

NORTHWESTERN MEDICAL CENTER (NMC) NARRATIVE ON ACTUAL FISCAL YEAR 2022 RESULTS

NMC's FY2022 operations resulted in a loss of \$5.2 million (-4.3%), with additional non-operating losses of \$6.5 million, resulting in a total loss of \$11.2 million (-9.6%).

NMC's net patient revenue for FY2022 trailed budget by \$335,500 or 0.3%. Please see the detailed breakdown provided below.

NMC's operating expenses for FY2022 exceeded budget by \$8,550,000 or 7.2%. Temporary staffing accounted for a significant majority of this variance, please see the detailed breakdown provided below.

Bridges - FY 2022 Approved Budget to FY 2022 Actual Results

NPR/FPP	Total	% over/under
FY 22 Approved Budget	\$ 115,925,533	
Utilization	927,404	0.8%
Reimbursement/Payer Mix	(46,009)	0.0%
Bad Debt/Free Care	(489,566)	-0.4%
Physician Acq/Trans	(2,450,748)	-2.1%
Changes in DSH	1,222,490	1.1%
ACO Net (Reserve & Shared Savings)	500,883	0.4%
FY 22 Actual Results	\$ 115,589,987	-0.3%

Bridges - FY 2022 Approved Budget to FY 2022 Actual Results

Expenses	Amount	% over/under
FY 22 Approved Budget	\$ 119,163,778	
Salaries	(1,429,172)	-1.2%
Fringe Benefits	799,144	0.7%
Physician Contracts	1,524,707	1.3%
Supplies	331,252	0.3%
Drugs	409,902	0.3%
Travelers	7,848,412	6.6%
Depreciation	1,131,117	0.9%
Interest	(144,307)	-0.1%
Health Care Provider Tax	160,518	0.1%
Physician Acq/Trans	(3,644,625)	-3.1%
Contract Services	1,393,052	1.2%
Other	174,042	0.1%
FY 22 Actual Results	\$ 127,717,820	7.2%

Net Operating Revenue

- After adjusting for two physician transfers (Pediatrics and Primary Care transitioning to private practice), net patient revenue *exceeded* budget by \$2,115,000, \$1.2 million was the result of a one-time additional Disproportionate Share payment from DVHA.
- \$900,000 was related to utilization, primarily coming from high emergency department volumes.
- Bad Debt expense exceeded budget and was offset by net ACO risk reserve activity that included a shared saving payment (favorable) of over \$800,000 and a \$300,000 net change (unfavorable) in the ACO reserve balance carried on our balance sheet.

Operating Expenses

- Traveler expense ended the year \$7.8 million over budget and continues to be a challenge in FY2023. The staffing challenges that began during the COVID-19 pandemic have continued, but we are beginning to see improvements in the labor market. We budgeted to begin FY2023 with substantially the same number of travelers that we had in FY2022, with a ramp-down occurring throughout the year. While it is early in FY2023, we are currently on track with that plan and

project to remain so. Increased Traveler costs directly contributes to a favorable variance on the Salary and Wages line.

- Physician contracts has increased as we changed the model for providing inpatient Hospitalist services through a contract rather than with employed physicians.
- Employee Benefits finished slightly above budget (6%) as a result of higher-than-expected employee health insurance claims. This is an expense line that has high variability and this result is within the typical range.
- Depreciation expense was anticipated to come down substantially due to an expected slowdown in the purchase of capital equipment. Hospital needs have prevented this slowdown from materializing and the result was an actual value consistent with prior years against a budget that was set too low.

Other Operating Revenue exceeded budget by \$1.1 million or 21.5%.

- Reference lab services provided to community practices exceeded budget by \$1.6 million. The processing of Covid-19 tests was the driver of this variance.
- Grant revenue was below budget by \$600,000. Grant revenue has offsetting expenses so this unfavorable variance is associated with corresponding favorable variances in the expense section of the income statement.

Non-Operating Revenue fell below budget by \$8.1 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 negative in FY2022 resulting in total loss from investments of \$10.9 million.