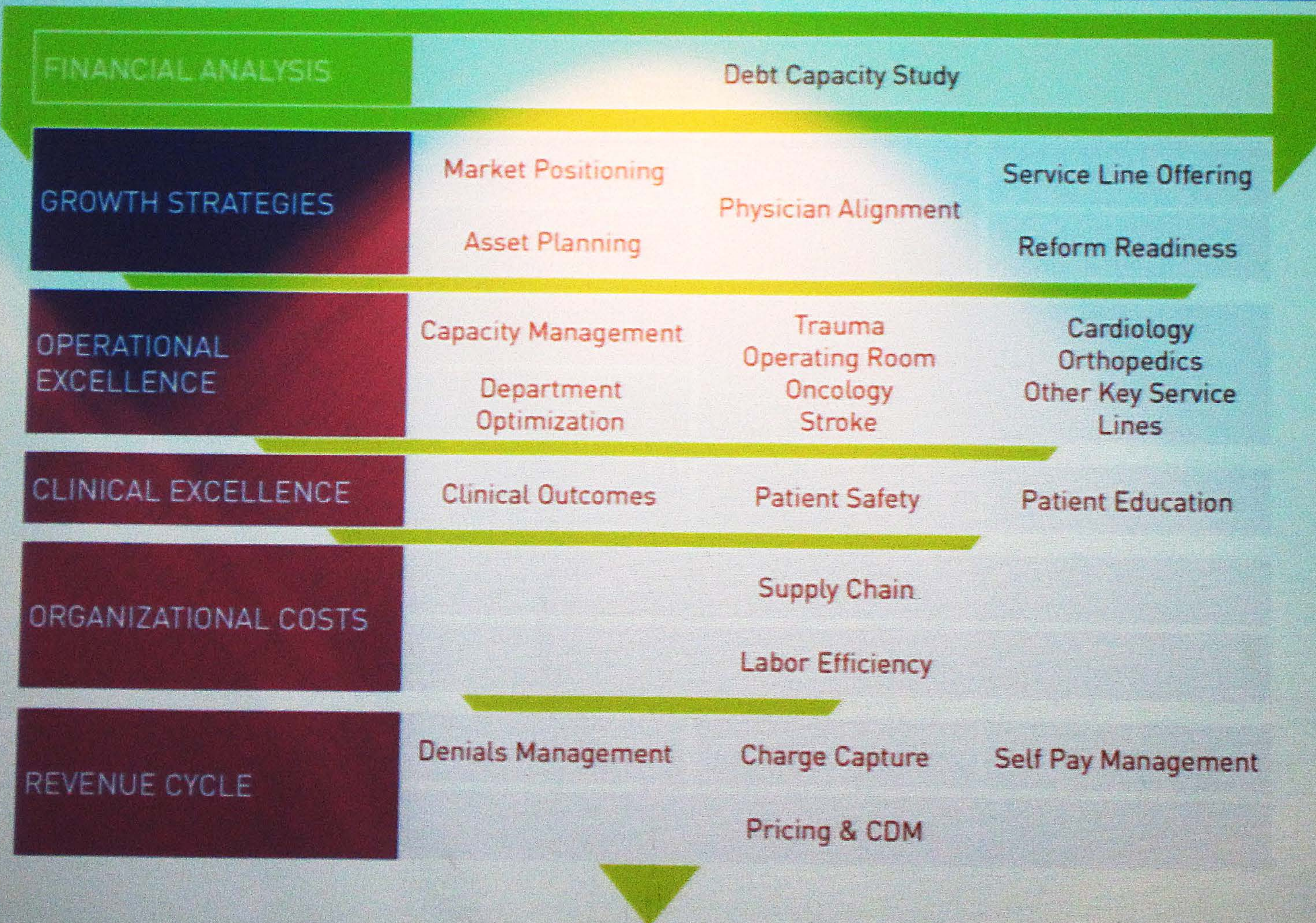
