at a variable rate and maximum of 12.0% | 86,950 | 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% | 357,460 | 367,850 |
| 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 | 132,805 |
| 2024 Health Care Revenue Bonds; maturing 5/15/54; semi-annual interest at a fixed rate of 4.125% to 5.0% | 368,245 | — |
| Total Long-term Debt of the IHS Obligated Group | <u>2,246,925</u> | <u>2,067,290</u> |
| Less: Current Portion of Long-term Debt | (209,405) | (317,020) |
| Net Original Issue Premium | 99,499 | 78,460 |
| Net Deferred Financing Costs | (13,081) | (11,230) |
| Net Long-term Debt of the IHS Obligated Group | <u>\$ 2,123,938</u> | <u>\$ 1,817,500</u> |
| | | |
| Total Long-term Debt of Non-Obligated IHS Affiliates | \$ 12,306 | \$ 9,927 |
| Less: Current Portion of Long-term Debt | (3,119) | (3,194) |
| Net Long-term Debt of Non-Obligated IHS Affiliates | <u>\$ 9,187</u> | <u>\$ 6,733</u> |

The majority of the long-term debt of the non-obligated IHS affiliates represents construction loans with outstanding principal balances between \$1.1 and \$2.6 million as of December 31, 2024. Maturity dates range between August 2026 and October 2030. The loans bear interest at fixed rates between 3.65% and 6.65%.

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.

In August 2024, IHS borrowed the proceeds of Series 2024 Tax-Exempt Bonds in the aggregate principal amount of \$368.2 million to fund planned capital projects. The 2024 Bonds are comprised of fixed rate serial and term bonds with repayment of the \$204.8 million serial bond principal due in May 2032 and repayment of the term bond principal starting in May 2049. The \$204.8 million serial bonds and \$98.4 million of the term bond maturing in May 2051 bear

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

10. Long-Term Debt (continued)

interest at a fixed rate of 5% while the remaining \$65.0 million term bonds maturing in May 2054 bear interest at 4.125%. Interest is payable semi-annually on May 15 and November 15 commencing November 15, 2024. The premium received was \$31.8 million.

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.

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, 2024 and 2023.

The interest rate on the variable rate bonds ranged between 1.95% and 4.68% in 2024 and 1.68% and 4.55% in 2023. 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, 2024 and 2023, 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, 2024, are as follows (in thousands):

| | <u>2025</u> | <u>2026</u> | <u>2027</u> | <u>2028</u> | <u>2029</u> | <u>Thereafter</u> | <u>Total</u> |
|--|-------------------|------------------|------------------|------------------|------------------|---------------------|---------------------|
| Scheduled maturities | \$ 29,249 | \$ 67,157 | \$ 36,810 | \$ 38,054 | \$ 39,109 | \$ 1,865,578 | \$ 2,075,957 |
| Bonds under remarketing agreement and subject to mandatory tender | 183,275 | - | - | - | - | - | 183,275 |
| Total | <u>\$ 212,524</u> | <u>\$ 67,157</u> | <u>\$ 36,810</u> | <u>\$ 38,054</u> | <u>\$ 39,109</u> | <u>\$ 1,865,578</u> | <u>\$ 2,259,232</u> |

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 could be 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. As of December 31, 2024 and 2023, there was no commercial paper outstanding.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

10. Long-Term Debt (continued)

Total interest paid was \$88.2 million and \$86.2 million for the years ended December 31, 2024 and 2023, 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 remaining line of credit is scheduled to expire on July 30, 2025, at which time management intends to renew. As of December 31, 2024 and 2023, IHS had not drawn on its line 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, 2024 | | | | | | | |
| Merrill Lynch Capital Services, Inc. | \$ 50,000 | 5/15/2034 | Fixed Payer | 1.20% | 67% of SOFR** | \$ 4,513 | \$ 30,000 |
| Bank of America, N.A. | 80,000 | 7/1/2031 | Variable Payer | USD-SIFMA Municipal Swap Index plus 0.375% | 5.00% | 247 | |
| Citibank, N.A. | 100,000 | 1/15/2034 | Variable Payer | 67% of SOFR** Rate plus 0.08% | 67% of 10yr SOFR** Rate minus 0.212% | (216) | 45,000 |
| JPMorgan Chase Bank, N.A. | 69,495 | 5/15/2034 | Fixed Payer | 1.45% | 67% of SOFR** Rate plus 0.08% | 7,424 | 25,000 |
| | 100,000 | 5/1/2042 | Variable Payer | USD-SIFMA Municipal Swap Index | 104% of USD-SOFR-COMPOUND | 9,345 | |
| Total | <u>\$ 399,495</u> | | | | | <u>\$ 21,313</u> | <u>\$ 100,000</u> |
| 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> |

