




INOVA HEALTH SYSTEM



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

**Fiscal Year Ended
December 31, 2022**

Inova Health System

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

Year Ended December 31, 2022

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Report of Independent Auditors

The Board of Trustees
Inova Health System

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Inova Health System (“IHS” or “the System”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System at December 31, 2022 and 2021, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to March 24, 2023. The Schedule of Expenditures of Federal Awards for the year ended December 31, 2022 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 related 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 auditing standards generally accepted in the United States of America. 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 also have issued our report dated March 24, 2023 on our consideration of the System's 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 the System's 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 the System's internal control over financial reporting and compliance.

Ernst + Young LLP

March 24, 2023, except for our report on the schedule of expenditures of federal awards for which the date is September 29, 2023

Inova Health System
Consolidated Balance Sheets
December 31, 2022 and 2021
(in thousands)

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 658,935	\$ 582,333
Assets whose use is limited, current	197,275	197,725
Patient accounts receivable, net	522,879	470,643
Other current assets	320,098	215,478
Total Current Assets	1,699,187	1,466,179
Property, Equipment and Leasehold Interests, net (Note 5)	2,803,233	2,483,131
Assets Whose Use Is Limited (Notes 2, 6, 7, 14)		
Held by bond trustee	8,998	8,899
By board for plant replacement and expansion	6,513,002	7,539,571
By board for construction projects	174,904	181,836
By donor	181,084	185,126
For professional liability	29,125	34,268
	6,907,113	7,949,700
Less amounts required to meet current obligations	(197,275)	(197,725)
Total Assets Whose Use Is Limited, non-current	6,709,838	7,751,975
Other Assets		
Investments in and receivables from affiliates (Note 8)	101,732	107,226
Goodwill and other intangible assets, net (Note 9)	77,816	97,294
Long-term right-of-use asset (Note 12)	218,153	163,336
Long-term investments	31,172	44,394
Interest rate swap (Note 11)	15,459	-
Other long-term assets	78,875	102,495
Total Other Assets	523,207	514,745
TOTAL ASSETS	\$ 11,735,465	\$ 12,216,030
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and other accrued expenses	\$ 604,544	\$ 528,168
Third-party settlements	69,645	68,220
Notes payable and other liabilities	114,763	117,270
Current portion of long-term debt (Note 10)	363,806	292,559
Current lease liability (Note 12)	38,805	40,452
Total Current Liabilities	1,191,563	1,046,669
Non-current Liabilities		
Long-term debt, less current portion (Note 10)	1,734,283	1,471,062
Long-term lease liability (Note 12)	212,448	145,927
Interest rate swap (Note 11)	1,627	5,195
Other non-current obligations	64,455	69,229
Total Non-current Liabilities	2,012,813	1,691,413
Net Assets		
Without donor restrictions	8,204,113	9,121,690
With donor restrictions	266,776	282,352
Total Net Assets Attributable to IHS	8,470,889	9,404,042
Non-controlling interest	60,200	73,906
Total Net Assets	8,531,089	9,477,948
TOTAL LIABILITIES AND NET ASSETS	\$ 11,735,465	\$ 12,216,030

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended December 31, 2022 and 2021
(in thousands)

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Net patient service revenue	\$ 4,846,376	\$ 4,395,846
Other operating revenue	275,680	248,513
Total Operating Revenues	<u>5,122,056</u>	<u>4,644,359</u>
Operating Expenses		
Salaries and benefits	2,778,858	2,385,311
Other operating expenses	1,886,662	1,691,145
Depreciation and amortization	314,912	314,931
Interest	62,440	47,999
Total Operating Expenses	<u>5,042,872</u>	<u>4,439,386</u>
Operating Income	79,184	204,973
Investment (losses) income and other, net	(985,779)	1,176,710
(Deficiency) Excess of Revenues Over Expenses	<u>(906,595)</u>	<u>1,381,683</u>
Less: Non-controlling interest	(16,540)	(15,202)
(Deficiency) Excess of Revenues Over Expenses, Attributable to IHS	<u>\$ (923,135)</u>	<u>\$ 1,366,481</u>

Continued on page 6.

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended December 31, 2022 and 2021
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Balance at December 31, 2020	\$ 7,754,775	\$ 240,569	\$ 77,827	\$ 8,073,171
Excess of revenues over expenses (from page 5)	1,366,481	–	15,202	1,381,683
Unrealized (loss) gain on investments, net	(30)	2,564	–	2,534
Gifts and bequests	–	47,360	–	47,360
Restricted investment income	–	6,837	–	6,837
Net assets released from restriction	–	(14,984)	–	(14,984)
Changes in non-controlling equity interest	–	–	(19,123)	(19,123)
Other	464	6	–	470
Change in net assets	<u>1,366,915</u>	<u>41,783</u>	<u>(3,921)</u>	<u>1,404,777</u>
Balance at December 31, 2021	9,121,690	282,352	73,906	9,477,948
(Deficiency) Excess of revenues over expenses (from page 5)	(923,135)	–	16,540	(906,595)
Unrealized (loss) on investments, net	–	(4,044)	–	(4,044)
Gifts and bequests	–	25,869	–	25,869
Restricted investment (loss)	–	(4,191)	–	(4,191)
Net assets released from restriction for the purchase of property and equipment	2,223	(2,223)	–	–
Net assets released from restriction	–	(30,988)	–	(30,988)
Changes in non-controlling equity interest	–	–	(30,300)	(30,300)
Other	3,335	1	54	3,390
Change in net assets	<u>(917,577)</u>	<u>(15,576)</u>	<u>(13,706)</u>	<u>(946,859)</u>
Balance at December 31, 2022	<u>\$ 8,204,113</u>	<u>\$ 266,776</u>	<u>\$ 60,200</u>	<u>\$ 8,531,089</u>

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(in thousands)

	2022	2021
Operating Activities		
Change in net assets	\$ (946,859)	\$ 1,404,777
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	314,912	314,931
Gain on extinguishment of debt	(15,697)	–
Net realized and unrealized losses (gains) on investments	1,063,962	(1,127,085)
Change in fair value of interest rate swaps	(19,027)	(4,121)
Equity investment losses (gains), net	36,806	(2,620)
Gain on sale of long lived assets	(17,533)	–
Increase in accounts receivable and third-party settlements, net	(91,994)	(64,003)
Increase in other current assets	(54,378)	(19,265)
Increase in accounts payable and other current liabilities	66,622	72,114
Decrease in other non-current obligations	(4,776)	(18,437)
Restricted contributions and investment income	(21,679)	(54,197)
Other	12,011	(15,338)
Net Cash Provided by Operating Activities	322,370	486,756
Investing Activities		
Capital expenditures	(389,350)	(266,632)
Proceeds from sale of long-lived assets	12,885	–
Investments in and advances to joint ventures and affiliates	(32,946)	(14,327)
Purchases of investments	(2,102,795)	(1,783,132)
Proceeds from sale of investments	2,045,676	1,609,255
Purchase of business acquisition	(1,771)	(4,812)
Purchase of land	(137,092)	–
Net Cash Used in Investing Activities	(605,393)	(459,648)
Financing Activities		
Principal payments on long-term debt	(39,071)	(108,585)
Proceeds from issuance of long-term debt	800,071	–
Refunding of long-term debt	(399,890)	–
Restricted contributions and investment income	30,348	66,884
Other	(5,724)	3,050
Net Cash Provided by (Used in) Financing Activities	385,734	(38,651)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	102,711	(11,543)
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	676,483	688,026
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	779,194	676,483
Less: Restricted cash included in assets whose use is limited (Note 2)	120,259	94,150
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 658,935	\$ 582,333

See notes to the consolidated financial statements

Inova Health System
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

1. Nature of Operations

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

2. Summary of Significant Accounting Policies

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

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

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

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable: Patient accounts receivable include charges for amounts due from all patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medicaid and other insurers. The estimated implicit price concessions are based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the price concessions based upon historical experience of self-pay accounts receivable, including those balances after insurance payments and not covered by insurance. The results of this review are then used to make any modifications to the estimated implicit price concessions. There have been no significant changes in the current year to the underlying assumptions used by IHS to estimate the amount expected to be received. Patient accounts receivable is written off after collection efforts have been followed in accordance with IHS policies.

Assets Whose Use Is Limited: Assets whose use is limited include board-designated funds for plant replacement and expansion and construction projects, funds restricted by donors for charitable purposes, funds restricted to cover self-insurance liabilities, and trustee-held assets restricted for the retirement of long-term liabilities. The related restricted cash and cash equivalents included in funds by donor, for professional and health liabilities, and held by bond trustee are included on the accompanying Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021.