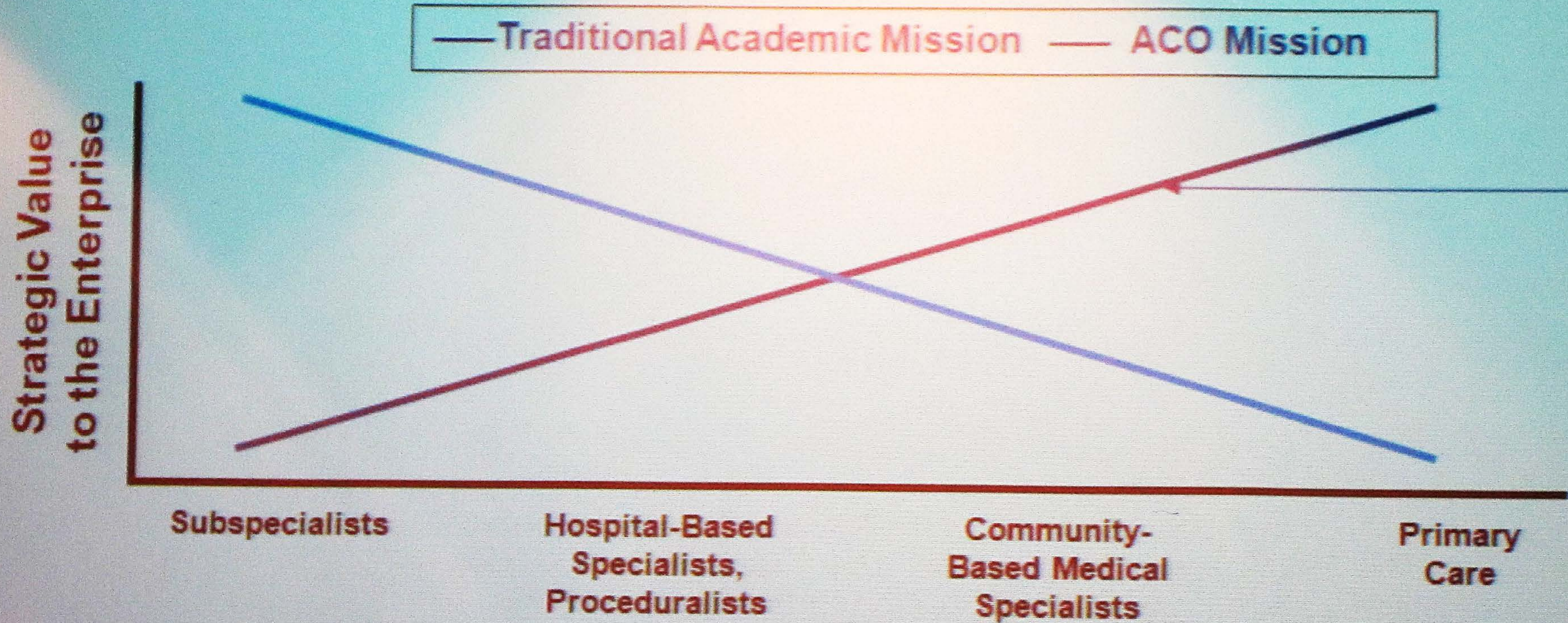