** 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.

On July 1, 2024, IHS entered into a total return swap contract on a portion of its Series 2014A Bonds outstanding with a notional amount of \$80 million. Semi-annually on the May 15 and November 15 payment dates, IHS receives a fixed rate of 5% and pays a variable rate equal to the sum of the USD-SIFMA Municipal Swap Index plus a spread based on S&P and Moody's credit ratings. The term of the swap contract is seven years.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

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 \$65.9 million and \$68.0 million in 2024 and 2023, respectively. The following table summarizes the components of IHS' lease expense for the years ended December 31, 2024 and 2023 (in thousands):

| | <u>2024</u> | <u>2023</u> |
|--------------------------|------------------|------------------|
| Finance lease cost | | |
| Amortization | \$ 782 | \$ 658 |
| Interest | 1,206 | 791 |
| Total finance lease cost | <u>1,988</u> | <u>1,449</u> |
| Operating lease cost | 44,692 | 42,887 |
| Short-term lease cost | 9,243 | 18,836 |
| Variable lease cost | <u>10,013</u> | <u>4,857</u> |
| Total lease cost | <u>\$ 65,936</u> | <u>\$ 68,029</u> |

IHS recognized \$282.3 million and \$254.1 million in right-of-use assets on the accompanying Consolidated Balance Sheets as of December 31, 2024 and 2023, respectively, all of which were associated with 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, 2024 | | | |
| Current | \$ 38,515 | \$ 2,362 | \$ 40,877 |
| Long-term | 278,447 | 8,928 | 287,375 |
| Total lease liabilities | <u>\$ 316,962</u> | <u>\$ 11,290</u> | <u>\$ 328,252</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> |

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

| | <u>2024</u> | <u>2023</u> |
|--|-------------|-------------|
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows paid for operating leases | \$ 41,863 | \$ 40,553 |
| Operating cash flows paid for interest portion of finance leases | 587 | 371 |
| Financing cash flows paid for principal portion of finance leases | 3,133 | 2,401 |
| Right-of-use assets obtained in exchange for lease obligations | | |
| Operating leases | 86,672 | 97,555 |
| Finance leases | 4,321 | 5,786 |

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

12. Leases (continued)

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

| | <u>2024</u> | <u>2023</u> |
|---------------------------------|-------------|-------------|
| Weighted average discount rate: | | |
| Operating leases | 3.56% | 2.85% |
| Finance leases | 5.11% | 4.90% |
| Weighted average lease term: | | |
| Operating leases | 8.57 | 8.82 |
| Finance leases | 4.12 | 3.98 |

The following table summarizes the maturity of operating and finance lease liabilities as of December 31, 2024 (in thousands):

| | <u>Operating Leases</u> | <u>Finance Leases</u> |
|-------------------------|-----------------------------|---------------------------|
| 2025 | \$ 46,962 | \$ 3,956 |
| 2026 | 46,319 | 3,281 |
| 2027 | 43,967 | 2,621 |
| 2028 | 40,080 | 1,627 |
| 2029 | 34,735 | 952 |
| Thereafter | <u>156,600</u> | <u>58</u> |
| Total lease payments | 368,663 | 12,495 |
| Less: Imputed interest | <u>(51,701)</u> | <u>(1,205)</u> |
| Total lease liabilities | <u>\$ 316,962</u> | <u>\$ 11,290</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, revenue, and expenses are fully consolidated in the accompanying financial statements.

InovaCap retains risk of \$2.65 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, Medical Protective Insurance Company and Sompo, together providing limits of \$50 million per claim, and \$50 million in the aggregate, in excess of the InovaCap retention. The accompanying Consolidated Balance Sheets at December 31, 2024 and 2023 include in other non-current obligations \$47.1 million and \$40.6 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 2024 and prior years. The liabilities are discounted at 3.75% and 3.61% at December 31, 2024 and 2023, respectively.

