

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION, INCLUDING
UNIFORM GUIDANCE REPORTS AND SCHEDULE

Inova Health System
Year Ended December 31, 2021
With Reports of Independent Auditors

Ernst & Young LLP



Inova Health System

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

Year Ended December 31, 2021

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Report of Independent Auditors

Management and the Board of Trustees
Inova Health System

Report on the Audit of the Financial Statements

We have audited the consolidated financial statements of Inova Health System (“IHS”), which comprise the consolidated statement of financial position as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the financial statements.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of IHS as of December 31, 2021 and 2020 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from 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 IHS' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 consolidated 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 consolidated 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 consolidated 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 IHS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the IHS' 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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to March 25, 2022. The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 25, 2022 on our consideration of the IHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the IHS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IHS' internal control over financial reporting and compliance.

Ernst + Young LLP

March 25, 2022, except for the schedule of expenditures of federal awards for which the date is December 2, 2022

Inova Health System
Consolidated Balance Sheets
December 31, 2021 and 2020
(in thousands)

	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 582,333	\$ 643,113
Assets whose use is limited, current	197,725	198,155
Patient accounts receivable, net	470,643	420,851
Other current assets	215,478	191,946
Total Current Assets	1,466,179	1,454,065
Property, Equipment and Leasehold Interests, net (Note 5)	2,483,131	2,501,889
Assets Whose Use Is Limited (Notes 2, 6, 7, 15)		
Held by bond trustee	8,899	8,970
By board for plant replacement and expansion	7,539,571	6,212,223
By board for construction projects	181,836	182,953
By donor	185,126	179,087
For professional liability	34,268	34,944
	7,949,700	6,618,177
Less amounts required to meet current obligations	(197,725)	(198,155)
Total Assets Whose Use Is Limited, non-current	7,751,975	6,420,022
Other Assets		
Investments in and receivables from affiliates (Note 8)	107,226	90,308
Goodwill and other intangible assets, net (Note 9)	97,294	105,538
Long-term right-of-use asset (Note 12)	163,336	174,159
Long-term investments	44,394	26,116
Interest rate swap (Note 11)	-	981
Other long-term assets	102,495	112,481
Total Other Assets	514,745	509,583
TOTAL ASSETS	\$ 12,216,030	\$ 10,885,559
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and other accrued expenses	\$ 528,168	\$ 455,002
Third-party settlements	68,220	77,501
Notes payable and other liabilities	117,270	111,858
Current portion of long-term debt (Note 10)	292,559	304,615
Current lease liability (Note 12)	40,452	38,833
Total Current Liabilities	1,046,669	987,809
Non-current Liabilities		
Long-term debt, less current portion (Note 10)	1,471,062	1,570,209
Long-term lease liability (Note 12)	145,927	156,406
Interest rate swap (Note 11)	5,195	10,297
Other non-current obligations	69,229	87,667
Total Non-current Liabilities	1,691,413	1,824,579
Net Assets		
Without donor restrictions	9,121,690	7,754,775
With donor restrictions	282,352	240,569
Total Net Assets Attributable to IHS	9,404,042	7,995,344
Non-controlling interest	73,906	77,827
Total Net Assets	9,477,948	8,073,171
TOTAL LIABILITIES AND NET ASSETS	\$ 12,216,030	\$ 10,885,559

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, 2021 and 2020
(in thousands)

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue	\$ 4,395,846	\$ 3,712,823
CARES Act relief funds revenue	21,322	211,135
Other operating revenue	<u>227,191</u>	<u>231,512</u>
Total Operating Revenues	4,644,359	4,155,470
 Operating Expenses		
Salaries and benefits	2,385,311	2,034,779
Other operating expenses	1,691,145	1,496,096
Depreciation and amortization	314,931	291,824
Interest	<u>47,999</u>	<u>52,513</u>
Total Operating Expenses	<u>4,439,386</u>	<u>3,875,212</u>
 Operating Income	204,973	280,258
 Investment income and other, net	<u>1,176,710</u>	<u>783,166</u>
Excess of Revenues Over Expenses	1,381,683	1,063,424
Less: Non-controlling interest	<u>(15,202)</u>	<u>(10,586)</u>
Excess of Revenues Over Expenses, Attributable to IHS	<u>\$ 1,366,481</u>	<u>\$ 1,052,838</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, 2021 and 2020
(in thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Balance at December 31, 2019	\$ 6,684,613	\$ 214,248	\$ 21,258	\$ 6,920,119
Excess of revenues over expenses (from page 4)	1,052,838	–	10,586	1,063,424
Unrealized gain on investments, net	–	1,811	–	1,811
Capital reimbursements for grants	1,846	–	–	1,846
Gifts and bequests	–	38,514	–	38,514
Restricted investment income	–	3,087	–	3,087
Net assets released from restriction	–	(17,889)	–	(17,889)
Non-controlling equity interest related to business acquisition	–	–	62,567	62,567
Changes in non-controlling equity interest	–	–	(16,584)	(16,584)
Other	15,478	798	–	16,276
Change in net assets	<u>1,070,162</u>	<u>26,321</u>	<u>56,569</u>	<u>1,153,052</u>
Balance at December 31, 2020	7,754,775	240,569	77,827	8,073,171
Excess of revenues over expenses (from page 4)	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	<u>\$ 9,121,690</u>	<u>\$ 282,352</u>	<u>\$ 73,906</u>	<u>\$ 9,477,948</u>

See notes to the consolidated financial statements.

Inova Health System
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020
(in thousands)

	2021	2020
Operating Activities		
Change in net assets	\$ 1,404,777	\$ 1,153,052
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	314,931	291,824
Net realized and unrealized gains on investments	(1,127,085)	(762,299)
Change in fair value of interest rate swaps	(4,121)	6,339
Equity investment gains, net	(2,620)	(15,020)
Non-cash contributions related to business acquisition	–	(79,776)
Increase in accounts receivable and third-party settlements, net	(64,003)	(48,824)
Increase in other current assets	(19,265)	(6,065)
Increase in accounts payable and other current liabilities	72,114	17,087
(Decrease) increase in other non-current obligations	(18,437)	33,898
Restricted contributions and investment income	(54,197)	(41,601)
Other	(15,338)	(33,094)
Net Cash Provided by Operating Activities	486,756	515,521
Investing Activities		
Capital expenditures	(266,632)	(285,936)
Investments in and advances to joint ventures and affiliates	(14,327)	(4,851)
Purchases of investments	(1,783,132)	(3,378,085)
Proceeds from sale of investments	1,609,255	3,296,043
Purchase of business acquisition	(4,812)	(8,750)
Net Cash Used in Investing Activities	(459,648)	(381,579)
Financing Activities		
Principal payments on long-term debt	(108,585)	(31,933)
Proceeds from issuance of long-term debt	–	260,000
Proceeds from lines of credit and advances	–	504,300
Payments on lines of credit and advances	–	(504,300)
Restricted contributions and investment income	66,884	38,346
Payment of financing obligation	–	(183,094)
Other	3,050	(567)
Net Cash (Used in) Provided by Financing Activities	(38,651)	82,752
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(11,543)	216,694
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	688,026	471,332
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	676,483	688,026
Less: Restricted cash included in assets whose use is limited (Note 2)	94,150	44,913
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 582,333	\$ 643,113