Strategic Operations Assessment



Reform Impact on AMCs

Shifting Mission, Shifting Need



AMCs traditionally strong in specialty care; expansion will need to focus on primary care



Organizational Costs (Labor Efficiency)

Labor Efficiency Approach



Compare Group Characteristics

1. Member of UHC
2. Member of Council of Teaching Hospitals
3. Magnet Hospital
4. Similar Department Volume

Organizational Costs (Labor Efficiency)



Labor Efficiency Approach



Compare Group Characteristics

1. Member of UHC
2. Member of Council of Teaching Hospitals
3. Magnet Hospital
4. Similar Department Volume

Total Negative Labor Expense Variance	
25th%-tile	\$27,810,546
50th%-tile	\$13,294,950
75th%-tile	\$3,350,060

University Medical Center, Inc.

U^{OF}L Health Care

Debt Capacity & Sensitivity Analyses

Ad Hoc Operations Committee
May 23rd, 2012



DIXON HUGHES GOODMAN LLP

Debt Capacity Study



Debt Capacity Study Approach

Base Model Development

- Historical performance
- Management Plans
- Future Operations Forecast
- Healthcare Reform

Rating Agency Comparison

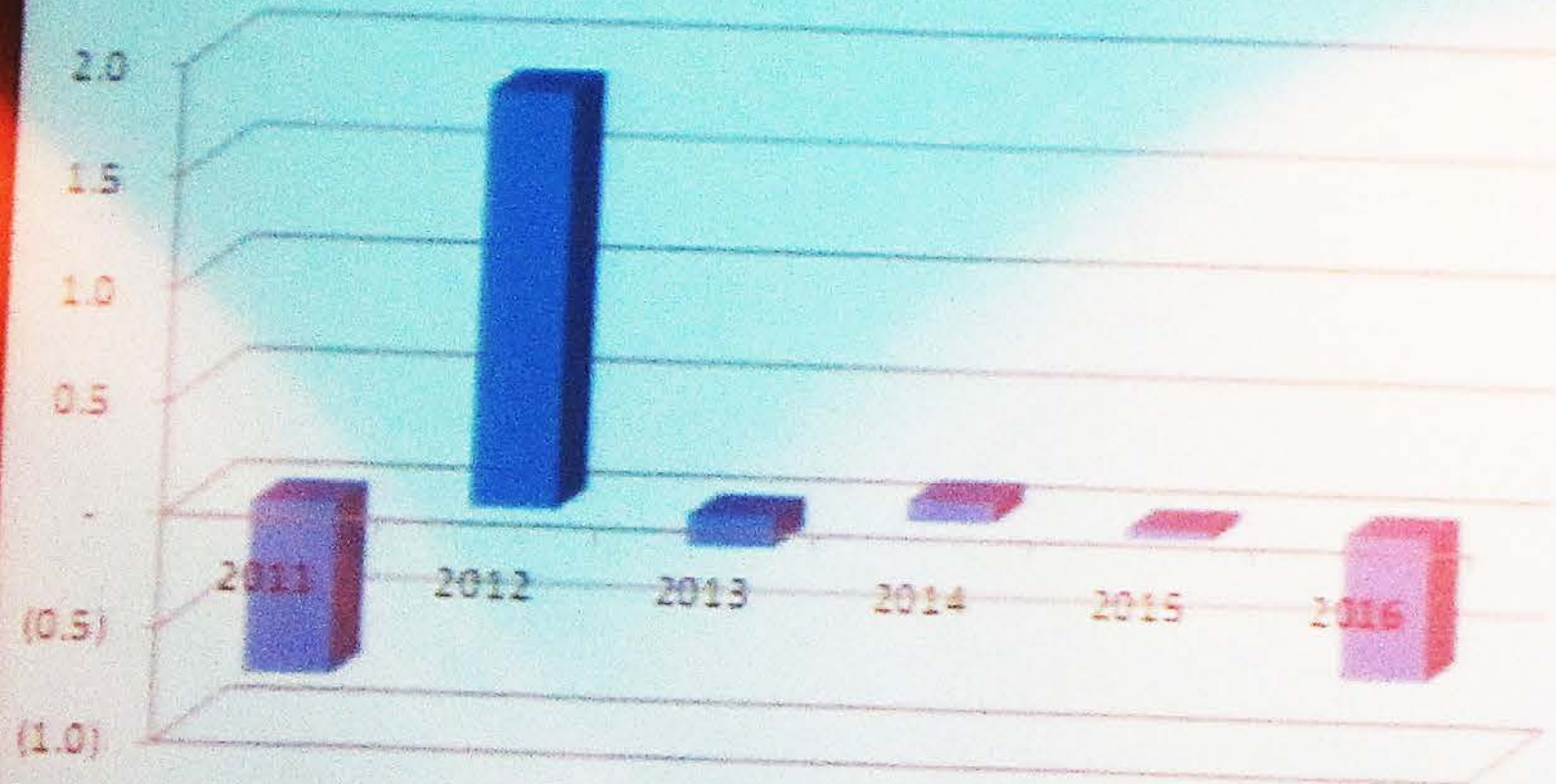
Compared forecasted financial results to rating agency comparative information.