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

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Property, Equipment and Leasehold Interests: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The general range of useful lives is 5 to 25 years for land improvements; 5 to 40 years for buildings, fixed equipment, and leasehold improvements; and 5 to 10 years for major movable equipment. Software and other IT equipment are included in major movable equipment with useful lives of three to five years. Equipment under finance leases obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization on the accompanying Consolidated Statements of Operations and Changes in Net Assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repairs and maintenance are expensed as incurred.

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

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

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

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

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

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.

(Deficiency) Excess of Revenues over Expenses: The accompanying Consolidated Statements of Operations and Changes in Net Assets include the (deficiency) excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets that are excluded from the (deficiency) 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) and cumulative effect of changes in accounting principles, if any.

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

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

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

Long-term Investments: IHS maintains a strategic portfolio of investments in various funds and other unaffiliated companies. IHS' ownership stake ranges from 0.47% to 12.87% and 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 (losses) income and other, net. IHS measures those investments using the measurement alternative. The measurement alternative measures those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

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

Income Taxes: The Foundation and IHCS are not-for-profit corporations and have been determined to be exempt from federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code. Therefore, these entities will not incur any liability for federal income tax, except for possible unrelated business income. IHI and its subsidiaries are taxable organizations. Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. Accounting principles generally accepted in the United States require management to evaluate uncertain tax positions taken by IHS. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has concluded that as of December 31, 2022 and 2021, there are no uncertain positions taken or expected to be taken. IHS has recognized no interest or penalties related to uncertain tax positions. IHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that IHS is no longer subject to income tax examinations for years prior to 2017.

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

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

Subsequent Events: IHS has evaluated subsequent events that have occurred for recognition and disclosure through March 24, 2023, the date the accompanying consolidated financial statements were issued.

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

care professionals in the local employment market; (xi) potential threat of cyber security attacks or breaches to IHS systems; and (xii) changes in general and local economic conditions that could cause volatility in investments, capital and debt markets and may impose limitations to timely access to debt markets.

IHS is aware of certain additional risks regarding the COVID-19 pandemic. See Note 13 for further information on the COVID-19 pandemic.

Recent Accounting Pronouncements: In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU was adopted effective January 1, 2022. The adoption of ASU did not have a material impact on the accompanying consolidated financial statements.

New Accounting Standards Not Yet Adopted: In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2022, and a modified retrospective approach is required, with a cumulative-effect adjustment to net assets as of the beginning of the first reporting period in which the guidance is effective. The adoption of this ASU is not expected to have a material impact on IHS’ consolidated financial statements.

3. Net Patient Service Revenue

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

3. Net Patient Service Revenue (continued)

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.

	2022		2021	
Medicare	\$ 782,228	15.3%	\$ 727,802	15.6%
Medicaid	558,712	10.9%	416,939	9.0%
Commercial and other	3,505,436	68.4%	3,251,105	70.0%
Net Patient Service Revenue	4,846,376	94.6%	4,395,846	94.6%
Other operating revenue	275,680	5.4%	248,513	5.4%
Total Operating Revenue	\$ 5,122,056	100.0%	\$ 4,644,359	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 transactions price were not significant in 2022 or 2021.

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.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

3. Net Patient Service Revenue (continued)

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, 2022 and 2021, estimated implicit price concessions of \$182.0 million and \$168.7 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. Charity Care and Other Community Benefits

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

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

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

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

	<u>2022</u>	<u>2021</u>
Charity care	\$ 92,836	\$ 97,872
Unpaid cost of state programs to financially disadvantaged persons	161,848	218,020
Community health programs	35,090	28,821
Medical education and research	31,310	36,560
Total community benefits, at cost	<u>\$ 321,084</u>	<u>\$ 381,273</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

5. Property, Equipment and Leasehold Interests

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

	<u>2022</u>	<u>2021</u>
Land and land improvements	\$ 407,839	\$ 263,757
Buildings, fixed equipment and leasehold improvements	3,530,227	3,405,873
Capitalized software	266,800	261,160
Major movable equipment	1,891,801	1,681,703
	<u>6,096,667</u>	<u>5,612,493</u>
Less: Accumulated depreciation and amortization	<u>(3,586,848)</u>	<u>(3,321,884)</u>
	2,509,819	2,290,609
Construction-in-progress	293,414	192,522
Total	<u>\$ 2,803,233</u>	<u>\$ 2,483,131</u>

Amortization expense on capitalized software was \$17.7 million and \$16.9 million for the years ended December 31, 2022 and 2021, respectively.

6. Assets Whose Use Is Limited

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 257,511	\$ 229,458
Equity securities	382,684	452,505
Debt securities	1,430,359	1,591,573
Alternative investments		
Global equity	3,399,134	3,991,054
Hedge funds	46,397	326,116
Private Investments	1,391,028	1,358,994
Total	<u>\$ 6,907,113</u>	<u>\$ 7,949,700</u>

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

6. Assets Whose Use Is Limited (continued)

There are approximately \$1.4 billion of funds that are subject to lock up restrictions and are not available to be redeemed until certain time restrictions are met, which can be up to 15 years. Total unfunded commitments to alternative investment funds are \$384.1 million and \$452.8 million as of December 31, 2022 and 2021, respectively.

7. Fair Value Measurements

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

The fair value levels are as follows:

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

7. Fair Value Measurements (continued)

The following tables present IHS' assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 and 2021, 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, 2022	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 257,511	\$ 257,511	\$ –	\$ –
U.S. government and agency securities	445,213	–	445,213	–
Corporate and other bonds				
– Asset-backed securities	153,426	–	153,426	–
– Corporate and other bonds	149,039	–	149,039	–
– Other government securities	15,449	–	15,449	–
Equity securities				
– Domestic	138,742	138,742	–	–
– International	207,845	207,845	–	–
Mutual fund / ETF				
– Equity	36,097	36,097	–	–
– Fixed income and other	667,232	667,232	–	–
	<u>2,070,554</u>	<u>1,307,427</u>	<u>763,127</u>	<u>–</u>
Interest rate swap asset	15,459	–	15,459	–
Total assets	<u>\$ 2,086,013</u>	<u>\$ 1,307,427</u>	<u>\$ 778,586</u>	<u>\$ –</u>
Liabilities:				
Interest rate swap liability	\$ (1,627)	\$ –	\$ (1,627)	\$ –
Total liabilities	<u>\$ (1,627)</u>	<u>\$ –</u>	<u>\$ (1,627)</u>	<u>\$ –</u>
	December 31, 2021	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 229,458	\$ 229,458	\$ –	\$ –
U.S. government and agency securities	681,788	–	681,788	–
Corporate and other bonds				
– Asset-backed securities	160,816	–	160,816	–
– Corporate and other bonds	133,793	–	133,793	–
– Other government securities	15,891	–	15,891	–
Equity securities				
– Domestic	165,839	165,839	–	–
– International	242,586	242,586	–	–
Mutual fund / ETF				
– Equity	44,080	44,080	–	–
– Fixed income and other	599,285	599,285	–	–
Total assets	<u>\$ 2,273,536</u>	<u>\$ 1,281,248</u>	<u>\$ 992,288</u>	<u>\$ –</u>
Liabilities:				
Interest rate swap liability	\$ (5,195)	\$ –	\$ (5,195)	\$ –
Total liabilities	<u>\$ (5,195)</u>	<u>\$ –</u>	<u>\$ (5,195)</u>	<u>\$ –</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

7. Fair Value Measurements (continued)

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

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

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

8. Investments in and Receivables from Affiliates

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

IHS invested in a joint venture with Aetna that established Innovation Health ("IHealth"), a licensed health plan serving Northern Virginia. IHealth commenced operations in July 2013. IHealth provides employers and consumers access to more affordable, coordinated and integrated health care in the region. IHS held a 50% interest in IHealth at December 31, 2022, which was accounted for using the equity method of accounting. Subsequent to December 31, 2022, IHS exited its investment in IHealth for a nominal gain.