Investments and other assets held by InovaCap of \$41.0 million and \$37.5 million at December 31, 2024 and 2023, 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 in the accompanying Consolidated Balance Sheets.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

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 a financial assistance 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, 2024, 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, 2024 and 2023, were approximately \$1.7 billion and \$253.2 million, respectively. Certain contracts included within are associated with the Eastern Region Development Plan for the construction of two new acute care hospitals 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, cash flows from operations, capital reserves, 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 IHS’ 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, 2024 and 2023

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):

| | Health Care Services | General and Administrative | Total |
|---------------------------------|---------------------------------|---------------------------------------|---------------------|
| 2024 | | | |
| Salaries and benefits | \$ 2,821,435 | \$ 542,199 | \$ 3,363,634 |
| Other operating expenses | 2,092,595 | 256,944 | 2,349,539 |
| Depreciation and amortization | 274,155 | 104,089 | 378,244 |
| Interest | 2,282 | 68,932 | 71,214 |
| Total Operating Expenses | \$ 5,190,467 | \$ 972,164 | \$ 6,162,631 |
| 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 | \$ 4,659,731 | \$ 895,718 | \$ 5,555,449 |

17. Net Assets with Donor Imposed Restrictions

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

| | 2024 | 2023 |
|---|-------------------|-------------------|
| Subject to expenditure for specified purpose | | |
| Healthcare services and programs | \$ 312,924 | \$ 267,454 |
| Employee education, recognition and support | 12,972 | 10,870 |
| Research | 14,894 | 17,282 |
| Buildings and equipment | 13,000 | 26,742 |
| Total net assets with donor restrictions | \$ 353,790 | \$ 322,348 |

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2024 and 2023

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>2024</u> | <u>2023</u> |
|-------------------------------------|------------------|------------------|
| Less than one year | \$ 41,994 | \$ 27,406 |
| One to five years | 50,279 | 65,137 |
| More than five years | 23,630 | 30,792 |
| Total pledges receivable | 115,903 | 123,335 |
| Present value discount | (14,374) | (15,324) |
| Allowance for uncollectible pledges | (15,536) | (22,200) |
| Net pledges receivable | \$ 85,993 | \$ 85,811 |

19. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following at December 31, 2024 and 2023 (in thousands):

| | <u>2024</u> | <u>2023</u> |
|--------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 557,679 | \$ 714,595 |
| Patient accounts receivable, net | 630,727 | 543,220 |
| Pledge receivables, net | 34,378 | 21,459 |
| Other receivables | 41,702 | 31,809 |
| Investments with three-day liquidity | 7,055,894 | 5,874,221 |
| Total | \$ 8,320,380 | \$ 7,185,304 |

Investments with three-day liquidity are included in assets whose use is limited for plant replacement, expansion, and construction projects. These funds may be redirected for general expenditure at the discretion of the Board of Trustees.

Supplementary Information, Including Uniform
Guidance Reports and Schedule

Inova Health System

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2024

| 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 Hospital & Healthcare Association Foundation: | | | | |
| Congressionally Recommended Awards | 16.753 | | \$ 149,052 | \$ — |
| Pass-through Virginia Department of Criminal Justice Services: | | | | |
| Crime Victim Assistance | 16.575 | Subaward 24-D4119VP22 | 56,183 | — |
| Total Department of Justice, Office of Justice Programs | | | 205,235 | — |
| Department of the Treasury: | | | | |
| Pass-through Virginia Hospital & Healthcare Association Foundation: | | | | |
| COVID-19 – Coronavirus State and Local Fiscal Recovery Funds | 21.027 | | 1,291 | — |
| Total Department of the Treasury | | | 1,291 | — |
| DHHS, U.S. Health Resources and Services Administration (“HRSA”): | | | | |
| Pass-through University of Pittsburgh: | | | | |
| HIV-Related Training and Technical Assistance | 93.145 | Subaward CNVA00050178 (139298-4) & Subaward AWD00009525 (139851-4) | 256,098 | — |