Sensitivity Analyses

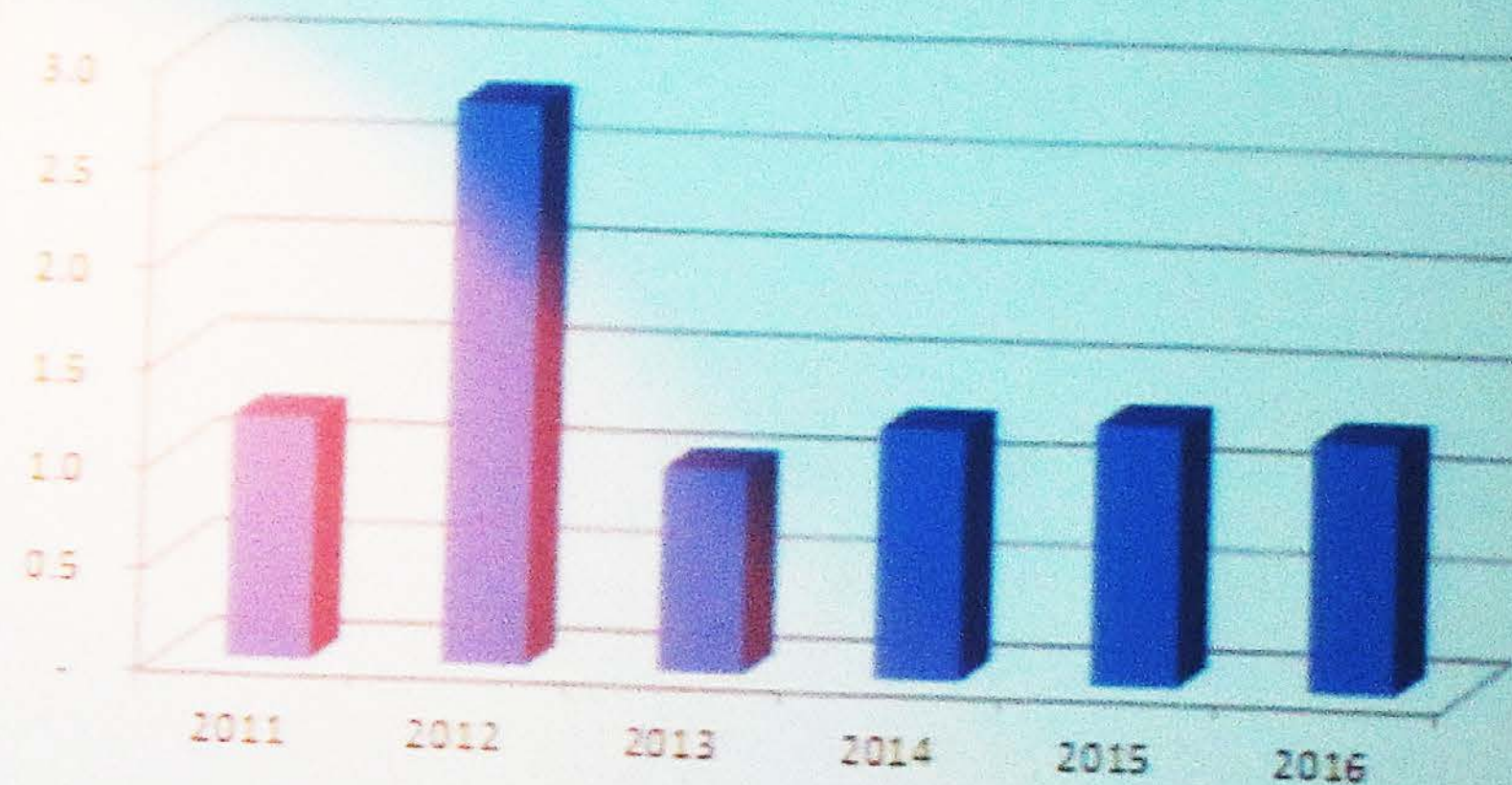
Will model specified operational and strategic initiatives to understand overall economic impact.