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

	<u>Carrying Value</u>		<u>Equity Method (Losses) Income</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
IHealth	\$ 91,159	\$ 81,125	\$ 10,034	\$ 4,963
Other investments accounted for under equity method	10,573	26,101	(46,840)	(2,343)
Total investments in affiliates	<u>\$ 101,732</u>	<u>\$ 107,226</u>	<u>\$ (36,806)</u>	<u>\$ 2,620</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

8. Investments in and Receivables from Affiliates (continued)

The summarized financial positions and results of operations for IHealth accounted for under the equity method as of and for the years ended December 31 are as follows (in thousands) (unaudited):

	<u>2022</u>	<u>2021</u>
Total assets	\$ 259,652	\$ 228,571
Total liabilities	80,329	61,102
Net assets	<u>179,323</u>	<u>167,469</u>
Total revenues, net	380,896	325,191
Excess of revenue over expenses (excluding minority interest)	20,833	9,924

9. Goodwill and Other Intangible Assets

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

	<u>2022</u>	<u>2021</u>
Intangible assets	\$ 14,906	\$ 14,880
Accumulated amortization	(7,103)	(5,969)
Total intangibles, net	<u>7,803</u>	<u>8,911</u>
Goodwill	105,341	114,466
Accumulated amortization	(35,328)	(26,083)
Total goodwill, net	<u>70,013</u>	<u>88,383</u>
Total goodwill and intangibles	<u>\$ 77,816</u>	<u>\$ 97,294</u>

Amortization expense of goodwill and intangible assets was \$10.6 million and \$12.8 million, for the years ended December 31, 2022 and 2021, respectively.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

10. Long-Term Debt

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

	2022	2021
Long-term Debt of the IHS Obligated Group		
1993A Hospital Revenue Refunding Bonds; maturing 8/15/23; semi-annual interest at a fixed rate of 2.75% to 5.25%	\$ 8,475	\$ 16,545
2005A Health Care Revenue Bonds; maturing 5/15/35; monthly interest at a variable rate and maximum of 12.0%	109,730	109,730
2010A-2 Health Care Revenue Bonds; maturing 5/15/39; monthly interest at a variable rate and maximum of 12.0%	95,000	95,000
2012A Health Care Revenue Bonds; maturing 5/15/42; semi-annual interest at a fixed rate of 2.25% to 5.0%	–	255,330
2012B Health Care Revenue Bonds; maturing 5/15/42; semi-annual interest at a fixed rate of 3.0% to 5.0%	–	60,000
2012D Health Care Revenue Bonds; maturing 5/15/29; semi-annual interest at a fixed rate of 3.0% to 5.0%	–	70,395
2013 Health Care Revenue Bonds; maturing 12/1/23; monthly interest at a fixed rate of 2.15%	13,548	27,678
2014A Health Care Revenue Bonds; maturing 5/15/44; semi-annual interest at a fixed rate of 2.5% to 5.0%	180,000	200,000
2016A Health Care Revenue Bonds; maturing 5/15/31; semi-annual interest at a fixed rate of 5.0%	94,420	100,455
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%	97,275	97,725
2018A Health Care Revenue Bonds; maturing 5/15/48; semi-annual interest at a fixed rate of 3.0% to 5.0%	195,080	196,810
2018B Health Care Revenue Bonds; maturing 5/15/57; semi-annual interest at a fixed rate of 5.0%	75,000	75,000
2018C Health Care Revenue Bonds; maturing 5/15/33; monthly interest at a variable rate and maximum of 12.0%	100,000	100,000
2020 Senior Notes; maturing 05/15/48; semi-annual interest at a fixed rate of 2.67%	260,000	260,000
2022 Health Care Revenue Refunding Bonds; maturing 5/15/44; semi-annual interest at a fixed rate of 3.5% to 5.0%	371,810	–
2022A Taxable Bonds; maturing 5/15/52; semi-annual interest at a fixed rate of 4.068%	400,000	–
Total Long-term Debt of the IHS Obligated Group	2,031,633	1,695,963
Less: Current Portion of Long-term Debt	(361,238)	(289,738)
Net Original Issue Premium	69,704	65,585
Net Deferred Financing Costs	(11,227)	(8,550)
Net Long-term Debt of the IHS Obligated Group	\$ 1,728,872	\$ 1,463,260
Total Long-term Debt of Non-Obligated IHS Affiliates	\$ 7,979	\$ 10,623
Less: Current Portion of Long-term Debt	(2,568)	(2,821)
Net Long-term Debt of Non-Obligated IHS Affiliates	\$ 5,411	\$ 7,802
Total Net IHS Long-term Debt	\$ 1,734,283	\$ 1,471,062

The majority of the long-term debt of the non-obligated IHS affiliates represents construction loans of \$1.5 million, \$2.6 million and \$2.8 million with a maturity dates of July 15, 2024, August 28, 2026 and July 25, 2027, respectively, and fixed interest rates of 2.75%, 4.00% and 3.65%, respectively, as of December 31, 2022.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

10. Long-Term Debt (continued)

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

IHS Obligated Group debts are secured by an interest in all funds held by the bond trustee for purposes of debt service, construction and equipment acquisition. Each Member of the IHS Obligated Group covenants that it will not pledge or grant a security interest in (except as may be otherwise provided in the Master Trust Indenture) any of its property. The Master Trust Indenture for the IHS Obligated Group requires that certain minimum financial ratios be met. IHS was in compliance with the financial ratio requirements as of December 31, 2022 and 2021.

The interest rate on the variable rate bonds ranged between 0.04% and 3.86% in 2022 and 0.02% and 0.66% in 2021. 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 \$196.8 million and \$197.7 million as of December 31, 2022 and 2021, 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, 2022, are as follows (in thousands):

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Thereafter</u>	<u>Total</u>
Scheduled maturities	\$ 166,996	\$ 27,575	\$ 82,526	\$ 65,350	\$ 34,790	\$ 1,465,565	\$ 1,842,802
Bonds under remarketing agreement and subject to mandatory tender	196,810	-	-	-	-	-	196,810
Total	<u>\$ 363,806</u>	<u>\$ 27,575</u>	<u>\$ 82,526</u>	<u>\$ 65,350</u>	<u>\$ 34,790</u>	<u>\$ 1,465,565</u>	<u>\$ 2,039,612</u>

IHS maintains \$100.0 million of taxable commercial paper ("CP") under a program authorized for borrowings up to \$100.0 million with maturity dates from one to 270 days. Proceeds from this issuance were used for a variety of working capital requirements. IHS maintains a self-liquidity program that would be used to repurchase any CP that is not remarketed. All outstanding CP is included in notes payable and other liabilities in the current liabilities section of the accompanying Consolidated Balance Sheets. As of December 31, 2022 and 2021, the amount of CP outstanding was \$100.0 million.

Total interest paid was \$70.0 million and \$60.0 million for the years ended December 31, 2022 and 2021, respectively.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

10. Long-Term Debt (continued)

IHS maintains unsecured lines of credit with two large commercial banks with a combined available principal amount of \$250.0 million. The two line of credits for \$150.0 million and \$100.0 million are scheduled to expire on July 30, 2023 and June 30, 2023 respectively; however, management intends to renew both. As of December 2022 and 2021, IHS had \$0 outstanding balance on both lines 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, 2022							
Merrill Lynch Capital Services, Inc.	\$ 50,000	5/15/2034	Fixed Payer	1.65%	67% of one-month USD LIBOR	\$ 4,517	\$ 30,000
Citibank, N.A.	100,000	1/15/2034	Variable Payer	67% of USD-LIBOR-BBA	67% of the USD-ISDA-Swap Rate minus 0.387%	(1,627)	45,000
JPMorgan Chase Bank, N.A.	69,495	5/15/2034	Fixed Payer	1.45%	67% of one-month USD LIBOR	6,324	25,000
	100,000	5/1/2042	Variable Payer	USD-SIFMA Municipal Swap Index	104% of USD-SOFR-COMPOUND	4,618	
Total	<u>\$319,495</u>					<u>\$ 13,832</u>	<u>\$ 100,000</u>
As of December 31, 2021							
Merrill Lynch Capital Services, Inc.	\$ 50,000	5/15/2034	Fixed Payer	1.65%	67% of one-month USD LIBOR	\$ (1,144)	\$ 30,000
Citibank, N.A.	100,000	1/15/2034	Variable Payer	67% of USD-LIBOR-BBA	67% of the USD-ISDA-Swap Rate minus 0.387%	(307)	45,000
JPMorgan Chase Bank, N.A.	69,495	5/15/2034	Fixed Payer	1.45%	67% of one-month USD LIBOR	(3,744)	25,000
Total	<u>\$219,495</u>					<u>\$ (5,195)</u>	<u>\$ 100,000</u>