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 | | \$ 771,133 | \$ — |
| Pass-through Virginia Health Care Foundation: Children’s Health Insurance Program | 93.767 | | 224,095 | — |
| Pass-through District of Columbia Department of Health: HIV Emergency Relief Project Grants | 93.914 | Subaward HAHSTA2022-000015 | 241,844 | — |
| Pass-through Virginia Department of Health: HIV Care Formula Grants | 93.917 | Subaward INORWB611 | 3,642,945 | — |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | | 3,458,801 | — |
| DHHS, Centers for Disease Control and Prevention (CDC): | | | | |
| HIV Prevention Activities Non-Governmental Organization Based | 93.939 | | 848,323 | 312,147 |
| Total Department of Health and Human Services (“DHHS”) | | | 9,443,239 | 312,147 |
| U.S. Department of Homeland Security: | | | | |
| Pass-through Virginia Department of Emergency Management: COVID-19 – Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | | 25,102,636 | — |

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 Pass-through Vanderbilt University Medical Center, then The Johns Hopkins University: | 12.420 | | \$ 50,150 | \$ – |
| Military Medical Research and Development Pass-through Charlotte-Mecklenburg Hospital Authority/Atrium Health then The Johns Hopkins University: | 12.420 | Subaward 2004765109 | 15,100 | – |
| Military Medical Research and Development Pass-through University of Utah then The John Hopkins University: | 12.420 | Subaward 2005197550 | 1,338 | – |
| Military Medical Research and Development Pass-through University of Pittsburgh: | 12.420 | Subaward 2005165481 | 34,024 | – |
| Military Medical Research and Development Pass-through University of Arkansas Systems: | 12.420 | Subaward AWD00003140 (417116-2) | 135,413 | – |
| Military Medical Research and Development Pass-through The University of Melbourne: | 12.420 | Subaward FP 55599 | 6,976 | – |
| Military Medical Research and Development Pass-through The Ohio State University: | 12.420 | Subaward W81XWH-21-1-0401-INOVA | 56,598 | – |
| Military Medical Research and Development Pass-through Trustees of the University of Pennsylvania: | 12.420 | Subaward SPC-1000006795/GR128055 | 29,833 | – |
| Military Medical Research and Development Pass-through University of Maryland: | 12.420 | Subaward 583239 | \$4,629 | – |
| Military Medical Research and Development | 12.420 | Subaward 2003879/KR19497 & Subaward 21613 | 19,150 | – |
| Total Federal Assistance Listing 12.420 | | | 353,211 | – |

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 |
|--|------------------------------------|--|-------------------------|------------------------------|
| 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 6119, Subaward 6110, Subaward 6161, Subaward 6177, Subaward 6136, Subaward 6245, Subaward 6376, Subaward 6473, & Subaward 6395 | \$ 3,723,809 | \$ — |
| Total Department of Defense | | | <u>4,077,020</u> | <u>—</u> |
| Department of Transportation, National Highway Traffic Safety Administration (“NHTSA”): National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements | 20.614 | | 440,840 | 110,416 |
| Total Department of Transportation | | | <u>440,840</u> | <u>110,416</u> |
| Department of Health and Human Services (“DHHS”): Pass-through George Mason University: Advancing System Improvements for Key Issues in Women's Health | 93.088 | E2065481 | 10,539 | |
| DHHS, Food and Drug Administration (“FDA”): Food and Drug Administration Research | 93.103 | | 104,814 | — |
| DHHS, National Institutes of Health: NHLBI/Inova Pulmonary Vascular Program | 93.RD | | 47,301 | — |

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 | 93.RD | | \$ 52,800 | \$ — |
| Observational Prospective Study-The Diversification of the Pregnant Vaginal Microbiome | 93.RD | | 20,000 | |
| Pass-through Advanced Tactile Imaging, Inc.: Tactile and Ultrasound Imaging Fusion for Functional Assessment of the Female Pelvic Floor | 93.RD | | 11,124 | — |
| Pass-through The University of Utah: Population Health Research Support | 93.RD | Subaward 10050768-01 & Subaward 10050768-04 | 49,458 | — |
| Total Federal Assistance Listing # 93. RD | | | 180,683 | — |
| Pass-through Georgetown University: Oral Disease and Disorders Research | 93.121 | Subaward 414796_GR414776_INova | 31,659 | — |
| Pass-through from Health Research, Inc. – Roswell Park Division: Cancer Centers Support Grants | 93.397 | Subaward 453-03 | 61,982 | — |
| Pass-through Virginia Commonwealth University Cancer Control | 93.399 | Subaward FP00019732_SA002 | 239,674 | |
| Pass-through Georgetown University: Cardiovascular Diseases Research | 93.837 | Subaward 426985_GR425966-IHS & Subaward 425778_AWD7773585-IHS | 22,599 | — |