See notes to the consolidated financial statements

Inova Health System
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

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 IHS 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 material 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”), and Inova Alexandria Hospital (“Alexandria”), and Inova Loudoun Hospital (“Loudoun”). IHCS also provides and manages the clinical, non-hospital facilities and programs whose services include senior services, assisted living facilities, addiction treatment services for adults and adolescents, outpatient rehabilitation services, urgent care and other outpatient health care services. IHCS also maintains a group of primary care and specialty physicians operating as the Inova Medical Group.

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

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, 2021 and 2020.

Investments in equity securities with readily determinable fair values and all investments in debt securities held by IHS' custodian are designated as trading securities. Investment income (including realized gains and losses, unrealized gains and losses, interest, and dividends), inclusive of investment return on alternative investments discussed further below, is included in excess of revenues over expenses unless such earnings are subject to donor-imposed restrictions. Investment 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 partnership within alternative investments are audited annually.

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

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.

Accounting Standards Codification ("ASC") Topic 842, *Leases*, includes an accounting policy election for non-public business entities to use the risk-free rate for the measurement of lease liabilities. IHS elected to utilize the risk-free rate for the measurement of lease liabilities for initial transition and going forward. This rate will be applied to all leases using a period comparable to the lease.

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.

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

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

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

Goodwill and Other Intangible Assets: Goodwill has resulted from business combinations, primarily physician practice acquisitions, 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 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 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.

Other Long-term Assets: Other long-term assets primarily include pledges receivable, less current portion and capitalized costs incurred for hosting arrangements for a service contract with the requirements for capitalizing costs incurred to develop or obtain internal use software. IHS entered into a cloud services agreement in 2019, which included a subscription package for Oracle Software as a Service ("SaaS") Cloud Services for a ten-year fixed noncancelable term with the option to renew for the subsequent five years. Capitalized implementation costs are recorded as part of other long-term assets and consist of \$61.7 million and \$51.0 million as of December 31, 2021 and 2020, respectively. Capitalized implementation costs are amortized over their expected useful life of five years. Amortization related to capitalized implementation costs, included within other operating expenses on the accompanying Consolidated Statement of Operations and Changes in Net Assets, was \$9.2 million as of December 31, 2021, subsequent to implementation April 1, 2021.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Income Taxes: The Foundation and IHCS are not-for-profit corporations and have been determined to be exempt from federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code. Therefore, these entities will not incur any liability for federal income tax, except for possible unrelated business income. IHI and its subsidiaries are taxable organizations. Deferred income taxes are provided for all significant timing differences between revenues and expenses reported for financial statement and for tax purposes. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. Accounting principles generally accepted in the United States require management to evaluate uncertain tax positions taken by IHS. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service. Management has concluded that as of December 31, 2021 and 2020, 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 excluding the CARES Act relief funds revenue, net assets released from restriction, and other non-patient service revenue.

CARES Act Relief Funds Revenue: A variety of federal, state, and local efforts have been initiated in response to the COVID-19 crisis, the largest of which is the Coronavirus Aid, Relief, and Economic Security ("CARES") Act that was enacted on March 27, 2020. The CARES Act is a federal stimulus package designed to provide emergency assistance to individuals and businesses, including hospitals and other health care providers. The CARES Act authorizes funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Relief Fund ("Provider Relief Fund"). Payments received from the Provider Relief Fund shall reimburse the recipient for health care-related expenses or lost revenues attributable to coronavirus and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions. IHS has received approximately \$21.3 million and \$211.1 million in stimulus funding for the year ended December 31, 2021 and 2020, respectively, that has been recorded within CARES Act Relief Funds revenue on the accompanying Consolidated Statements of Operations and Changes in Net Assets. IHS recognized these amounts based on its evaluation of the terms and conditions prescribed by the U.S. Department of Health and Human Services. IHS will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on IHS' revenues and expenses. See Note 14 for further information on the COVID-19 pandemic.

Subsequent Events: IHS has evaluated subsequent events that have occurred for recognition and disclosure through March 25, 2022, the date the accompanying consolidated financial statements were available for issuance.

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

changes to the health care industry, resulting from changes in health care reform measures; (iv) changes in revenue mix, or delays in receiving payments from third-party payors, including any payments from the state of Virginia that may result if there were delays in appropriations and state budget deficits; (v) proposed and/or future changes in the laws, rules, regulations and policies relating to the definition, activities, and/or taxation of non-profit tax-exempt entities; (vi) future legislation, regulation or other actions by federal, state and local governments and their agencies, which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for health care services; (vii) future legislation or adverse trends affecting the costs related to professional liability coverage; (viii) the future of Virginia's Certificate of Need program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate IHS' ability to expand new services; (ix) changes in general and local economic conditions that could influence patients' ability to pay for services or the adequacy of patients' health insurance coverage; (x) a potential shortage of physicians, qualified nurses and other skilled health care professionals in the local employment market; (xi) potential threat of cyber security attacks or breaches to IHS 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. IHS continues to be impacted as of March 25, 2022. See Note 14 for further information on the COVID-19 pandemic.

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. Management is currently evaluating the impact of adopting this new accounting guidance.

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 is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. IHS is currently assessing the impact that ASU 2020-07 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

3. Net Patient Service Revenue (continued)

arrangements with third-party payors for services provided to patients typically specify payments at amounts less than IHS' standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

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

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

	2021		2020	
Medicare	\$ 727,802	15.6%	\$ 613,944	14.8%
Medicaid	416,939	9.0%	369,060	8.9%
Commercial and other	3,251,105	70.0%	2,729,819	65.6%
Net Patient Service Revenue	4,395,846	94.6%	3,712,823	89.3%
CARES Act relief funds revenue	21,322	0.5%	211,135	5.1%
Other operating revenue	227,191	4.9%	231,512	5.6%
Total Operating Revenue	\$ 4,644,359	100.0%	\$ 4,155,470	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 2021 or 2020.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

3. Net Patient Service Revenue (continued)

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

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

For the years ended December 31, 2021 and 2020, estimated implicit price concessions of \$168.7 million and \$134.4 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.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

4. Charity Care and Other Community Benefits (continued)

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

	<u>2021</u>	<u>2020</u>
Charity care	\$ 97,872	\$ 88,132
Unpaid cost of state programs to financially disadvantaged persons	218,020	184,158
Community health programs	28,821	29,943
Medical education and research	36,560	31,801
Total community benefits, at cost	<u>\$ 381,273</u>	<u>\$ 334,034</u>

5. Property, Equipment and Leasehold Interests

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

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 263,757	\$ 262,911
Buildings, fixed equipment and leasehold improvements	3,405,873	3,356,389
Capitalized software	261,160	255,799
Major movable equipment	1,681,703	1,581,237
	5,612,493	5,456,336
Less: Accumulated depreciation and amortization	<u>(3,321,884)</u>	<u>(3,043,684)</u>
	2,290,609	2,412,652
Construction-in-progress	192,522	89,237
Total	<u>\$ 2,483,131</u>	<u>\$ 2,501,889</u>

Amortization expense on capitalized software was \$16.9 million and \$19.8 million for the years ended December 31, 2021 and 2020, respectively.