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 \$61.9 million and \$59.4 million in 2022 and 2021, respectively. The following table summarizes the components of IHS' lease expense for the years ended December 31, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Finance lease cost		
Amortization	\$ 575	\$ 601
Interest	620	443
Total finance lease cost	1,195	1,044
Operating lease cost	41,441	40,006
Short-term lease cost	13,874	12,628
Variable lease cost	5,373	5,762
Total lease cost	<u>\$ 61,883</u>	<u>\$ 59,440</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

12. Leases (continued)

IHS recognized \$218.2 million and \$163.3 million in right-of-use assets on the accompanying Consolidated Balance Sheets as of December 31, 2022 and 2021, respectively, all of which were associated operating leases and classified as noncurrent. The following table summarizes the components of operating and finance lease liabilities classified as current and noncurrent on the accompanying Consolidated Balance Sheets as of December 31 (in thousands):

	Operating Leases	Finance Leases	Total
December 31, 2022			
Current	\$ 37,223	\$ 1,582	\$ 38,805
Long-term	206,341	6,107	212,448
Total lease liabilities	\$ 243,564	\$ 7,689	\$ 251,253
December 31, 2021			
Current	\$ 38,832	\$ 1,620	\$ 40,452
Long-term	140,827	5,100	145,927
Total lease liabilities	\$ 179,659	\$ 6,720	\$ 186,379

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

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows paid for operating leases	\$ 40,306	\$ 42,901
Operating cash flows paid for interest portion of finance leases	216	190
Financing cash flows paid for principal portion of finance leases	1,780	1,304
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	105,080	28,335
Finance leases	2,746	4,657

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

	2022	2021
Weighted average discount rate:		
Operating leases	2.29%	1.97%
Finance leases	3.68%	3.00%
Weighted average lease term:		
Operating leases	8.02	5.73
Finance leases	4.05	4.34

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

12. Leases (continued)

The following table summarizes the maturity of operating and finance lease liabilities as of December 31, 2022 (in thousands):

	Operating Leases	Finance Leases
2023	\$ 40,166	\$ 2,100
2024	38,749	1,935
2025	36,560	1,836
2026	28,446	1,401
2027	23,941	1,065
Thereafter	103,243	—
Total lease payments	271,105	8,337
Less: Imputed interest	(27,541)	(648)
Total lease liabilities	\$ 243,564	\$ 7,689

13. COVID-19 Public Health Emergency

In response to the COVID-19 pandemic, in March 2020 Virginia imposed strict measures to curtail certain aspects of public life intended to limit the spread of COVID-19, including, among other things, the suspension of elective health care procedures. IHS has activated plans, including those discussed below, to address the COVID-19 threat, and is operating pursuant to infectious disease protocols and its emergency preparedness plan.

IHS has taken numerous steps to support its mission and enhance its operational and financial flexibility during the pandemic, including the following:

- The U.S. Department of Health and Human Services (“HHS”) distributions from the Provider Relief Fund include general and targeted distributions to support hospitals in high impact areas and rural providers. IHS will continue to monitor changes in reporting guidance or additional clarification that may be issued by HHS, which would affect the accounting for distributions from the Relief Fund and the ability of recipients to retain some or all of the distributions from the Provider Relief Fund.
- IHS has received distributions as part of the American Rescue Plan Act of 2021 (ARPA) and will continue to monitor for any changes or updates to the plan.
- The CARES Act provided for deferred payment of the employer’s share of social security, taxes through December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of December 31, 2022, IHS has paid all deferred amounts in full.
- Maintained unsecured lines of credit with two banks with a combined available principal amount of \$250.0 million that were renewed as of July 2022 through July 2023 and can be drawn upon given any significant volatility in operations or financial markets.
- Implemented certain cost reduction initiatives, including non-patient care position eliminations and reduced certain planned capital expenditures.
- Implemented enhanced telemedicine services to offset a reduction in-person clinic visits.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

13. COVID-19 Public Health Emergency (continued)

IHS has reactivated all aspects of its health care operations. The success of such reactivation is subject to many factors external to IHS, including potential new government-mandated prohibitions of non-essential health care procedures; the willingness of patients to resume preventive and elective care; availability of personal protection equipment and other supplies and drugs; and changes in clinical care and patient and caregiver safety protocols and processes required by the Centers for Disease Control and Prevention, the Occupational Health and Safety Administration, states' departments of public health and other government bodies.

While the COVID-19 Public Health Emergency is scheduled to officially end as of May 11, 2023, IHS will continue to monitor COVID-19 case rates and how those cases impact IHS' operations.

14. Professional and Other Insurance Liabilities

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

InovaCap retains risk of \$2.55 million per claim and \$21 million in annual aggregate for professional liability. Additional risk is reinsured in umbrella forms through Lloyds of London, other European companies, Berkshire Hathaway, The Doctors Company, and Sompo, together providing limits of \$50 million per claim, and \$50 million in the aggregate, in excess of the InovaCap retention. The Consolidated Balance Sheets at December 31, 2022 and 2021, include in other noncurrent obligations \$33.1 million and \$30.2 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 2022 and prior years. The liabilities are discounted at 2.44% and 0.9% at December 31, 2022 and 2021, respectively.

Investments and other assets held by InovaCap of \$29.1 million and \$34.3 million at December 31, 2022 and 2021, respectively, are restricted by statute from being transferred to another subsidiary or obligated for any other purpose and accordingly are included as assets whose use is limited on the Consolidated Balance Sheets.

15. 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.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

15. Fairfax County Leases (continued)

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

The terms of the County Lease outline an indigent care policy to assure all individuals in the County have access to medically necessary care. Patients' payment obligations under the policy are determined using a sliding income scale that is based on the federal poverty guidelines. During the term of the County Lease, IHS has agreed to notify the County of any intent to incur additional debt in excess of \$1.0 million. IHS has also agreed to notify the County of any intent to enter into contractual agreements for the management or operation of Inova Fairfax Hospital or Inova Mount Vernon Hospital by persons other than IHS, or any intent to change hospital rates. As of December 31, 2022, no such notifications have occurred.

16. 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, 2022 and 2021, were approximately \$286.7 million and \$244.8 million, respectively. Certain contracts included within are associated with the Eastern Region Development Plan for the construction of a new acute care hospital to replace the existing Alexandria Hospital, a new ambulatory center and a Healthplex facility. IHS currently anticipates that these projects will be financed with a combination of bond proceeds, funds generated from earnings and donations. These projects include expansion and renovation of Fairfax, Mount Vernon, Loudoun, Alexandria and Fair Oaks hospitals and the Inova Center for Personalized Health campus.

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

17. Functional Expenses

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

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

	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
2022			
Salaries and benefits	\$ 2,345,491	\$ 433,367	\$ 2,778,858
Other operating expenses	1,656,194	230,468	1,886,662
Depreciation and amortization	227,480	87,432	314,912
Interest	46,944	15,496	62,440
Total Operating Expenses	<u>\$ 4,276,109</u>	<u>\$ 766,763</u>	<u>\$ 5,042,872</u>
2021			
Salaries and benefits	\$ 2,044,563	\$ 340,748	\$ 2,385,311
Other operating expenses	1,499,941	191,204	1,691,145
Depreciation and amortization	226,772	88,159	314,931
Interest	46,531	1,468	47,999
Total Operating Expenses	<u>\$ 3,817,807</u>	<u>\$ 621,579</u>	<u>\$ 4,439,386</u>

18. Net Assets with Donor Imposed Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose		
Healthcare services and programs	\$ 222,347	\$ 230,350
Employee education, recognition and support	10,722	10,760
Research	17,517	20,750
Buildings and equipment	16,190	20,492
Total net assets with donor restrictions	<u>\$ 266,776</u>	<u>\$ 282,352</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2022 and 2021

19. 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>2022</u>	<u>2021</u>
Less than one year	\$ 3,360	\$ 3,096
One to five years	51,660	57,736
More than five years	3,382	1,141
Total pledges receivable	58,402	61,973
Present value discount	(6,423)	(2,634)
Allowance for uncollectible pledges	(9,356)	(10,674)
Net pledges receivable	\$ 42,623	\$ 48,665

20. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following at December 31, 2022 and 2021 (in thousands):

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 658,935	\$ 582,333
Patient accounts receivable, net	522,879	470,643
Pledge receivables, net	3,360	3,096
Other receivables	74,784	27,693
Investments with three-day liquidity	4,867,021	5,396,241
Total	\$ 6,126,979	\$ 6,480,006

