NORTHWESTERN MEDICAL CENTER (NMC)
NARRATIVE ON ACTUAL FISCAL YEAR 2023 RESULTS

NMC's FY2023 operations resulted in a loss of $8.2 million (-6.6%), with non-operating gains of $9.8 million, resulting in a total gain of $1.6 million (1.3%).

NMC's net patient revenue for FY2023 trailed budget by $3,559,269 or 2.9%. Please see the detailed breakdown provided below.

NMC's operating expenses for FY2023 exceeded budget by $6,658,452 or 5.3%. Wages, supplies, contracted services and contracted physicians accounted for a significant majority of this variance, please see the detailed breakdown provided below.

Bridges - FY 2023 Approved Budget to FY 2023 Actual Results

NPR/FPP	Total	% over/under
FY 23 Approved Budget	$ 121,093,673	
Utilization	5,249,653	4.3%
Reimbursement/Payer Mix	(7,603,027)	-6.3%
Bad Debt/Free Care	(3,469,599)	-2.9%
Physician Acq/Trans	-	
Changes in Accounting	-	
Changes in DSH	56,489	0.0%
Net Fixed Prospective Payments & Reserves	2,207,215	1.8%
Other (please label)	-	
FY 23 Actual Results	$ 117,534,404	-2.9%

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Bridges - FY 2023 Approved Budget to FY 2023 Actual Results

Expenses	Amount	% over/under
FY 23 Approved Budget	$ 125,670,423	
Salaries	2,568,077	2.0%
Fringe Benefits	467,203	0.4%
Physician Contracts	1,217,749	1.0%
Contract Staffing	(507,208)	-0.4%
Supplies	1,146,992	0.9%
Drugs	89,228	0.1%
Facilities	333,581	0.3%
IT Related	99,060	0.1%
Health Reform Programs		0.0%
Depreciation	121,666	0.1%
Interest	(256,525)	-0.2%
Health Care Provider Tax	15,735	0.0%
Contract Services	1,598,640	1.3%
All Other	201,221	0.2%
Insurance	(436,967)	-0.3%
FY 23 Actual Results	$ 132,328,875	5.3%

Net Operating Revenue

- Outpatient gross revenue exceeded budget by $7.7 million, or 3.7%. Outpatient utilization was driven by Emergency Department visits and associated imaging, and Outpatient Operating Room cases.
- Inpatient gross revenue exceeded budget by $3.75 million, or 6.9%. Inpatient utilization was driven by ICU patient days, sub-acute patient days and associated ancillary revenue (respiratory, imaging).
- Acute inpatient days exceeded budget by approximately 5% while acute admissions exceeded budget by only 1%. Additional gross revenue recorded because of increased length of stay, rather than increased admissions, generates very little additional net revenue as nearly all Medicare and Medicaid inpatient cases are paid a flat rate (based on DRG). Sub-Acute patient stays are reimbursed at a very low rate so additional gross revenue related to these cases does not result in significant net revenue.
- Payer mix trends continue to be unfavorable, with significant growth to low reimbursement Medicare Advantage plans. The lowest paying Medicare Advantage plan became the single largest non-governmental payer in FY2023, accounting for nearly 10% of total gross revenue. Governmental payer mix remains steady, and the growth in Medicare Advantage is coming from a reduction in higher reimbursement commercial plans.
- Bad Debt and Free Care write-offs exceeded budget by $3.5 million or 42%. We have undertaken multiple projects to address this increase, including changes to our third-party collection agreements, point of service collection practices and increased options for, and visibility of, financial assistance programs.
- The ACO risk reserve was budgeted to increase by $2.25 million in FY2023 and the final result was a decrease of $335,000. This results in a favorable variance.

Operating Expenses

- Wages exceeded budget by $2.6 million, or 5.1%. Two factors resulted in this overage including: additional investments in the retention of front-line nursing staff and key support department positions (laboratory, imaging, environmental services), and vacancies that resulted in premium pay (overtime and incentive shifts).
- Physician contract costs are volatile from year to year as any unexpected vacancy can result in a significant variance. In FY2023 we had unexpected Locum Tenen costs in OB/GYN, Ophthalmology and Orthopedic physician practices.
- Supply expenses exceeded budget and can be directly attributed to operating room utilization and inpatient days as discussed in the Net Operating Revenue section.
- Contract Services exceeded budget by $1.5 million. More than one third of that is the result of grant funded care teams, including Blue Print and the Community Health Team. Increased grant revenue is associated with these costs. The remaining variance was the result of many smaller unfavorable variances such as unexpected administrative staffing, higher than anticipated collection expense, and other needs.

Other Operating Revenue exceeded budget by $735,000 or 12.6%.

- Grant revenues associated with Blue Print and Community Health Team resulted in a $500,000 favorable variance, offsetting the increased expense.
- Reference lab revenues account for the remainder of the variance, aligning with the higher overall utilization that was experienced in FY2023.

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 positive in FY2023 resulting in total gain from investments of $9.0 million.

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