6. Assets Whose Use Is Limited

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 229,458	\$ 232,196
Equity securities	1,051,790	701,945
Debt securities	992,288	1,011,806
Alternative investments		
Global equity	3,991,054	3,311,309
Hedge funds	326,116	611,775
Private Investments	1,358,994	749,146
Total	<u>\$ 7,949,700</u>	<u>\$ 6,618,177</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

6. Assets Whose Use Is Limited (continued)

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

The hedge funds may invest in multiple strategies, including long and short equity, other non-directional, distressed securities, and various forms of arbitrage. The private investment funds invest primarily in domestic companies. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements and typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution, while the underlying investments are liquidated. For global equity funds and hedge funds, the redemption frequency ranges from daily to every three years with redemption notice periods from 1 to 150 days. For private investment funds, IHS' liquidity is at the fund managers' discretion and may apply to all or portions of a particular invested amount. There are approximately \$1.7 billion of funds that are subject to lock up restrictions and are not available to be redeemed until certain time restrictions are met, which range from 3 months to 15 years. Total unfunded commitments to alternative investment funds are \$452.8 million and \$612.8 million as of December 31, 2021 and 2020, 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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

7. Fair Value Measurements (continued)

most recent partner's capital statements received from the general partners. This valuation methodology is consistent with the equity method.

The following tables present IHS' assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020, 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, 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	\$ 2,273,536	\$ 1,281,248	\$ 992,288	\$ –
Liabilities:				
Interest rate swap liability	\$ (5,195)	\$ –	\$ (5,195)	\$ –
Total liabilities	\$ (5,195)	\$ –	\$ (5,195)	\$ –

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

7. Fair Value Measurements (continued)

	December 31,			
	2020	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 232,196	\$ 232,196	\$ –	\$ –
U.S. government and agency securities	663,892	–	663,892	–
Corporate and other bonds				
– Asset-backed securities	172,737	–	172,737	–
– Corporate and other bonds	157,384	–	157,384	–
– Other government securities	17,793	–	17,793	–
Equity securities				
– Domestic	132,060	132,060	–	–
– International	206,848	206,848	–	–
Mutual fund / ETF				
– Equity	39,818	39,818	–	–
– Fixed income and other	323,219	323,219	–	–
	<u>1,945,947</u>	<u>934,141</u>	<u>1,011,806</u>	<u>–</u>
Interest rate swap asset	981	–	981	–
Total assets	<u>\$ 1,946,928</u>	<u>\$ 934,141</u>	<u>\$ 1,012,787</u>	<u>\$ –</u>
Liabilities:				
Interest rate swap liability	\$ (10,297)	\$ –	\$ (10,297)	\$ –
Total liabilities	<u>\$ (10,297)</u>	<u>\$ –</u>	<u>\$ (10,297)</u>	<u>\$ –</u>

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

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

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

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 holds a 50% interest in IHealth, which is accounted for using the equity method of accounting.

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

	Carrying Value		Equity Method Income (Losses)	
	2021	2020	2021	2020
IHealth	\$ 81,125	\$ 76,162	\$ 4,963	\$ 22,735
Other investment accounted for under equity method	26,101	14,146	(2,343)	(7,715)
Total investments in affiliates	\$ 107,226	\$ 90,308	\$ 2,620	\$ 15,020

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):

	2021	2020
Total assets	\$ 228,571	\$ 220,748
Total liabilities	61,102	60,684
Net assets	167,469	160,064
Total revenues, net	325,191	367,207
Excess of revenue over expenses (excluding minority interest)	9,924	42,815

9. Goodwill and Other Intangible Assets

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

	2021	2020
Intangible assets	\$ 14,880	\$ 14,135
Accumulated amortization	(5,969)	(5,155)
Total intangibles, net	8,911	8,980
Goodwill	114,466	110,830
Accumulated amortization	(26,083)	(14,272)
Total goodwill, net	88,383	96,558
Total goodwill and intangibles	\$ 97,294	\$ 105,538

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

9. Goodwill and Other Intangible Assets (continued)

On January 1, 2020, IHS entered into agreement with Fairfax Radiological Consultants, PC (“FRC PC”) to form a new entity, Fairfax Radiology Consultants, LLC (“FRC LLC”). In connection with the formation, IHS contributed substantially all their radiology imaging business in exchange for 51% ownership of FRC LLC. FRC PC contributed net assets in exchange for the remaining 49% interest. As IHS controls FRC LLC, the operations of FRC LLC have been consolidated within the consolidated financial statements beginning in 2020. As the assets contributed by IHS were an exchange between entities under common control, there was no change in basis for such assets and liabilities upon the transaction. IHS accounted for the assets and liabilities acquired from FRC PC as an acquisition in accordance with ASC 958-805, *Not-for-Profit Mergers and Acquisitions*, by applying the acquisition method and accordingly, the contribution received was valued as the excess of assets acquired over liabilities assumed and is presented as an increase in net assets on the statement of changes in net assets. In determining the contribution received, all assets acquired, liabilities assumed and equity transferred were measured at fair value as of the acquisition date. As a result of the acquisition of net assets from FRC PC, goodwill of \$67.2 million and intangible assets of \$5.0 million were recognized. IHS recorded \$62.6 million of non-controlling interest for the portion of net assets attributable to FRC PC as of January 1, 2020. The results of operations have been included in the accompanying consolidated financial statements for the years ended December 31, 2021 and 2020. For the years ended December 31, 2021 and 2020, FRC LLC recorded total operating revenues and excess of expenses over revenue were \$129.8 million and \$(4.3) million, and \$84.3 million and \$(10.3) million, respectively. For the years ended December 31, 2021 and 2020, the portion of earnings and net assets attributable to FRC PC was reported as non-controlling interest on the accompanying Consolidated Statement of Operations and Changes in Net Assets.