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 The General Hospital Corporation d/b/a Massachusetts General Hospital: | | | | |
| Cardiovascular Diseases Research | 93.837 | Subaward 235964 & Subaward 243119 | \$ 595,027 | \$ – |
| Cardiovascular Diseases Research | 93.837 | | 850,752 | – |
| Pass-through Trustees of Indiana University: | | | | |
| Cardiovascular Diseases Research | 93.837 | Subaward 9576 | 16,624 | – |
| Total Federal Assistance Listing 93.837 | | | 1,485,002 | – |
| Pass-through The Board of Trustees of the Leland Stanford Junior University: | | | | |
| Lung Diseases Research | 93.838 | Subaward 63111519-229486 | 21,129 | – |
| Pass-through Duke University: | | | | |
| Lung Disease Research | 93.838 | Subaward SPS-284617, WBSE-303002370 | 7,050 | – |
| Total Federal Assistance Listing 93.838 | | | 28,179 | – |
| Pass-through The Regents of the University of California, at Riverside: | | | | |
| Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | Subaward S1824 | 9,604 | – |
| 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 | 23,977 | – |

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 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 | \$ 37,044 | \$ — |
| Pass-through The John Hopkins University: Extramural Research Programs in the Neurosciences and Neurological Disorders | 93.853 | | 1,594 | — |
| Total Federal Assistance Listing 93.853 | | | <u>72,219</u> | <u>—</u> |
| Child Health and Human Development Extramural Research | 93.865 | | 557,934 | 128,684 |
| Pass-through Lieber Institute, Inc: Child Health and Human Development Extramural Research | 93.865 | Subaward A1241 & Subaward A1242 | 68,472 | — |
| Total Federal Assistance Listing 93.865 | | | <u>626,406</u> | <u>128,684</u> |
| Pass-through The Rector and Visitors of the University of Virginia: Aging Research | 93.866 | Subaward GB10981.169590 | 8,114 | — |
| Pass-through Wake Forest University Health Sciences: Aging Research | 93.866 | Subaward 1479-32041-11000001166 & Subaward 1575-32041-11000001260 | 127,908 | — |
| Pass-through Vanderbilt University Medical Center Aging Research | 93.866 | Subaward VUMC114020 | 2,250 | — |
| Total Federal Assistance Listing 93.866 | | | <u>138,272</u> | <u>—</u> |

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 |
|--|---|--|---------------------------------|--------------------------------------|
| Total DHHS, Research and Development | | | \$ 2,979,429 | \$ 128,684 |
| Total Research and Development Cluster | | | 7,497,289 | 239,100 |
| Total Expenditures of Federal Awards | | | <u>\$ 42,249,690</u> | <u>\$ 551,247</u> |

Inova Health System

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2024

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 4). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, IHS’ consolidated financial statements.

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.

3. Noncash Federal Assistance

IHS did not receive any noncash Federal assistance including donated personal protective equipment for the year ended December 31, 2024.

4. COVID-19 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

IHS incurred certain expenditures related to the COVID-19 pandemic through 2023. Expenditures related to Assistance Listing 97.036, COVID-19 – Disaster Grants – Public Assistance (Presidentially Declared Disasters) from the Federal Emergency Management Agency (“FEMA”) totaled \$25,102,636. The amount reported on the Schedule is the amount obligated in 2024. In response to the COVID-19 pandemic, IHS purchased specialized medical equipment in order to treat COVID-19 patients and were claimed as reimbursement under the FEMA Public Assistance Grant Program. The COVID-19 Public Health Emergency officially ended May 11, 2023 in which, IHS determined the fair market value of the purchased equipment and its residual value post the COVID-19 pandemic. As a result, IHS determined a reduction of \$1,398,542 to the amount obligated, which is reflected in the Schedule. FEMA projects are subject to final close-out review upon which amounts are paid during the project are finalized. There may be further adjustments to existing or future applications to account for other reductions as the Virginia Department of Emergency Management completes authorization and appropriations of the funds.