Debt Capacity Base Model

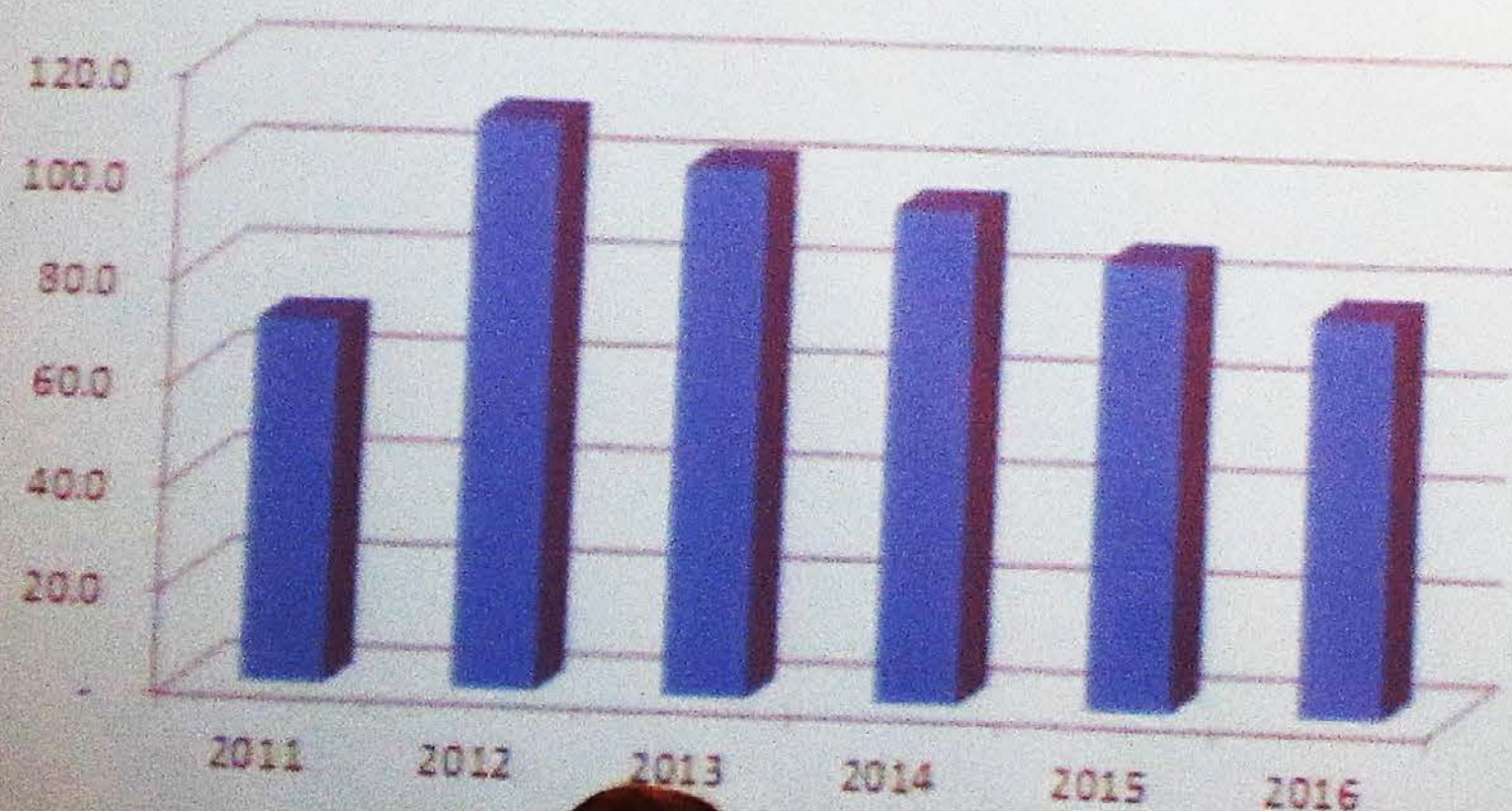
Operating Margin



Debt Service Coverage



Days Cash on Hand



Key Assumptions

- 2011 – 2012 Comparison
 - Cost related to unsuccessful merger
 - Modest increases in volume
- 2012 – 2013 Comparison
 - Passport Reductions: \$12.9M
 - EHR Investment: \$11.5M
 - Medicare Reductions due to Reform

