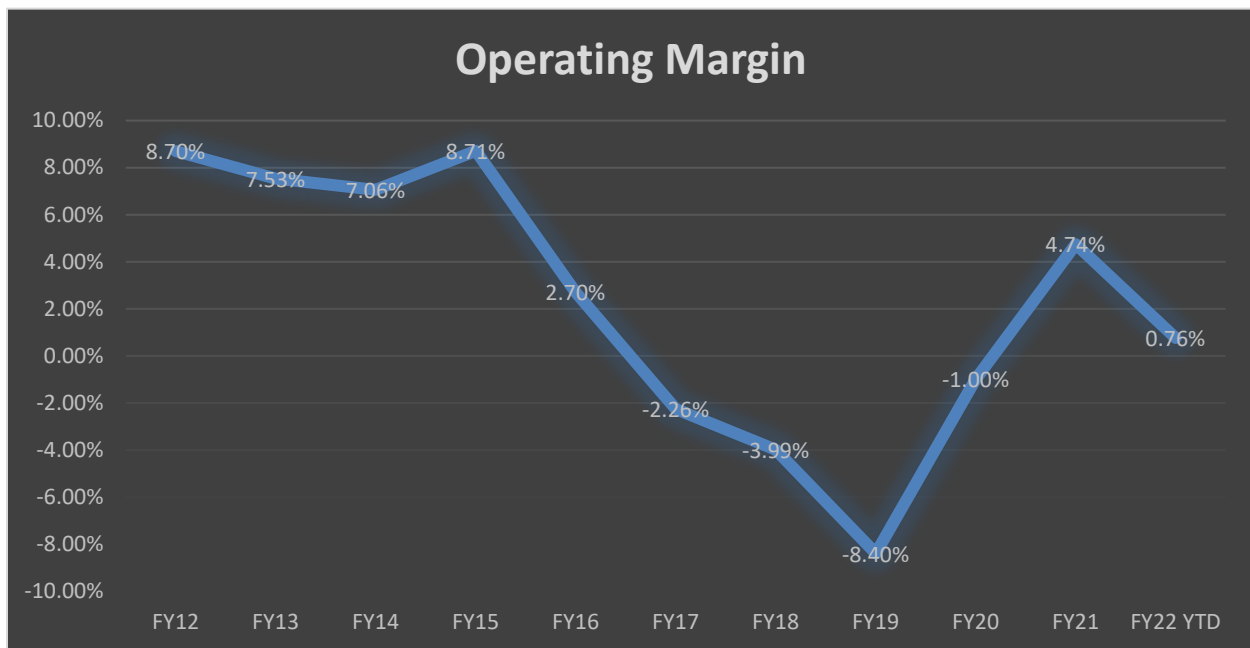


NORTHWESTERN MEDICAL CENTER (NMC) NARRATIVE ON ACTUAL FISCAL YEAR 2021 RESULTS

NMC was able to achieve a positive operating margin in FY2021, after 4 years of consecutive losses. Nearly 70% of NMC's FY2021 operating income came from stimulus funds and Covid-19 continues to impact nearly every aspect of our operations.

The graph below shows NMC's operating margin (per our audited financial statements) for the past 10 fiscal years and for the first quarter of FY2022 (per our internal financial statements).



NMC's net patient revenue for FY2021 exceeded budget by \$6,574,000 or 5.9%. Please see the detailed breakdown provided below.

NMC's operating expenses for FY2021 exceeded budget by \$4,250,000 or 3.6%. Temporary staffing accounted for more than half of this variance, please see the detailed breakdown provided below.

NPR/FPP	Total	% over/under
FY 21 Approved Budget	\$ 112,015,717	
Utilization	(3,713,055)	-3.3%
Reimbursement/Payer Mix	184,497	0.2%
Bad Debt/Free Care	(101,827)	-0.1%
Changes in DSH	278,950	0.2%
ACO Fixed Payments	853,212	0.8%
Change in ACO Reserve & Settlements	4,742,163	4.2%
Outpatient Covid Testing	4,330,483	3.9%
FY 21 Actual Results	\$ 118,590,140	5.9%