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

Tel: +1 410 539 7940
Fax: +1 410 783 3832
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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”), which comprise the consolidated balance sheets as of December 31, 2024, 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 28, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered IHS’ 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 IHS’ internal control. Accordingly, we do not express an opinion on the effectiveness of IHS’ 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.



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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether IHS' 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 28, 2025



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

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

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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”) 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 IHS’ major federal programs for the year ended December 31, 2024. IHS’ 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, IHS 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, 2024.

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 IHS 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



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compliance for each major federal program. Our audit does not provide a legal determination of IHS' 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 IHS' 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 IHS' 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 IHS' 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 IHS' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of IHS' 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



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not for the purpose of expressing an opinion on the effectiveness of IHS’ 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 |
|-----------------------|----------------------------------|--|---|
| 2024-001 | 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 | C. Cash Management J. Program Income L. Reporting |
| 2024-002 | 93.917 | HIV Care Formula Grants | E. Eligibility |

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

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

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



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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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. *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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be significant deficiencies as follows:

| Finding Number | Assistance Listing Number | Program (or Cluster) Name | Compliance Requirement |
|-----------------------|----------------------------------|--|---|
| 2024-001 | 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 | C. Cash Management J. Program Income L. Reporting |
| 2024-002 | 93.917 | HIV Care Formula Grants | E. Eligibility |

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.



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Government Auditing Standards requires the auditor to perform limited procedures on IHS' response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. IHS' 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

November 14, 2025

Inova Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2024

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 | _____ <input checked="" type="checkbox"/> | No |
| Significant deficiency(ies) identified? | _____ | Yes | _____ <input checked="" type="checkbox"/> | None reported |
| Noncompliance material to financial statements noted? | _____ | Yes | _____ <input checked="" type="checkbox"/> | No |

Federal Awards

Internal control over major federal programs:

| | | | | |
|---|---|-----|---|---------------|
| Material weakness(es) identified? | _____ | Yes | _____ <input checked="" type="checkbox"/> | No |
| Significant deficiency(ies) identified? | _____ <input checked="" type="checkbox"/> | Yes | _____ | 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)? _____ Yes _____ No

Identification of Major Federal Programs

| Assistance Listing Numbers | Name of Federal Program or Cluster |
|----------------------------|--|
| 93.917 | HIV Care Formula Grants |
| 93.918 | Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease |
| 97.036 | COVID-19 – Disaster Grants - Public Assistance (Presidentially Declared Disasters) |
| Various | Research and Development Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,267,491

Auditee qualified as low-risk auditee? _____ Yes _____ 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: 2024-001 – 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;

Not Applicable

Pass-Through Entity Number: INORWB611-GY23; INORWB611-GY24;

Not Applicable

Awards: Assistance Listing 93.917 – HIV Emergency Relief Project Grants;
Assistance Listing 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Award Periods: April 1, 2023 to March 31, 2024; April 1, 2024 to March 31, 2025;
May 1, 2023 to April 30, 2024; May 1, 2024 to April 30, 2025

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

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

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 notice of award (Assistance Listing 93.918) and the pass-through entity agreement between the Virginia Department of Health (the Department) (Assistance Listing 93.917) 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 as included in the notice of award. 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*, 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 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.

Condition

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

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 applied to offset expenditures in its entirety prior to the end of the calendar and grant period. However, during the grant period, program income was not timely applied prior to cash reimbursement requests.

Effect or potential effect

Cash payments were being requested and reimbursed prior to application of program income.

Questioned costs

\$109,290 of known questioned costs for Assistance Listing 93.917

\$44,677 of known questioned costs for Assistance Listing 93.918

The costs questioned represent the amount of program income that should have been applied prior to requesting cash reimbursement.

Identification of a repeat finding

This is a repeat finding and relates to prior year finding 2023-002.