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

Supplementary Information

Inova Health System

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Federal Awards				
Department of Justice, Office of Justice Programs:				
Pass-through Virginia Department of Criminal Justice Services:				
Crime Victim Assistance	16.575	Subaward 22-C4119VP20	\$ 126,935	\$ –
Total Department of Justice, Office of Justice Programs			<u>126,935</u>	<u>–</u>
Department of the Treasury:				
Pass-Through Commonwealth of Virginia:				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027	22-A4119ARRF	155,258	–
Pass-Through Act for Alexandria:				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFR0122	13,427	–
Total Department of the Treasury			<u>168,685</u>	<u>–</u>
Department of Health and Human Services (“DHHS”):				
COVID-19 – HRSA COVID-19 Claims Reimbursement for the Uninsured Program	93.461	N/A	537,317	–
COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	93.498	N/A	12,424,630	–

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
DHHS, U.S. Health Resources and Services Administration (“HRSA”):				
Pass-through University of Pittsburgh: HIV-Related Training and Technical Assistance	93.145	Subaward CNVA00050178 (136319-4) & Subaward CNVA00050178 (137979-4)	\$ 249,634	\$ –
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153		630,893	
Pass-through Virginia Health Care Foundation: Children’s Health Insurance Program	93.767	N/A	166,981	–
Pass-through District of Columbia Department of Health:				
HIV Emergency Relief Project Grants	93.914	Subaward 21E066 & Subaward HAHSTA2022-000015	168,245	–
Pass-through Virginia Department of Health:				
HIV Care Formula Grants	93.917	Subaward INORWB611GY20, Subaward INORPS6110FY22, Subaward INORWB611- GY22, & Subaward INORPS611-FY23	3,048,983	–
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918	N/A	551,228	–
DHHS, Centers for Disease Control and Prevention (CDC):				
HIV Prevention Activities Non-Governmental Organization Based	93.939	N/A	428,237	–
Pass-through Virginia Department of Health:				

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
HIV Prevention Activities Health Department Based	93.940	Subaward INOCHTP611GY22	\$ 2,126	\$ —
Pass-through Virginia Department of Health: COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (“ELC”)	93.323	Subaward INOSER610-GY22	32,135	—
			18,240,409	—
Total (“DHHS”)				
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	N/A	48,781	—
Military Medical Research and Development Pass-through The Johns Hopkins University:	12.420	Subaward 2004765109	10,217	—
Military Medical Research and Development	12.420	Subaward 2004765109, Subaward 2005197550, & Subaward 2005165481	45,391	—
Pass-through University of Pittsburgh: Military Medical Research and Development	12.420	Subaward AWD00003140 (417116-2)	204,389	—
Pass-through University of Arkansas Systems: Military Medical Research and Development	12.420	Subaward FP 54998 & Subaward FP 55599	40,779	—
Pass-through The University of Melbourne: Military Medical Research and Development	12.420	Subaward W81XWH-21-1-0401-INOVA	11,809	—
Pass-through The Ohio State University: Military Medical Research and Development	12.420	Subaward SPC-1000005071/GR123803	2,423	—
Pass-through University of Maryland: Military Medical Research and Development	12.420	Subaward 2003879	40,278	—
Total Federal Assistance Listing # 12.420			404,067	—

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 5724, 5721, 5551, 4833, 5756, 5891, 5893, 5895, 5894	\$ 2,357,198	\$ —
Total Department of Defense			<u>2,761,265</u>	<u>—</u>
Department of Transportation, National Highway Traffic Safety Administration (“NHTSA”): NHTSA Discretionary Safety Grants and Cooperative Agreements	20.RD	Contract No 693JJ922D000024, Contract No DTNH2217D00067, & Contract No 693JJ922D000024/693JJ922F00197N	358,219	—
Total Department of Transportation			<u>358,219</u>	<u>—</u>
Department of Health and Human Services (“DHHS”): DHHS, Centers for Disease Control and Prevention (“CDC”):				
DHHS, Food and Drug Administration (“FDA”): Food and Drug Administration Research	93.103	N/A	134,239	—
DHHS, National Institutes of Health:				
NHLBI/Inova Pulmonary Vascular Program	93.RD	Contract No 75N92022P00023	27,759	—
NHLBI Pulmonary Vascular Program	93.RD	Contract No 75N92022P00024	7,240	—
NHLBI Graft Sample and Data Collection Project	93.RD	Contract No 75N92022P00123	80,705	—

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
Support Services for the Lampoon Protocol IDE Enrollment Sites	93.RD	Contract No HHSN268201800037A	\$ 4,248	\$ –
Pass-through The University of Utah: Population Health Research Support	93.RD	Subaward 10050768-01 & Subaward 10050768-04	203,128	–
Total Federal Assistance Listing # 93.RD			323,080	–
Pass-through Virginia Commonwealth University: Research on Healthcare Costs, Quality and Outcomes	93.226	Subaward no FP00009858_SA003	35,161	–
Pass-through The Rector and Visitors of the University of Virginia: National Center for Advancing Translational Sciences	93.350	GB10667.PO#2150887	278,879	–
Cancer Detection and Diagnosis Research Pass-through from Health Research, Inc. – Roswell Park Division:	93.394	N/A	73,677	29,205
21st Century Cures Act – Beau Biden Cancer Moonshot	93.353	Subaward AWD102439 (SUB00000590)	144,695	–
Pass-through NorthShore University Health System: Cancer Cause and Prevention Research	93.393	Subaward EH17-130-S1	102,253	–
Pass-through Beckman Research Institute of the City of Hope: Cancer Centers Support Grants	93.397	Subaward 453-01	21,633	–
Pass-through Georgetown University:				

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
Cardiovascular Diseases Research	93.837	Subaward 424692_GR413637-IHS & Subaward 425350_GR413637-IHS	\$ 121,988	\$ –
Pass-through The Ohio State University: Cardiovascular Diseases Research	93.837	GR119795 / SPC-1000004903	2,513	–
Pass-through Georgia Institute of Technology: The General Hospital Corporation d/b/a Massachusetts General Hospital: Cardiovascular Diseases Research	93.837	Subaward 235964	17,086	–
Pass-through Icahn School of Medicine at Mount Sinai: Cardiovascular Diseases Research	93.837	Subaward 0255-A342-4605	7,372	–
Pass-Through Yale University: Cardiovascular Diseases Research	93.837	CON-80003253 (GR114468)	11,313	–
Pass-Through Sutter Bay Hospitals dba California Pacific Medical Center: Cardiovascular Diseases Research	93.837	5U01HL123336-06	728,686	–
Total Federal Assistance Listing # 93.837			888,958	–
Pass-through Transonic System: Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1 R43 HL152851-01	13,326	–
Pass-through Mayo Clinic Jacksonville: Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Subaward INO-224063-05; INO-232483-02	59,717	–
Pass-through University of Cincinnati on behalf of its NIH StrokeNet, National Coordinating Center ("NCC"):				

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
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Subaward 011337-141352	\$ 17,834	\$ —
Total Federal Assistance Listing # 93.853			<u>77,551</u>	<u>—</u>
Pass-through The Henry M. Jackson Foundation for the Advancement of Military Medicine, Inc.: Allergy and Infectious Diseases Research	93.855	Subaward 3978	5,536	—
Total DHHS, Research and Development			<u>2,098,988</u>	<u>29,205</u>
Total Research and Development Cluster			<u>5,218,472</u>	<u>29,205</u>
Total Expenditures of Federal Awards			<u>\$ 23,754,501</u>	<u>\$ 29,205</u>

Inova Health System

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

1. Basis of Presentation

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

The preparation of the Schedule in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the Schedule during the reporting period. Actual results could differ from those estimates.