Expenses	Amount	% over/under
FY 21 Approved Budget	\$ 119,362,165	
Salaries	300,621	0.3%
Fringe Benefits	(1,172,427)	-1.0%
Physician Contracts	(258,738)	-0.2%
Contract Staffing	2,293,840	1.9%
Supplies	363,498	0.3%
Drugs	525,678	0.4%
Facilities	312,832	0.3%
IT Related	604,833	0.5%
Depreciation	(91,753)	-0.1%
Interest	(172,487)	-0.1%
Health Care Provider Tax	1,377,039	1.2%
Send-Out Lab Testing	654,523	0.5%
Grant Funded Comm Health Team	374,165	0.3%
Cost Savings	(861,767)	-0.7%
FY 21 Actual Results	\$ 123,612,022	3.6%

Net Operating Revenue

- Covid-19 continued to be significantly disruptive to hospital operations throughout FY2021. Many outpatient services were negatively impacted by the need to reallocate resources, hesitancy of patients to attend in-person visits and staffing shortages within certain departments. The total impact resulted in a 3.3% overall reduction in utilization.

- Outpatient Covid-19 testing resulted in additional net patient revenue of 3.9%. This offset many of the expenses that can be linked to operational changes and challenges that were created by the Covid-19 pandemic.
- Calendar Year 2019 and 2020 ACO settlement results were positive for NMC. We had carried a reserve for CY2019 and had not anticipated that shared savings would be distributed for 2020. The net impact of reversing the reserve that was carried for CY2019 and the shared savings payment received for CY2020 was a positive \$3.1 million. The FY2021 budget had assumed that the risk reserve would be increased by \$1.6 million. The net effect is a \$4.7 million budget variance. Reserve estimates are very challenging as it is prudent to budget in a conservative manner. We have not experienced, and do not anticipate a significant favorable budget variance in FY2022 related to ACO settlements and reserves.

Operating Expenses

- Traveler expense ended the year \$2.3 million over budget and continues to be a challenge in FY2022. Total FTEs, with Traveler FTEs included, finished under budget by 3.75% but the total expense for non-MD and traveler staffing ended the year slightly (0.5%) over budget. This reflects the continued use of premium hours for those who float to different departments, cover irregular shifts, take on duties in the Covid-19 testing clinics, or work additional overtime. All of these are the result of continued staffing shortages resulting from the Covid-19 pandemic.
- Medicaid Provider Tax was underestimated during the FY2021 budget process and ended the year \$1.4 million over budget.
- Employee Benefits finished well below budget as a result of lower than expected employee health insurance claims. This is an expense line that has had high variability over the last ten years and FY2021 was favorable.
- Not all lab testing is conducted in the NMC lab, some tests are sent to outside reference labs for processing as a contract service expense. Send-out lab volumes were very high in FY2021 as the laboratory staff had to handle the extraordinarily high volume of Covid-19 tests and resulted in an unfavorable budget variance of \$654,000.
- Expense reductions of nearly \$900,000 came through the consolidation of space within NMC that reduced rental costs, as well as another year of reduced travel for education and training. We achieved a significant savings by in-sourcing coding work that had previously been performed by a contracted vendor.
- Expenses related to the Covid-19 pandemic flow through many of the expense lines noted above. Below is a table showing the most easily identified Covid-19 expenses which account for approximately \$4 million or 3.2% of total operating expenses.

	Actual	Budget	Variance
Inpatient Wages	3,582,450	3,885,006	(302,556)
Inpatient Travelers	2,995,366	1,345,089	1,650,277
Emergency Dept Travelers	525,916	269,595	256,321
Hazard Pay	242,400	-	242,400
Shift Incentive Covid	39,883	-	39,883
Send Out Lab Fees	2,438,178	1,761,927	676,251
Covid Specific Depts	1,386,767	-	1,386,767
Total	11,210,960	7,261,617	3,949,343

Other Operating Revenue exceeded budget by \$5.5 million or 104%.

- Covid-19 stimulus funding totaled \$4.25 million.
- Reference lab revenue (lab samples process by NMC as a contracted service for other community providers) exceeded budget by \$1.3 million, driven by Covid-19 testing.

Non-Operating Revenue exceeded budget by \$8.3 million.

- Non-Operating Revenue consists primarily of items driven by the broader financial markets, including capital gains/losses, income from interest and dividends, and fair market value fluctuations of our bond swap agreement. Market returns on equities were very strong in FY2021 resulting in total income from investments of \$8.6 million.