Amortization expense of goodwill and intangible assets was \$22.0 million and \$11.6 million, for the years ended December 31, 2021 and 2020, respectively.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

10. Long-Term Debt

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

	<u>2021</u>	<u>2020</u>
Long-term Debt of the IHS Obligated Group		
1993A Hospital Revenue Refunding Bonds; maturing 8/15/23; semi-annual interest at a fixed rate of 2.75% to 5.25%	\$ 16,545	\$ 24,230
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	258,605
2012B Health Care Revenue Bonds; maturing 5/15/42; semi-annual interest at a fixed rate of 3.0% to 5.0%	60,000	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	70,395
2013 Health Care Revenue Bonds; maturing 12/1/23; monthly interest at a fixed rate of 2.15%	27,678	40,940
2014A Health Care Revenue Bonds; maturing 5/15/44; semi-annual interest at a fixed rate of 2.5% to 5.0%	200,000	200,000
2016A Health Care Revenue Bonds; maturing 5/15/31; semi-annual interest at a fixed rate of 5.0%	100,455	106,255
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%	97,725	98,155
2018A Health Care Revenue Bonds; maturing 5/15/48; semi-annual interest at a fixed rate of 3.0% to 5.0%	196,810	198,455
2018B Health Care Revenue Bonds; maturing 5/15/57; semi-annual interest at a fixed rate of 5.0%	75,000	150,000
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
Total Long-term Debt of the IHS Obligated Group	1,695,963	1,803,060
Less: Current Portion of Long-term Debt	(289,738)	(303,323)
Net Original Issue Premium	65,585	73,819
Net Deferred Financing Costs	(8,550)	(9,262)
Net Long-term Debt of the IHS Obligated Group	\$ 1,463,260	\$ 1,564,294
Total Long-term Debt of Non-Obligated IHS Affiliates	\$ 10,623	\$ 7,207
Less: Current Portion of Long-term Debt	(2,821)	(1,292)
Net Long-term Debt of Non-Obligated IHS Affiliates	\$ 7,802	\$ 5,915
Total Net IHS Long-term Debt	\$ 1,471,062	\$ 1,570,209

The majority of the long-term debt of the non-obligated IHS affiliates represents construction loans of \$2.3 million, \$3.3 million and \$3.0 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, 2021.

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

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

10. Long-Term Debt (continued)

In September 2020, IHS issued Series 2020 Senior Notes through taxable fixed rate private placement for \$260.0 million. The proceeds were used to replenish the funds used to purchase the Inova Center for Personalized Health (“ICPH”) campus and to provide funds that were paid in May 2021 related to the mandatory tender of \$75 million of Series 2018B bonds.

IHS holds \$196.8 million of Series 2018A bonds issued by the Industrial Development Authority for the benefit of the Obligated Group as of December 31, 2021. The 2018A bonds are comprised of fixed rate term and coupon bonds with principal payments starting in the year 2019. Interest is payable semiannually on May 15 and November 15 of each year, commencing on November 15, 2018. The premium received was \$12.1 million. The total proceeds from the offering were \$219.0 million.

IHS holds \$75.0 million of the \$150 million Series 2018B bonds issued by the Industrial Development Authority for the benefit of the Obligated Group. The 2018B bonds are comprised of coupon bonds with principal payments starting in May 2033 with mandatory tender of \$75 million on May 15, 2021 and May 15, 2023, respectively. Interest is payable semiannually on May 15 and Nov 15 of each year, commencing November 15, 2018. The premium received was \$16.0 million. The total proceeds from the offering were \$166.0 million.

IHS holds \$100.0 million of Series 2018C bonds issued by the Industrial Development Authority for the benefit of the Obligated Group. The 2018C bonds are comprised of self-liquidity variable rate demand bonds. Interest is payable on the first day of each month, commencing on September 1, 2018.

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 is in compliance with the financial ratio requirements.

The interest rate on the variable rate bonds ranged between 0.02% and 0.66% in 2021 and 0.07% and 5.95% in 2020. 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 \$197.7 million and \$198.1 million as of December 31, 2021 and 2020, 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, 2021, are as follows (in thousands):

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>	<u>Total</u>
Scheduled maturities	\$ 95,385	\$ 111,696	\$ 19,855	\$ 19,406	\$ 70,695	\$ 1,192,274	\$ 1,509,311
Bonds under remarketing agreement and subject to mandatory tender	197,275	-	-	-	-	-	197,275
Total	<u>\$ 292,660</u>	<u>\$ 111,696</u>	<u>\$ 19,855</u>	<u>\$ 19,406</u>	<u>\$ 70,695</u>	<u>\$ 1,192,274</u>	<u>\$ 1,706,586</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

10. Long-Term Debt (continued)

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, 2021 and 2020, the amount of CP outstanding was \$100.0 million.

Total interest paid was \$60.0 million and \$64.5 million for the years ended December 31, 2021 and 2020, respectively.

IHS maintains unsecured lines of credit with two large commercial banks with a combined available principal amount of \$237.5 million. The two line of credits for \$137.5 million and \$100.0 million are scheduled to expire on July 30, 2022 and June 30, 2022 respectively; however, management intends to renew both. As of December 2021 and 2020, 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, 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>
As of December 31, 2020							
Merrill Lynch Capital Services, Inc.	\$ 50,000	5/15/2034	Fixed Payer	1.65%	67% of one-month USD LIBOR	\$ (3,232)	\$ 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%	981	45,000
JPMorgan Chase Bank, N.A.	69,495	5/15/2034	Fixed Payer	1.45%	67% of one-month USD LIBOR	(7,065)	25,000
Total	<u>\$ 219,495</u>					<u>\$ (9,316)</u>	<u>\$ 100,000</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

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 \$59.4 million and \$55.9 million in 2021 and 2020, respectively. The following table summarizes the components of IHS' lease expense for the years ended December 31, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Finance lease cost		
Amortization	\$ 601	\$ 724
Interest	443	125
Total finance lease cost	1,044	849
Operating lease cost	40,006	38,381
Short-term lease cost	12,628	12,457
Variable lease cost	5,762	4,253
Total lease cost	<u>\$ 59,440</u>	<u>\$ 55,940</u>

IHS recognized \$163.3 million and \$174.2 million in right-of-use assets on the accompanying Consolidated Balance Sheets as of December 31, 2021 and 2020, respectively, all of which were associated operating leases and classified as noncurrent. The following table summarizes the components of operating and finance lease liabilities classified as current and noncurrent on the accompanying Consolidated Balance Sheets as of December 31 (in thousands):