2. Indirect Cost Rate

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

Inova Health System

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

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

In accordance with the U.S. Department of Health and Human Services’ requirements specific to Federal Assistance Listing Number 93.498, COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution, the amount presented on the accompanying Schedule for the year ended December 31, 2022 for Federal Assistance Listing No. 93.498 relates to (i) Provider Relief Fund (“PRF”) payments received from January 1, 2021 through December 31, 2021 and (ii) used for PRF-eligible activity from the period January 1, 2020 through December 31, 2022. This payment receipt period and activity period and the resulting amount presented on the accompanying Schedule for the year ended December 31, 2022, reconciles to the PRF information reported to the Health Resources and Services Administration (“HRSA”) for PRF Reporting Periods 3 and 4 as follows:

Name of Reporting Entity for HRSA Reporting Period 3 and Period 4 PRF Report	Reporting Entity Tax Identification Number (“TIN”)	PRF Reporting Submission Period	Type of Distribution	Total Other PRF Payments Applied to Unreimbursed Expenses Attributable to Coronavirus	Total PRF Payments Applied to Lost Revenues	Amount Included on the Accompanying Federal Schedule for the Year Ended December 31, 2022
Inova Healthcare Services	54-0620889	Period 4	General Rural	\$ 6,329,759 1,458,115	\$ – –	\$ 6,329,759 1,458,115
Northern Virginia Ambulatory Surgery Center, LLC	20-3502477	Period 4 Period 4	General Rural	– –	11,632 3,516	11,632 3,516
Inova Loudoun Ambulatory Surgery Center, LLC	20-3523190	Period 4 Period 4	General Rural	– –	10,534 4,688	10,534 4,688
Loudoun Hospital Center Inova Reston MRI Center, LLC	54-0525802	Period 3	General	–	2,923,740	2,923,740
Loudon Nursing and Rehabilitation Center Franconia-Springfield Surgery Center, LLC	26-4587374	Period 4	General	–	399,386	399,386
	54-1361310	Period 4	Rural	–	13,889	13,889
	54-2018390	Period 4 Period 4	General Rural	– –	15,481 3,324	15,481 3,324
Sunrise/Inova McLean Assisted Living, LLC	54-2022822	Period 4	General	23,567	586,248	609,815
Inova Home Health LLC	83-0620626	Period 4	General	640,751	–	640,751
				<u>\$ 8,452,192</u>	<u>\$ 3,972,438</u>	<u>\$ 12,424,630</u>

Inova Health System

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

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

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

The Schedule includes \$12,424,630 of PRF Funds received from HHS between January 1, 2021 through December 31, 2021. The PRF-eligible expenses attributable to Coronavirus Disease 2019 (“COVID-19”) and lost revenues incurred by IHS during the period of availability for PRF Reporting Period 3 (January 1, 2020 through June 30, 2022) and PRF Reporting Period 4 (January 1, 2020 through December 31, 2022) are in excess of the general and targeted distributions received from January 1, 2021 through December 31, 2021 and, therefore, the amounts presented in the table above and on the accompanying Schedule are limited to the amount of such distributions. IHS also received PRF payments subsequent to December 31, 2021, which are required to be reported in subsequent HRSA PRF Reporting Periods and, accordingly, pursuant to the requirements specific to Federal Assistance Listing Number 93.498, activity related to such payments is included in the accompanying Schedule.

4. Noncash Federal Assistance

IHS did not receive any noncash Federal assistance including donated personal protective equipment for the year ended December 31, 2022.

Uniform Guidance Reports and Schedule



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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 financial statements of Inova Health System (“IHS” or “the System”), which comprise the consolidated balance sheets as of December 31, 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Ernst + Young LLP

March 24, 2023



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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

Qualified and Unmodified Opinions

We have audited the Inova Health System’s (“IHS” or “the System”) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the System’s major federal programs for the year ended December 31, 2022. The System’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Assistance Listing #93.917 HIV Care Formula Grants (Part B)

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Assistance Listing #93.917 HIV Care Formula Grants (Part B) for the year ended December 31, 2022.

Unmodified Opinion on Other Major Federal Program

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the other major federal program identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2022.

Basis for Qualified and Unmodified Opinions

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

and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the System’s compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on Assistance Listing #93.917 HIV Care Formula Grants (Part B)

As described in the accompanying schedule of findings and questioned costs, the System did not comply with requirements regarding Assistance Listing # 93.917 HIV Care Formula Grants (Part B) as described in finding number 2022-002 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility and Program Income.

Compliance with such requirements is necessary, in our opinion, for the System to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

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

Auditor’s Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

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

Finding Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement
2022-001	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	A. Activities Allowed or Unallowed; B. Allowable Costs/Cost Principles and L. Reporting
2022-003	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	P. Other

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

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

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding number 2022-002 related to Assistance Listing # 93.917 HIV Care Formula Grants (Part B) for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility and Program Income to be a material weakness.

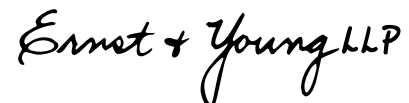
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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
2022-001	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	A. Activities Allowed or Unallowed; B. Allowable Costs/Cost Principles and L. Reporting
2022-003	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	P. Other

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

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

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



September 29, 2023

Inova Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2022

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditor issued: Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major federal programs:

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

Type of auditor’s report issued on compliance for major federal programs: Qualified on compliance and control for Assistance Listing #93.917 HIV Care Formula Grants (Part B) and unmodified for other major program

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

Identification of Major Federal Programs

Assistance Listing Numbers	Name of Federal Program or Cluster
93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
93.917	HIV Care Formula Grants (Part B)

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

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

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

There are no matters that are required to be reported.

Section III – Federal Award Findings and Questioned Costs

Finding Reference: 2022-001 – Activities Allowed or Unallowed, Allowable Costs/
Cost Principles and Reporting

Federal Program Information

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

Awards: Assistance Listing Number 93.498 COVID-19 – Provider Relief Fund and
American Rescue Plan (ARP) Rural Distribution

Award Periods: Period 3 – January 1, 2021 to June 30, 2022
Period 4 – June 30, 2021 to December 31, 2022

Description: Review and Approval of the expenditures included in the HRSA portal
submission

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Criteria

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

The terms and conditions of the award require the recipient to submit reports as the secretary of HHS determines are needed to ensure compliance with conditions that are imposed on the payment, and such reports shall be in such form, with such content, as specified by the secretary of HHS in future program instructions directed to all recipients.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

Condition

The System did not have appropriately designed internal controls in place over the COVID-19 Provider Relief Fund (“PRF”) grant awards related to the review and approval of the expenditures included in the U.S. Health Resources and Services Administration (“HRSA”) portal submission.

Cause

Management did not design internal controls or retain evidence of review and approval of the allowability of expenditures submitted within the HRSA portal.

Effect or potential effect

The expenditures included in the HRSA portal submission could be inaccurate or information reported to HRSA portal may be incomplete or inaccurate.

Questioned costs

None.

Identification of a repeat finding

This is a repeat finding and relates to prior year finding 2021-002.

Context

The System submitted a total of 9 reports within the HRSA portal during Period 3 and Period 4. The total PRF payments received by the System was \$12,424,630. We tested 5 HRSA portal submissions that had total payments from HRSA amount to \$11,977,661. Management did not retain documentation to support review and approval of the allowability of the expenditures entered in the HRSA portal. Audit procedures identified no questioned costs as it related to expenditures included within the HRSA portal submission.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

Recommendation

Management should design internal controls related to the review of the allowability of expenditures for the HRSA portal submission to ensure that the reported amounts are accurate and retain evidence of this review.

View of responsible officials

Management concurs with the finding and will implement procedures to ensure that HRSA reporting reports are prepared by individuals with HRSA reporting experience and reviewed by management prior to submission.

Finding Reference: 2022-002 – Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility and Program Income

Federal Program Information

Federal Agencies:	Department of Health and Human Services
Pass-Through Entity:	Virginia Department of Health
Pass-Through Entity Number:	INORWB611-GY21; INORWB611-GY22 INORPS611-FY22; INORPS611-FY23
Awards:	Assistance Listing Number 93.917 HIV Care Formula Grants (Part B)
Award Periods:	April 1, 2021 to March 31, 2022; April 1, 2022 to March 31, 2023 July 1, 2021 to June 30, 2022; July 1, 2022 to March 31, 2023
Description:	Review and Retention of Eligibility Required Documentation
Type of Finding:	Material Weakness in Internal Control Over Compliance

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 collect the following documentation for client eligibility:

- (a) Legible documentation for proof of residency in Virginia,
- (b) Legible documents for proof of a medical diagnosis of a HIV disease (required only once for each client),
- (c) Legible documentation or proof of household income no greater than 500% of the Poverty Level Guidelines, and
- (d) Legible documentation for proof that the client does not have insurance (including Medicaid) or other program coverage for the services that the client is seeking from the RW Part B Program. Medicaid-enrolled clients who have access to HIV medications are not eligible for VA MAP services.” (INORWB611-GY22 – Client Eligibility Section E.1, INORPS611-FY23 Section A.1).

IJP “will maintain an eligibility checklist and required eligibility documentation in one place in each client file” (INORWB611-GY22 – Client Eligibility Section E.3, INORPS611-FY23 Section A.2). Further, IJP “will verify client eligibility status prior to providing services, including HIV medication services” (INORWB611-GY22 – Client Eligibility Section E.4, INORPS611-FY23 Section A.3). IJP “will not receive reimbursement by the Department for any services provided to clients whose eligibility was not current at the time of service” (INORWB611-GY22 – Client Eligibility Section E.6, INORPS611-FY23 Section A.5).