Context

Cash reimbursement requests under Assistance Listing 93.917 are submitted monthly. During our audit for Assistance Listing 93.917, we selected a sample of 4 months for testing and identified exceptions within 2 months where program income was not being applied timely to the cash reimbursement requests. The total amount of program income that should have been applied prior to requesting cash reimbursement was \$32,843 for the 2 months selected. As a result, we obtained management's summary of program income for the fiscal year and identified that a total of 7 months or a total of \$109,290 did not apply program income prior to requesting cash reimbursements.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

Cash reimbursement requests under Assistance Listing 93.918 are submitted quarterly. During our audit for Assistance Listing 93.918, we selected a sample of 2 quarters for testing and identified that program income was not being applied timely to the first quarter cash reimbursement request. The cumulative program income not applied prior to the cash reimbursement for the first quarter was \$44,677. As a result, we obtained management’s summary of program income for the fiscal year and identified that there were no other quarters impacted.

Recommendation

During the latter part of the fiscal year and as a result of prior year audit findings, IJP implemented various checkpoints in their processes to ensure that program income was applied prior to requesting cash reimbursements. IJP should continue to assess existing policies and procedures to ensure the program income balance is applied timely. HRSA recommends that recipients and subrecipients strive to proactively secure and estimate the extent to which program income will be accrued.

View of responsible officials

Management concurs with the finding and has implemented procedures to ensure the appropriate and timely application of program income.

Finding Reference: 2024-002 – 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-GY23; INORWB611-GY24

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

Award Periods: April 1, 2023 to March 31, 2024; April 1, 2024 to March 31, 2025

Description: Timely Completion of the 24-month Eligibility Screening

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

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 – 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

IHS 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, an eligibility worker is required to periodically make inquiries of the patient as to any changes of income, address, or insurance coverage. If any changes are noted, submission of proper documentation is required. If the eligibility workers do not have access to the proper reassessment requirement date, the required documentation may not be obtained by the 24 month period end.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

Effect or potential effect

Eligibility workers did not timely obtain 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.

Questioned costs

Indeterminable

Costs are not tracked by client.

Identification of a repeat finding

This is a repeat finding and relates to prior year finding 2023-001.

Context

During our audit, we selected a sample of 60 clients for testing and noted that the 24-month eligibility screening was submitted to the Department after the eligibility expiration date for 5 clients. We further evaluated the 5 clients and noted that either no services were performed prior to obtaining full eligibility screening or if services were provided, the services were fully covered by insurance.

Recommendation

Management should continue to implement procedures to ensure completion of the eligibility screening prior to the end of the 24-month eligibility period including steps to ensure the eligibility date aligns with the supporting documentation.

View of responsible officials

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

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**Inova Health System
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2024**

Finding Reference: 2023-001 - Eligibility

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

Status of Resolution/Prior Corrective Action Plan: Ongoing with completion date of December 31, 2025.

Inova Juniper has updated its policy and procedure regarding performing eligibility screening prior to the end of a client's 24-month eligibility period. Each month PROVIDE is accessed to export its "Expiring within 45 days report" to pull a list of all clients whose eligibility will expire within 45 days. This expiration list is then used by IJP Care Coordinators to contact all clients in order to schedule their 24-month eligibility assessment appointment. Clients who are unsuccessful in completing their 24-month eligibility assessment prior to their expiration date are discharged from the Ryan White program.

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

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.

Status of Resolution/Prior Corrective Action Plan: Ongoing with completion date of December 31, 2025.

Inova has implemented a Program Income policy with an origination date of 2/21/2025 to provide guidance to Inova for identifying, documenting, and reporting program income and expenditures under the Uniform Guidance.

While the policy was being constructed, Inova Juniper implemented various checkpoints throughout its monthly process to ensure that Program Income is disbursed prior to requesting grant funding. While reviewing actual Program Income received monthly, Inova Juniper is using this data to make projections to budget for future Program Income expected. Inova Juniper is also connecting with the Grants Accounting team prior to report submissions to reconcile and reassign costs to program income to ensure that it is disbursed timely.

Inova Juniper has also reached out directly to HRSA and received confirmation that under RWHAP, Program income is considered spent when it has been obligated, not when funds have been liquidated (April 2016 DCHAP FAQ re PCN 15-03_4, Spending, Tracking, and Reporting Program Income 7/8).



Team members also participated in a specialized Ryan White program income training program (hosted by Feldesman Leifer LLP) to better familiarize themselves with program income.