	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Total</u>
December 31, 2021			
Current	\$ 38,832	\$ 1,620	\$ 40,452
Long-term	140,827	5,100	145,927
Total lease liabilities	<u>\$ 179,659</u>	<u>\$ 6,720</u>	<u>\$ 186,379</u>
December 31, 2020			
Current	\$ 37,904	\$ 929	\$ 38,833
Long-term	153,632	2,774	156,406
Total lease liabilities	<u>\$ 191,536</u>	<u>\$ 3,703</u>	<u>\$ 195,239</u>

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

	<u>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows paid for operating leases	\$ 42,901	\$ 40,034
Operating cash flows paid for interest portion of finance leases	\$ 190	\$ 71
Financing cash flows paid for principal portion of finance leases	\$ 1,304	\$ 854
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	\$ 28,335	\$ 99,248
Finance leases	\$ 4,657	\$ 2,706

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

12. Leases (continued)

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

	<u>2021</u>	<u>2020</u>
Weighted average discount rate:		
Operating leases	1.97%	2.05%
Finance leases	3.00%	3.76%
Weighted average lease term:		
Operating leases	5.73	5.71
Finance leases	4.34	4.31

The following table summarizes the maturity of operating and finance lease liabilities as of December 31, 2021 (in thousands):

	<u>Operating Leases</u>	<u>Finance Leases</u>
2022	\$ 41,751	\$ 1,761
2023	38,445	1,461
2024	31,117	1,421
2025	26,565	1,322
2026	17,330	952
Thereafter	<u>35,504</u>	<u>350</u>
Total lease payments	190,712	7,267
Less: Imputed interest	<u>(11,085)</u>	<u>(515)</u>
Total lease liabilities	<u>\$ 179,627</u>	<u>\$ 6,752</u>

13. Financing Obligation

On February 5, 2015, IHS entered into a 99-year lease agreement for rights to 117 acres of land and 1.2 million square feet of office space. This large corporate campus is adjacent to its flagship hospital in Fairfax, Virginia. IHS took possession of the site on October 1, 2015. The lease agreement provided the lessor with a put option to sell the property to IHS upon 90 days' written notice for \$180.0 million at any time during the first five years of the lease. In March 2020, under the terms of this lease agreement, the lessor exercised its put option to sell this property to IHS for \$183.1 million, and such sale was completed in June 2020. As a result of this purchase, the related lease liability was extinguished, resulting in zero balance in financing obligation. Future minimum payments ceased to exist subsequent to exercise.

14. 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.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

14. COVID-19 Public Health Emergency (continued)

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 received and recognized approximately \$21.3 and \$211.1 million of revenue from the Provider Relief Fund for the years ended December 31, 2021 and 2020, respectively. 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.
- 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. IHS has paid \$29.2 million of this deferred amount during the year ended December 31, 2021. As of December 31, 2021, IHS has deferred payment of \$29.3 million of those tax payments, which is recorded in accounts payable and other accrued expenses on the accompanying Consolidated Balance Sheet.
- Maintained unsecured lines of credit with two banks with a combined available principal amount of \$237.5 million that were renewed as of July 2021 through July 2022 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.

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.

Although IHS has activated plans to address the pandemic and operates pursuant to infectious disease protocols, the potential impact of a pandemic, epidemic or outbreak of an infectious disease with respect to the IHS’ service areas or facilities is difficult to predict and could adversely impact the business, financial condition or results of operations, and, accordingly, may materially adversely impact the financial condition of IHS.

Although COVID-19 vaccines began being administered in the United States in December 2020, it is impossible to predict what percentage of the population will ultimately be vaccinated, the duration of vaccine protection, and whether current vaccines will protect against new COVID-19 variants. Accordingly, it is not clear how long any existing public health safety measures will remain in place or whether any new measures will be required.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

15. 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 \$2.5 million per claim and \$19 million in annual aggregate for professional liability. Additional risk is reinsured in umbrella forms through Lloyds of London, other European companies, Zurich North American, and CNA, together providing limits of \$50 million per claim, and \$50 million in the aggregate, in excess of the InovaCap retention. The accompanying Consolidated Balance Sheets at December 31, 2021 and 2020, include in other noncurrent obligations \$30.2 million and \$25.7 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 2020 and prior years. The liabilities are discounted at 0.9% and 1.19% at December 31, 2021 and 2020, respectively, for certain health plan obligations.

Investments and other assets held by InovaCap of \$34.3 million and \$34.9 million at December 31, 2021 and 2020, 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 accompanying Consolidated Balance Sheets.

16. Fairfax County Leases

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

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

The terms of the County Lease outline an indigent care policy to assure all individuals in the County have access to medically necessary care. Patients’ payment obligations under the policy are determined using a sliding income scale that is based on the federal poverty guidelines. During the term of the County Lease, IHS has agreed to notify the County of any intent to incur additional debt in excess of \$1.0 million. IHS has also agreed to notify the County of any intent to enter into contractual agreements for the management or operation of Inova Fairfax Hospital or Inova Mount Vernon Hospital by persons other than IHS, or any intent to change hospital rates.

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

17. 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, 2021 and 2020, were approximately \$244.8 million and \$125.3 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 subject to various 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.

18. 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>
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>
2020			
Salaries and benefits	\$ 1,729,040	\$ 305,739	\$ 2,034,779
Other operating expenses	1,340,646	155,450	1,496,096
Depreciation and amortization	215,697	76,127	291,824
Interest	50,907	1,606	52,513
Total Operating Expenses	<u>\$ 3,336,290</u>	<u>\$ 538,922</u>	<u>\$ 3,875,212</u>

Inova Health System
Notes to Consolidated Financial Statements (continued)
December 31, 2021 and 2020

19. Net Assets with Donor Imposed Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose		
Healthcare services and programs	\$ 230,350	\$ 201,436
Employee education, recognition and support	10,760	12,741
Research	20,750	20,032
Buildings and equipment	20,492	6,360
Total net assets with donor restrictions	<u>\$ 282,352</u>	<u>\$ 240,569</u>

20. 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>2021</u>	<u>2020</u>
Less than one year	\$ 3,096	\$ 6,252
One to five years	57,736	51,450
More than five years	1,141	18,575
Total pledges receivable	<u>61,973</u>	<u>76,277</u>
Present value discount	(2,634)	(1,457)
Allowance for uncollectible pledges	(10,674)	(13,468)
Net pledges receivable	<u>\$ 48,665</u>	<u>\$ 61,352</u>

21. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following at December 31, 2021 and 2020 (in thousands):

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 582,333	\$ 643,113
Patient accounts receivable, net	470,643	420,851
Pledge receivables, net	3,096	5,067
Other receivables	27,693	39,302
Investments with three-day liquidity	5,396,241	4,185,553
Total	<u>\$ 6,480,006</u>	<u>\$ 5,293,886</u>