Debt Capacity Base Model

Operating Margin

Debt Service Coverage

Debt Capacity Summary

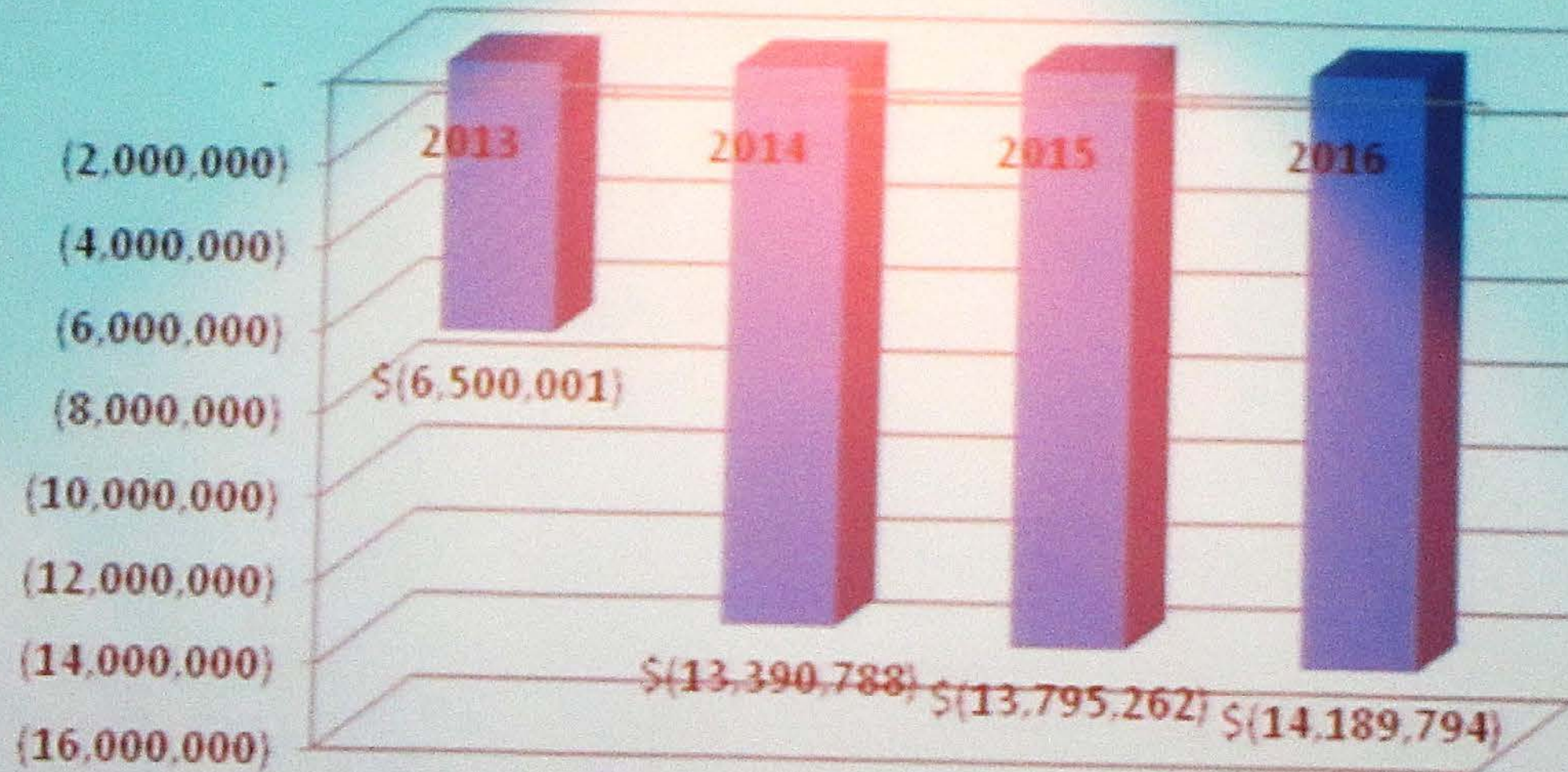
- Operating margins are forecast to decline due to continued decreases in reimbursement.
- Days cash on hand is forecast to decline as reserves will be needed to support operations.
- Without operational improvement and/or strategic initiatives, the Hospital has **no debt capacity** and could experience **significant financial risk**.