Inova Juniper has updated its 340B prescription process and retrained physicians on the process. Inova Juniper has worked with the Inova Pharmacy to ensure that 100% confirmation is received for RWHAP prescriptions prior to disbursing prescriptions and monthly invoices are 100% audited to validate 340B allowability. This newly implemented process has achieved a 100% success rate three months in a row.

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

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.

Status of Resolution/Prior Corrective Action Plan: Corrected February 21, 2025

Inova has updated its Procurement of Goods and Services under Sponsored Programs policy with an origination date of 2/21/2025 to provide uniform guidance for the purchase of supplies, equipment, and services when those purchases are being funded by federal and state grant dollars.

Inova also increased its Micro-Purchase Threshold to \$50,000.

Prior to final report issuance by Ernst and Young, Compliance identified a gap in the monthly suspension and debarment (exclusion) screening process related to vendor categorization. Specifically, not all vendors were included due to reliance on self-selected categories, which did not consistently reflect the nature of the vendor relationship. To address this, Compliance has updated the screening logic to capture a broader range of vendor types.

In addition, Compliance is working with Supply Chain to establish clearer definitions for vendor categories and implement a process to validate appropriate classification during vendor onboarding and maintenance. This includes developing appropriate checks and balances to ensure completeness and accuracy of the vendor population subject to screening.



**Inova Health System
Corrective Action Plan
Year Ended December 31, 2024**

Audit period: January 1, 2024 to December 31, 2024

Federal Award Finding and Questioned Costs

Finding Reference: 2024-001 – Cash Management, Program Income

Federal Program Information

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

Pass-Through Entity: Virginia Department of Health;
Not Applicable

Pass-Through Entity Number: INORWB611-GY23; INORWB611-GY24;
Not Applicable

Awards: Assistance Listing 93.917 – HIV Emergency Relief Project Grants;
Assistance Listing 93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Award Periods: April 1, 2023 to March 31, 2024; April 1, 2024 to March 31, 2025;
May 1, 2023 to April 30, 2024; May 1, 2024 to April 30, 2025

Type of Finding: Significant Deficiency in Internal Control Over Compliance

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

Recommendation: During the latter part of the fiscal year and as a result of prior year audit findings, IJP implemented various checkpoints in their monthly processes to ensure that program income was disbursed prior to requesting cash reimbursements. IJP should continue to assess existing policies and procedures 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.

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

Corrective Action Planned: Inova Grants Accounting and Inova Juniper Program (IJP) directors will work collaboratively to disburse funds available from program income prior to requesting additional cash payments from RWHAP funds.

Inova implemented a Program Income from Sponsored Programs policy in February 2025. Inova will assess this written procedure and revise as necessary to ensure that program income is applied before requesting federal reimbursement.

Inova will review federal grant requirements related to program income and identify sources of program income during kickoff meetings for new awards. Mandatory training will be conducted for program and finance staff responsible for the administration of these awards. (2 CFR 200.307 and 200.305)

Inova will require a monthly reconciliation of program income earned and expenditures by grant. Program income tracking will also be included in monthly grant variance reports.

Planned Completion Date for Corrective Action Planned:
Ongoing with completion date of December 31, 2025.



Finding Reference: 2024-002 – 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-GY23; INORWB611-GY24

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

Award Periods: April 1, 2023 to March 31, 2024; April 1, 2024 to March 31, 2025

Description: Timely Completion of the 24-month Eligibility Screening

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Recommendation: Management should continue to implement procedures to ensure completion of the eligibility screening prior to the end of the 24-month eligibility period including steps to ensure the eligibility date aligns with the supporting documentation.

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

Corrective Action Planned:

Inova will comply with VDH's 24-month eligibility rule, ensuring that services are not provided to RWHAP clients who miss their reassessment.

To prevent gaps in service, Inova will continue to maintain monthly expiring eligibility tracking sheet to ensure clients will receive reminders 30–45 days before their eligibility period ends. CAR reviews will continue periodically throughout the 24 month timeframe.

Inova will transition to HRSA’s CareWare system for eligibility management and tracking. Inova will continue 100% internal monthly eligibility audits and peer reviews, as well as implement a 10% chart review by a team member outside of the Juniper Program.

Clients who do not submit the required reassessment documents will be removed from the program.

Planned Completion Date for Corrective Action Planned:

Ongoing with completion date of December 31, 2025.