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, 2021

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 and Subaward 21-B4119VP19	\$ 310,992	\$ —
Total Department of Justice, Office of Justice Programs			<u>310,992</u>	<u>—</u>
Department of the Treasury:				
Pass-Through Commonwealth of Virginia:				
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds (“CSLFRF”), Coronavirus State Fiscal Recovery Fund (“CSFRF”) and Coronavirus Local Fiscal Recovery Fund (“CLFRF”)	21.027	22-A4119ARRF	20,723	—
Total Department of the Treasury			<u>20,723</u>	<u>—</u>
Department of Health and Human Services (“DHHS”):				
COVID-19 – Testing for the Uninsured	93.461	N/A	8,830,444	—
COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	93.498	N/A	211,815,962	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

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”): Ryan White Comprehensive AIDS Resources Emergency Act of 1990 Pass-through University of Pittsburgh: HIV-Related Training and Technical Assistance				
	93.145	Subaward CNVA00050178 (136319-4) Subaward CNVA00050178 (134540-4) Subaward CNVA00050178 (135293-2)	\$ 233,050	\$ —
COVID-19 – HIV-Related Training and Technical Assistance	93.145	Subaward CNVA00050178 (135293-2) Subaward AWD00002368 (134508-4)	24,928	—
Total Federal Assistance Listing # 93.145			257,978	—
Coordinated Services and Access to Research for Women, Infants, Children and Youth (Part D) COVID-19 – Coordinated Services and Access to Research for Women, Infants, Children and Youth (Part D)				
	93.153	N/A	650,439	—
	93.153	N/A	19,428	—
Total Federal Assistance Listing # 93.153			669,867	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-through Virginia Hospital Research and Education Foundation: COVID-19 – Emergency grants to address mental and substance use disorders during COVID-19	93.665	H79FG000285	\$ 7,063	\$ –
Pass-through Virginia Health Care Foundation: Children’s Health Insurance Program	93.767	N/A	176,774	
Total Federal Assistance Listing # 93.767			<u>176,774</u>	<u>–</u>
Pass-through District of Columbia Department of Health: HIV Emergency Relief Project Grants	93.914	Subaward 20D066 Subaward 21E066	264,962	–
COVID-19 – HIV Emergency Relief Project Grants	93.914	Subaward 20D066	18,281	–
Total Federal Assistance Listing # 93.914			<u>283,243</u>	<u>–</u>
Pass-through Virginia Department of Health: HIV Care Formula Grants (Part B)		Subaward INOMAI611GY19 Subaward INORWB611GY20 Subaward INORPS6110FY22		
Total Federal Assistance Listing # 93.917	93.917		<u>2,853,299</u>	<u>–</u>

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

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
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918	N/A	\$ 1,302,713	\$ –
COVID-19 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918	N/A	69,770	–
Total Federal Assistance Listing # 93.918			<u>1,372,483</u>	<u>–</u>
HIV Prevention Activities Non-Governmental Organization Based	93.939	N/A	46,920	–
Pass-through Virginia Department of Health: HIV Prevention Activities Health Department Based	93.940	Subaward INOCHTP611GY20	18,255	–
Total Department of Health and Human Services (“DHHS”)			<u>226,332,288</u>	<u>–</u>

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Research & Development Cluster:				
Department of Defense, U.S. Army Medical R & D Command:				
Pass-through Vanderbilt University Medical Center:				
Military Medical Research and Development	12.420	Subaward 2004765109	\$ 33,602	\$ –
Pass-through The Johns Hopkins University:				
Military Medical Research and Development	12.420	Subaward 2004765109	4,320	–
Pass-through University of Pittsburgh:				
Military Medical Research and Development	12.420	Subaward AWD00003140 (417116-2)	164,185	–
Pass-through University of Arkansas Systems:				
Military Medical Research and Development	12.420	Subaward FP 54998 Subaward FP 55599	55,739	–
Pass-through The University of Melbourne:				
Military Medical Research and Development	12.420	Subaward W81XWH-21-1-0401-INOVA	1,276	–
Pass-through The Ohio State University:				
Military Medical Research and Development	12.420	Subaward SPC-1000005071/GR123803	8,826	–
Pass-through University of Maryland:				
Novel Topical Antibiotic Therapy	12.420	Subaward 2003879	137	–
Total Federal Assistance Listing # 12.420			268,085	–

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

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		Subaward 5336 Subaward 5756 Subaward 4833 Subaward 5551 Subaward 5721 Subaward 5335 Subaward 5724	\$ 1,724,866	\$ —
	12.750			
Pass-through The Metis Foundation: Uniformed Services University Medical Research Projects		Subaward S-HU0001-19-2-0029-05	1,282	
	12.750			
Total Federal Assistance Listing # 12.750			1,726,148	—
Total Department of Defense			1,994,233	—
Department of Transportation, National Highway Traffic Safety Administration (“NHTSA”): NHTSA Discretionary Safety Grants and Cooperative Agreements				
	20.RD	Contract No DTNH2217D00067	405,749	—
Total Department of Transportation			405,749	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

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 Health and Human Services (“DHHS”): DHHS, Centers for Disease Control and Prevention (“CDC”): Pass-through Virginia Department of Health: Epidemiology and Laboratory Capacity for Infectious Diseases (“ELC”)	93.323	Subaward INOSER610-GY22	\$ 9,924	\$ —
Total Federal Assistance Listing # 93.323			9,924	—
DHHS, Food and Drug Administration (“FDA”): Food and Drug Administration Research	93.103	N/A	271,974	—
DHHS, National Institutes of Health: National Heart, Lung and Blood Institute (“NHLBI”) Pulmonary Vascular Program Support	93.RD 93.RD	HHSN268201700011C 75N92022P00023	23,567 3,547	— —
NHLBI Heart and Lung Transplant Sample Collection Project	93.RD	HHSN268201800089A	52,663	—
National Heart, Lung and Blood Institute (“NHLBI”) Pass-through The University of Utah: Population Health Research Support	93.RD 93.RD	HHSN268201800037A Subaward 10050768-01 Subaward 10050768-04	3,063 75,170	— —
Total Federal Assistance Listing # 93.RD			158,010	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-through Mount Sinai Medical Center of Florida, Inc.: Research and Training in Complementary and Integrative Health	93.213	UH3AT009149	\$ 156	\$ —
Pass-through Virginia Commonwealth University: Research on Healthcare Costs, Quality and Outcomes	93.226	Subaward FP00009858_SA003	31,361	—
Pass-through The Rector and Visitors of the University of Virginia: National Center for Advancing Translational Sciences (Pilot study)	93.350	Subaward GB10667.PO #2125216 Subaward GB10667.PO #2125216 Subaward GB10667.PO #2152099	186,634	—
Total Federal Assistance Listing # 93.350			186,634	—
Pass-through from Health Research, Inc. – Roswell Park Division: 21st Century Cures Act – Beau Biden Cancer Moonshot	93.353	Subaward 373-01	10,996	—
Pass-through NorthShore University Health System: Cancer Cause and Prevention Research	93.393	Subaward EH17-130-S1	84,980	—
Cancer Detection and Diagnosis Research	93.394	N/A	328,669	260,154