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

The requirements within the pass-through entity agreement with the Department are consistent with those required by the original Federal awarding agency, the Department of Health and Human Services (DHHS), U.S. Health Resources and Services Administration (HRSA). Per the National Monitoring Standards for Part B included on the official HRSA website, it is the provider/subgrantee's responsibility to "maintain client records that contain documentation of the client's eligibility determination, including the following:

Initial Eligibility Determination and Recertification Documentation Requirements: (1) HIV diagnosis (2) Proof of residency (3) Low Income (4) Uninsured or underinsured status."

HRSA aligns with the Public Service Health Act Section 2616 – Provision of Treatment (b) (1-2) which states "to be eligible to receive assistance from a State under this section an individual shall (1) have a medical diagnosis of HIV/AIDS; and (2) be a low-income individual, as defined by the State."

Per the National Monitoring Standards for Part B included on the official HRSA website, "Income made from charges to RWHAP Part B clients or to insurance companies for services performed is considered program income."

Condition

The System did not have appropriately designed internal controls in place to ensure that the documentation is obtained and reviewed to verify eligibility prior to providing services.

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. Additionally, at each subsequent visit, the receptionist questions each client as to whether there have been any changes in their income or insurance status. If there are changes to the client's eligibility status, another visit is scheduled with the eligibility worker. Management identified that these policies and procedures were not followed during the year due to lack of oversight and related under performance from various eligibility workers employed during the year.

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 obtain and/or retain the required documentation related to the eligibility screening for certain clients. Services continued to be provided and related costs were reimbursed by DHHS. Based on the terms and conditions of the pass-through agreement with DHHS, the clients whose eligibility was not current at the time of service would not be considered eligible and any reimbursed cost would represent unallowable costs. Furthermore, program income represents income made from charges to RW Part B eligible clients or to insurance companies for services performed. Program income was recognized on services and charges for clients whose eligibility was not current at the time of service. For clients that received services in 2022, IJP recognized \$332,344 of program income during the year.

Questioned costs

Indeterminable.

Identification of a repeat finding

This is not a repeat finding.

Context

During our audit, we selected a sample of 60 clients for testing and noted the following 3 exceptions:

- There was no evidence of documentation obtained to prove that the client did not have insurance (including Medicaid) or other program coverage for the services provided for one client.
- There was no evidence of documentation obtained to prove that the client did not have household income no greater than 500% of the Poverty Level Guidelines for one client.
- The documentation for support proof that the client did not have household income no greater than 500% of the Poverty Level Guidelines was retained; however, for one client, the support indicated that they exceeded the Poverty Level Guidelines and services were provided.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

IJP has not completed a full review of all clients that could be impacted by the exceptions above. Further, IJP does not track reimbursed costs at the individual client level. As such, the costs associated with this finding are indeterminable.

Recommendation

IJP's existing policies and procedures are in line with the requirements of the pass-through agreement with DHHS; however, IJP should continue to evaluate whether appropriate oversight is performed to ensure that these policies and procedures are being followed with regard to eligibility verification including maintaining the requirement documentation for all clients.

View of responsible officials

Management concurs with the finding and will implement procedures to ensure that the appropriate oversight is performed with regard to eligibility.

Finding Reference: 2022-003 – Other

Federal Program Information

Federal Agencies: Department of Health and Human Services

Awards: Assistance Listing Number 93.498 COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Award Periods: Period 3 – January 1, 2021 to June 30, 2022
Period 4 – June 30, 2021 to December 31, 2022

Description: Preparation of Schedule of Expenditures of Federal Awards

Type of Finding: Significant Deficiency in Internal Control Over Compliance

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.”

Condition

The System did not have appropriately designed internal controls in place to determine the correct amount of COVID-19 Provider Relief Fund (PRF) grant awards on the Schedule of Expenditures of Federal Awards (the Schedule) for the year ended December 31, 2022.

Cause

The Schedule for the year ended December 31, 2022 continued to include a number of COVID-19 programs. These programs did not follow the historical grant process and therefore, various individuals in the System were involved and responsible for monitoring the terms and conditions of the federal awards and reporting of the federal expenditures. Management did not design internal controls to accurately report expenditures within the Schedule.

Effect or potential effect

The reporting and verification of the completeness and accuracy of the expenditures included in the Schedule is not sufficient.

Questioned costs

None.

Identification of a repeat finding

This is a repeat finding and relates to prior year finding 2021-001.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

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

Context

We identified that the Schedule for the PRF grant awards did not include rural distributions of \$1,483,532. Management reconciled the Schedule to the payments received as well as to the HHS Tracking Accountability in Government Grants System (TAGGS) database, which inappropriately excluded the rural distributions. Management subsequently corrected the amount and the federal expenditures reported on the Schedule include the rural distributions.

Recommendation

The System's policy and procedures should be designed to ensure accurate reporting as required by the Uniform Guidance.

View of responsible officials

There is no disagreement with the audit finding.

**Inova Health System
Corrective Action Plan
Year Ended December 31, 2022**

Audit period: January 1, 2022 to December 31, 2022

Federal Award Finding and Questioned Costs

Finding Reference Number: 2022-001 – Activities Allowed or Unallowed, Allowable Costs/
Cost Principles and Reporting

Federal Program Information:

Federal Agency: U.S. Department of Health and Human Services

Awards: Assistance Listing Number 93.498 COVID-19 – Provider Relief
Fund and American Rescue Plan (ARP) Rural Distribution

Award Periods: Period 3 – January 1, 2021 to June 30, 2022
Period 4 – June 30, 2021 to December 31, 2022

Description: Review and Approval of the expenditures included in the HRSA
portal submission

Type of Finding: Significant Deficiency in Internal Control Over Compliance

Recommendation: Management should design internal controls related to the documentation of the review of the expenditures for the HRSA portal submission to ensure that the reported amounts are accurate.

View of Responsible Officials: Management concurs with the finding and will implement procedures to ensure that HRSA reporting reports are prepared by individuals with HRSA reporting experience and reviewed by management prior to submission.

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

Christopher T. Smith, Vice President of Finance and Corporate Controller, 571-472-8122.

Christopher Trump, Senior Director of Financial Reporting, 571-373-2868.

Michael H. Lowen, Director, Grant Accounting, 571-472-8108.

Corrective Action Planned:

Activities Allowed or Unallowed, Allowable Costs/Cost Principles - Inova has an established process that identifies actions needed to carry out specific responses to identified internal control risks related to the review of the expenditures for the HRSA portal submissions, specifically that the reported amounts are accurate. Part of that process is to review the HRSA portal submissions for specific allowable activities requirements, and those activities/costs that require pre-approval by the awarding agency. Additionally, monthly, the Director of Grants Accounting reviews the budget versus actual reports investigating unusual or unexpected variances and documents results of follow-up work performed. In order to improve both of these processes and ensure more accurate reviews, Inova's Director of Grants Accounting will develop a training program that ensures a timely cadence, of no less than bi-annually, whereby all applicable personnel obtain current knowledge of allowable activities and associated costs to be submitted to HRSA and other governing agencies as deemed appropriate. The program will include self-guided training in addition to enlisting industry experts to instruct on relevant updates. External trainings will be documented either electronically, if so allowed, or through properly recorded minutes.

Reporting - Management will identify, and put into effect, actions needed to carry out specific responses to identified risks related to reporting. Such actions will include enhancing current knowledge of reporting requirements through a training program as discussed above, develop and document all controls over reporting that were leveraged to create and review manually prepared spreadsheets and reports. Prior to the HRSA portal submissions, our review process, as identified above, will be formally documented and evidenced by proper signoffs. Further, we will also address segregation of duties concerns that will alleviate risk of fraud and develop and appropriately document bridge between source data and final reports for any reconciling items and lack of or inappropriate source data or analysis used as the basis of reporting. Inova management will review, and periodically update applicable award agreements or contracts for specific reporting requirements and establish a reporting calendar for review and approval. The calendar will be periodically reviewed with the Grants Management Office ("GMO") for the completeness and accuracy of and adherence to the reporting calendar.

Written policies and procedures will be created outlining processes and control activities for ensuring reporting to federal awarding agencies and pass-through entities are complete and accurate.

Planned Completion Date for Corrective Action Planned:

Ongoing with a completion date of December 31, 2023.