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-through Beckman Research Institute of the City of Hope: Cancer Centers Support Grants	93.397	60600.2004497.669306	\$ 47,552	\$ —
Pass-through Georgetown University: Cardiovascular Diseases Research	93.837	Subaward 424475_GR413637-HIS AWD-7773585 Subaward 424692_GR413637-IHS	113,240	—
Pass-through The Ohio State University: Cardiovascular Diseases Research	93.837	Subaward 60071070 Subaward 60077279	3,175	—
The General Hospital Corporation d/b/a Massachusetts General Hospital: Cardiovascular Diseases Research	93.837	Subaward 235964	21,600	—
Pass-through Emory University: Cardiovascular Diseases Research	93.837	Subaward T835203	8,325	—
Pass-through Icahn School of Medicine at Mount Sinai: Cardiovascular Diseases Research	93.837	Subaward 0255-A342-4605	9,573	—
Pass-through Brigham and Women’s Hospital, Inc.: Cardiovascular Diseases Research	93.837	5U01HL130163-04	1,072	—
Pass-Through Yale University: Cardiovascular Diseases Research	93.837	Subaward GR107815 (CON-80001979) Subaward GR110783 (CON-80002552)	22,373	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-Through Sutter Bay Hospitals dba California Pacific Medical Center: Cardiovascular Diseases Research	93.837	5U01HL123336-06	\$ 31,521	\$ —
Pass-Through Duke University: Cardiovascular Diseases Research	93.837	5U10HL084904-12 REVISED	985	—
Cardiovascular Diseases Research	93.837	N/A	556,241	—
Total Federal Assistance Listing # 93.837			768,105	—
Pass-through University of Pittsburgh: Lung Diseases Research	93.838	Subaward CNVA00046691 (133106-32)	1,290	—
Pass-through The Washington University: Blood Diseases and Resources Research	93.839	Subaward WU-18-386-MOD-2	194	—
Pass-through Transonic System: Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1 R43 HL152851-01	10,588	—

Inova Health System

Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title/Project Title	Federal Assistance Listing #	Pass-through Entity Identifying Number/Grantor Number	Federal Expenditures	Subrecipient Expenditures
Pass-through Mayo Clinic Jacksonville: Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Subaward INO – 224063-02 Subaward INO – 224063-03 Subaward INO – 232483-01 Subaward INO – 232483-02	\$ 60,854	\$ –
Pass-through The Rector and Visitors of the University of Virginia: Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	R21NS106480 Subaward GB10629.160426 5R21NS106480-02 Subaward GB10629.160426	2,067	–
Pass-through University of Cincinnati on behalf of its NIH StrokeNet, National Coordinating Center ("NCC"): Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Subaward 011337-141352	1,243	–
Total Federal Assistance Listing # 93.853			<u>64,164</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	143,034	–
Child Health and Human Development Extramural Research	93.865	N/A	144,163	–
Total DHHS, Research and Development			<u>2,261,794</u>	<u>260,154</u>
Total Research and Development Cluster			<u>4,661,776</u>	<u>260,154</u>
Total Expenditures of Federal Awards			<u>\$ 231,325,779</u>	<u>\$ 260,154</u>

Inova Health System

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes all federal grant activity of the Inova Health System (“HIS” 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

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, the amount presented on the accompanying Schedule for the year ended December 31, 2021 for Federal Assistance Listing No. 93.498 relates to (i) Provider Relief Fund (“PRF”) payments received from April 10, 2020 through December 31, 2020 and (ii) used for PRF-eligible activity from the period January 1, 2020 through December 31, 2021. This payment receipt period and activity period and the resulting amount presented on the accompanying Schedule for the year ended December 31, 2021 reconciles to the PRF information reported to the Health Resources and Services Administration (“HRSA”) for PRF Reporting Periods 1 and 2 as follows:

Name of Reporting Entity for HRSA Reporting Period 1 and Period 2 PRF Report	Reporting Entity Tax Identification Number (“TIN”)	Type of Distribution	Total Other Provider Relief Fund Expenses Reported	Total Lost Revenues Reported	Total PRF Expenditures (Not Including Carryover)
Inova Healthcare Services	54-0620889	General/Targeted	\$ 73,304,114	\$138,767,599	\$187,750,771
Northern Virginia Ambulatory Surgery Center, LLC	20-3502477	General	–	3,347,279	1,438,793
Inova Loudoun Ambulatory Surgery Center, LLC	20-3523190	General	–	4,383,559	2,128,497
Loudoun Hospital Center	54-0525802	Targeted	10,227,777	13,421,846	14,250,000
Inova Reston MRI Center, LLC	26-4587374	General	178,027	–	178,027
Inova Physician Partners	27-1219302	General	–	22,438,764	2,053,818
Inova Ambulatory Surgery Center at Lorton, LLC	46-1955980	General	–	301,625	32,241
McLean Ambulatory Surgery Center, LLC	47-4966649	General	–	1,925,322	618,049
Loudon Nursing and Rehabilitation Center	54-1361310	General/Targeted	–	3,223,587	805,540
Potomac Inova Healthcare Alliance, LLC	54-1802733	General	–	1,637,411	315,703
Franconia-Springfield Surgery Center, LLC	54-2018390	General	–	3,533,052	1,252,041
Sunrise/Inova McLean Assisted Living, LLC	54-2022822	General	391,535	4,147,072	187,624
Inova Home Health LLC	83-0620626	General	803,748	–	803,748
Inova Pharmacy Plus, ESCI, LLC	83-3314437	General	–	–	1,110
			<u>\$ 84,905,201</u>	<u>\$197,127,116</u>	<u>\$211,815,962</u>

Inova Health System

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

3. COVID-19 – Provider Relief Fund (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 \$211,815,962 of PRF Funds received from HHS between April 10, 2020 through December 31, 2020, respectively. 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 1 (January 1, 2020 through June 30, 2021) and PRF Reporting Period 2 (January 1, 2020 through December 31, 2021) are in excess of the general and targeted distributions received from April 10, 2020 through December 31, 2020 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, 2020, which are required to be reported in subsequent HRSA PRF Reporting Periods and, accordingly, pursuant to the requirements specific to Federal Assistance Listing No. 93.498, activity related to such payments is excluded from 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, 2021.

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”), which comprise the consolidated statement of financial position as of December 31, 2021, 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 25, 2022.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Ernst + Young LLP

March 25, 2022



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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 the Board of Trustees
Inova Health System

Report of Independent Auditors on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Inova Health System’s (“IHS”) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (“OMB”) *Compliance Supplement* that could have a direct and material effect on each of IHS’ major federal programs for the year ended December 31, 2021. IHS’ major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, IHS complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Other Matters

The results of our auditing procedures disclosed 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
2021-001	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	L. Reporting
2021-002	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

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

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

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

Report on Internal Control Over Compliance

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

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

Finding Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement
2021-001	93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution	L. Reporting
2021-002	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

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 IHS’ response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. IHS’ response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



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

Ernst + Young LLP

December 2, 2022

Inova Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2021

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	_____	X	No
Significant deficiency(ies) identified?	_____	Yes	_____	X	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____	X	No

Federal Awards

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____

	_____	X	Yes	_____	No
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Identification of Major Federal Programs

Assistance Listing Numbers	Name of Federal Program or Cluster
93.461	COVID-19 – HRSA COVID-19 Claims Reimbursement for the Uninsured Program
93.498	COVID-19 – Provider Relief Fund and American Rescue Plan (“ARP”) Rural Distribution
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Part C)
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? _____

	_____	Yes	_____	X	No
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Inova Health System

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2021

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: 2021-001 – Reporting

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 1 – January 1, 2020 to June 30, 2021
Period 2 – June 30, 2020 to December 31, 2021

Description: Timely Preparation of Schedule of Expenditures of Federal Awards

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.”

Condition

The System had not finalized the Schedule of Expenditures of Federal Awards (the “Schedule”) for the year ended December 31, 2021 in a timely manner.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2021

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

Cause

The Schedule for the year ended December 31, 2021 included 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. COVID-19 also impacted a number of resources within the System causing various constraints.

Effect or potential effect

The reporting and verification of the completeness and accuracy of the expenditures required more time than expected due to the COVID-19 nature of the funds.

Questioned costs

None.

Identification of a repeat finding

This is not a repeat finding.

Context

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.

Recommendation

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

View of responsible officials

There is no disagreement with the audit finding.

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2021

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

Finding Reference: 2021-002 – Activities Allowed or Unallowed, Allowable Costs/
Cost Principles and Reporting

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 1 – January 1, 2020 to June 30, 2021
Period 2 – June 30, 2020 to December 31, 2021

Description: Review and Approval of the data in the HHS 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.

The Provider Relief Programs: Provider Relief Fund and ARP Rural Payments Frequently Asked Questions states the following:

“If funds were held in an interest-bearing account, they would be considered a reportable revenue. If interest is earned on PRF disbursements that the Reporting Entity expended in full, the interest amounts may be retained and applied toward a reportable use of funds. If interest is earned on funds that are only partially expended, the interest on remaining unused funds must be calculated, reported and returned.”

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2021

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 reportable interest earned on PRF payments and expenditures included in the HRSA portal submission.

Cause

Management did not design internal controls or retain evidence of review and approval of the interest income calculation and expenditures.

Effect or potential effect

The interest earned and 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 not a repeat finding.

Context

The System submitted a total of 20 reports within the HRSA portal during period 1 and period 2. The total PRF payments received by the System was \$211,583,107. We tested 14 HRSA portal submissions that had total payments from HRSA amount to \$166,568,914. For Inova Health Care Services, the System included \$863,991 of interest earned within the HRSA portal submission for period 2. However, the System deposited the applicable PRF payments received for Inova Health Care Services in a non-interest bearing account. The related interest earned included in the HRSA portal was inaccurate. For the related HRSA portal submission, management did not retain documentation to support review and approval of the interest earned and expenditures entered in the HRSA portal. For lost revenues reported, the System reconciled the actual revenues compared to the general ledger for each reporting entity. As a result of their reconciliation, they did identify

Inova Health System

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2021

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

a difference of \$88,568 in which lost revenues were overstated on the Inova Health Care Services report submission. The overstatement of the interest earned and lost revenue had no impact on meeting the requirement to retain the funding received.

Recommendation

Management should design internal controls related to the documentation of the review of the interest earned and 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.

Inova Health System

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2021

Finding Reference Number

2020-001

Management identified instances of noncompliance regarding missing client documentation to verify eligibility including the annual full Ryan White HIV/AIDS Program Part B eligibility screening (annual eligibility screening) and the required timely six-month recertification. Management determined that in some cases, the annual eligibility screening was six-month recertification was being performed; however, the required documentation was not being retained in the client file. In other cases, there was no evidence that procedures were being performed in accordance with the grant terms and conditions to obtain the required documentation. The clients whose annual eligibility screening and/or six-month recertification was not current continued to receive services that were subsequently reimbursed by the Department.

2020-002

It was discovered that Inova did not calculate the program income received from a third party reimbursement for 340B drugs as the initial calculation inappropriately included the discount. Per the frequently asked questions (“FAQs”) presented by HRSA’s HIV/AIDS Bureau (“HAB”) for Policy Clarification Notice (“PCN”) 15-03, Clarification Regarding the Ryan White HIV/AIDS Program and Program Income, and PCN 15-04, Utilization and Reporting of Pharmaceutical Rebates, released on March 21, 2016, program income is gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance (or grant period). Program Income includes the difference between the third-party reimbursement and the 340B drug purchase price, and funds received by billing health insurance for services provided to eligible Ryan White HIV/AIDS Program clients. Program income does not include rebates, credits, discounts, and interest earned on any of them. Specific examples include the reduced 340B price a covered entity received on the purchase of a medication; it is, instead, a discount.

Status of Resolution/Prior Corrective Action Plan

In response to 2020-001 management enhanced its procedures around the documentation of patient eligibility to include chart reviews and schedule appointments for all clients to verify the 2021 annual eligibility determination screening. In April 2020 management created a stringent oversight practice documentation of 110-120 charts which are reviewed by a manger, and a second review of 10% of those charts is completed by the project analyst. Management increased training for eligibility responsible staff on the policies and procedures concerning eligibility in July 2020 which is still ongoing. Management notified all appropriate entities about gaps in eligibility

Inova Health System

Summary Schedule of Prior Audit Findings (continued)

Year Ended December 31, 2021

documentation and took personnel actions when necessary. Management adopted an annual certification of eligibility responsible staff to confirm their education about policies and procedures. Starting June 2020 management began having meetings with the accounting and grants management office teams to review variances in internal review along with project analyst reports.

In response to 2020-002 management notified all appropriate entities about gaps in compliance and took personnel action when necessary. In July 2022, Management adopted a review of the compliance requirements and incorporated various best practices within their monthly procedures. Management enhanced internal controls, policies, and procedures specific to monitoring for 340B expenditures. They established a training program for all accounting and programmatic staff responsible for 340B reporting. Management implemented an agenda item in the monthly variance meetings with the accounting and programmatic staff to review program income calculations and cross-reference a manager approved checklist to identify any expenditures that are out of compliance.

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