**Inova Health System
Corrective Action Plan (Continued)
Year Ended December 31, 2022**

Audit period: January 1, 2022 to December 31, 2022

Federal Award Finding and Questioned Costs

Finding Reference Number: 2022-002 – Activities Allowed or Unallowed, Allowable Costs/
Cost Principles, Eligibility and Program Income

Federal Program Information:

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Entity: Virginia Department of Health

Pass-Through Entity Number: INORWB611-GY21; INORWB611-GY22
INORPS611-FY22; INORPS611-FY23

Awards: Assistance Listing Number 93.917 HIV Care Formula Grants
(Part B)

Award Periods: April 1, 2021 to March 31, 2022; April 1, 2022 to March 31, 2023
July 1, 2021 to June 30, 2022; July 1, 2022 to March 31, 2023

Description: Review and Retention of Eligibility Required Documentation

Type of Funding: Material Weakness in Internal Control Over Compliance

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

View of Responsible Officials: Management concurs with the finding and has implemented, during 2021 and 2022, procedures to ensure the appropriate oversight is performed regarding eligibility.

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

Christopher T. Smith, Vice President of Finance and Corporate Controller, 571-472-8122.

Christopher Trump, Senior Director of Financial Reporting, 571-373-2868.

Michael H. Lowen, Director, Grant Accounting, 571-472-8108.

Mara Carter, Senior Director Community Health, Inova Juniper Program, 703-321-2687

Corrective Action Planned: All exceptions noted during testing were from eligibility certifications prior to the actions noted below. Patients were not due to have re-certifications done at the time the services were provided. Below are the policies and procedures implemented and the control activities to ensure that policies and procedures are being followed with regard to eligibility verification for all clients.

- VDH Part B Eligibility standards were modified to help reduce the documentation burden in which the annual eligibility screening was extended to a 24-month eligibility review and removal of the six-month recertification requirement. This was incorporated within the VDH contract on April 1, 2022.
- Effective November 1, 2021, the list of acceptable documents changed by VDH. Bank statements were no longer an acceptable proof of residency and viral load values had to be included versus only lab results with undetectable. Also, VDH implemented a new eligibility electronic health record (EHR), Provide Enterprise, to help ensure all eligibility requirements are met for each Ryan White patient. Although this was implemented statewide, Inova continued to utilize the Provide Portal and went live with Provide Enterprise in January 2023. The existing Provide Portal at Juniper did not have an income calculator or the ability to immediately provide feedback that the required forms and eligibility requirement was not met. The new system in place, Provide Enterprise, has both functionalities.
- Inova has strict monitoring practices in place. The practice manager in 2021 and new Senior Practice Manager who started in July 2022 reviewed 110-120 charts monthly, and our Business Analyst performed a 10% reaudit of those charts. The audits completed in 2022 were a result of the implemented processes due to the corrective action plan of the previous audit. These ongoing audits assist management to closely monitor adherence to the changes adopted in 2021 and 2022. If any gaps are noted during the audit, the Senior Practice Manager works with the team to fix discrepancies within seven working days. The goal of the monitoring process is to ensure adopted policies and procedures with respect to eligibility are followed.
- In November 2022, a peer review process was implemented by the Senior Practice Manager to ensure prior submission to any eligibility packet to VDH, there is a second independent review of each packet. This ensures all internal processes are followed. After November 2022, weekly

meetings continued with all eligibility team members and leadership. The peer review focuses mainly on proof of documentation for each requirement and income calculations.

- Inova Juniper Program implemented a revised policy in February 2023. Once Provide Enterprise was fully implemented in February 2023, VDH also added a quality assurance meeting weekly to review all previously submitted packets for the week. The goal is to identify any gaps and opportunities in our processes. The revised policy focuses on the new EHR, Provide Enterprise, capability and to ensure processes include use of the income calculator and compliance with appropriate use of documents related to eligibility.
- All team members went through a robust Provide Enterprise training and all new hires are required to attend the same training. This training incorporates all the appropriate documents needed to be eligible for Ryan White services as well as utilizing the income calculator. The Leadership team, and our internal quality council, review our eligibility scorecards monthly and discuss any trends or opportunities. In addition to the above, leadership also reviewed all job descriptions for our current eligibility team. It was determined based on the scope of their role, that realignment was necessary. The Patient Access Associate (PAA) I role did not require any healthcare or registration experience in order to accurately perform their role. The job focused purely on customer service experience and was an entry level position for the program. The PAA II role requires one year of healthcare registration or revenue cycle experience and the PAA III roles require two years' experience in healthcare registration or revenue cycle. Given the level of detail orientation required for these positions and the ability to fully understand registration, HIPAA, insurance verification and grant mandates, all individuals with the appropriate requirements that were identified as PAA I roles were transitioned to PAA II and PAA III. Through attrition, all roles have successfully been reassigned.

Planned Completion Date for Corrective Action Planned:

Corrective action plan has been implemented.

**Inova Health System
Corrective Action Plan (continued)
Year Ended December 31, 2022**

Audit period: January 1, 2022 to December 31, 2022

Federal Award Finding and Questioned Costs

Finding Reference Number: 2022-003 Other

Federal Program Information:

Federal Agency:	U.S. Department of Health and Human Services
Awards:	Assistance Listing Number 93.498 COVID-19 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
Award Periods:	Period 3 – January 1, 2021 to June 30, 2022 Period 4 – June 30, 2021 to December 31, 2022
Description:	Preparation of Schedule of Expenditures of Federal Awards
Type of Finding:	Significant Deficiency in Internal Control Over Compliance

Recommendation: The System’s policy and procedures should be designed to ensure accurate reporting as required by the Uniform Guidance.

View of Responsible Officials: There is no disagreement with the audit finding.

Corrective Action Planned: Management will design and ensure written policies and procedures will be created outlining processes and control activities to ensure reporting to federal awarding agencies and pass-through entities are complete and accurate.

During the current fiscal year, Inova began implementing enhancements to Oracle’s Grants Accounting module. Once completed, this will assist management to automate certain processes and procedures that were not available after the initial implementation. The enhanced reporting capabilities will include automated reporting that will identify grants that expended federal awards.

Grants Accounting will schedule quarterly meetings with Finance and GMO leadership present. The purpose of these meetings will be to review federal funding received that will ultimately be used in the preparation of financial reports submitted to the appropriate governing agencies. The Director of Grants Accounting will guide the meetings and obtain approvals from department leaders confirming amounts to

be reported for federal grant awards. In preparation of the meetings, the Director of Grants Accounting will prepare an agenda to guide discussions of grant terms and conditions and applicable FAQs, more explicitly for awards received outside of Inova's normal course of business (i.e., COVID-19). These meetings will also provide an opportunity for Finance, GMO, and Grants Accounting leaders to review the unique characteristics of the federal grant award programs on at least a quarterly basis. Meeting minutes will be maintained to document discussions and actions to be taken. The minutes will also serve as support for accounting memos related to special awards received that document Inova's understanding of the award and related reporting requirements. All accounting memos will be prepared by the Director of Grants Accounting and reviewed by the Senior Director of Financial Reporting.

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

Christopher T. Smith, Vice President of Finance and Corporate Controller, 571-472-8122.

Christopher Trump, Senior Director of Financial Reporting, 571-373-2868.

Michael H. Lowen, Director, Grant Accounting, 571-472-8108.

Planned completion Date for Corrective Action Planned:

Ongoing with completion date of December 31, 2023.

**Inova Health System
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2022**

Finding Reference: 2021-001

Management had not finalized the Schedule of Expenditures of Federal Awards (the Schedule) for the year ended December 31, 2021, in a timely manner. The audit was not completed, and the reporting submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period as required by the Uniform Guidance.

Status of Resolution/Prior Corrective Action Plan: Not corrected.

Management continued to enhance procedures around the preparation of the Schedule to include a timely year-end reconciliation between the general ledger and all source documentation to ensure Federal expenditures are complete and accurately reported. Inova is in process of enhancing the grants accounting module in Oracle in order to leverage various additional system features, including reporting. Inova plans to leverage the Oracle Grants Accounting Module to generate reports that identify federal expenditures. Inova continues to identify enhancements through the normal course of business and will incorporate these enhancements into our policies and procedures. This action plan is anticipating remediation and completion with the creation of the Schedule for the year ended December 31, 2023.

Finding Reference: 2021-002

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

Status of Resolution/Prior Corrective Action Plan: Not corrected.

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

Management engaged the support of outside consultants with appropriate expertise to advise on best practices to properly monitor and ensure compliance with the funding received. Management will continue to utilize outside advisors as needed and review its internal controls to ensure approvals are more formally documented, maintained, and saved within the grant accounting's electronic files. This action plan is anticipating remediation and completion as of December 31, 2023.