- EHR Investment: \$11.5M
- Medicare Reductions due to Reform

2011 2012 2013 2014 2015 2016

Sensitivity #1: Labor Recommendations

Labor Savings

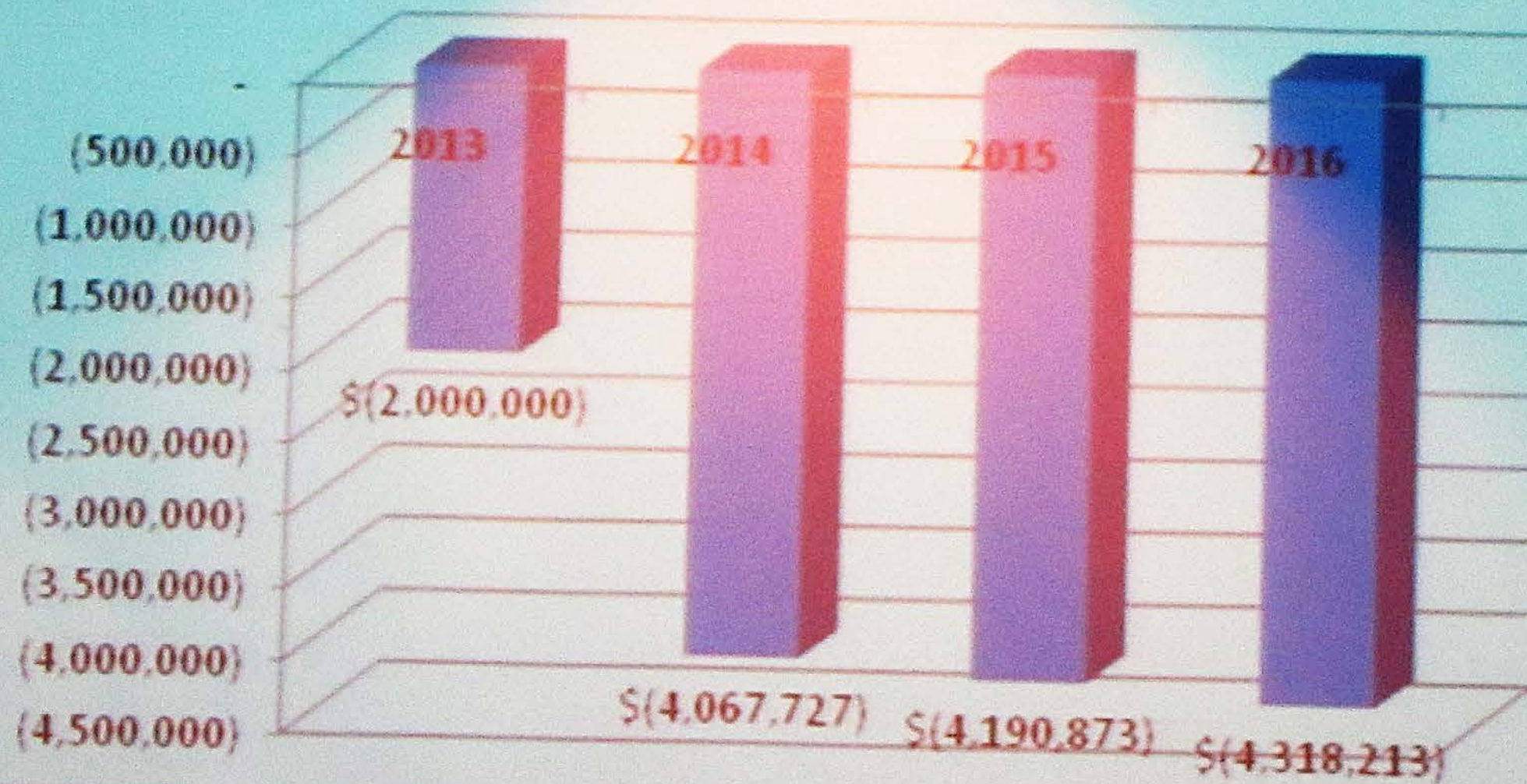


Labor Savings Impact on Key Performance Indicators

	2013	2014	2015	2016
Days cash on hand	6.57	18.84	29.39	39.72
Debt service ratio	0.48	1.08	1.14	1.31
Operating margin	1.35	2.74	2.76	2.78
Total margin	1.38	2.80	2.83	2.86

Sensitivity #2: Supply Chain Recommendations

Supply Savings



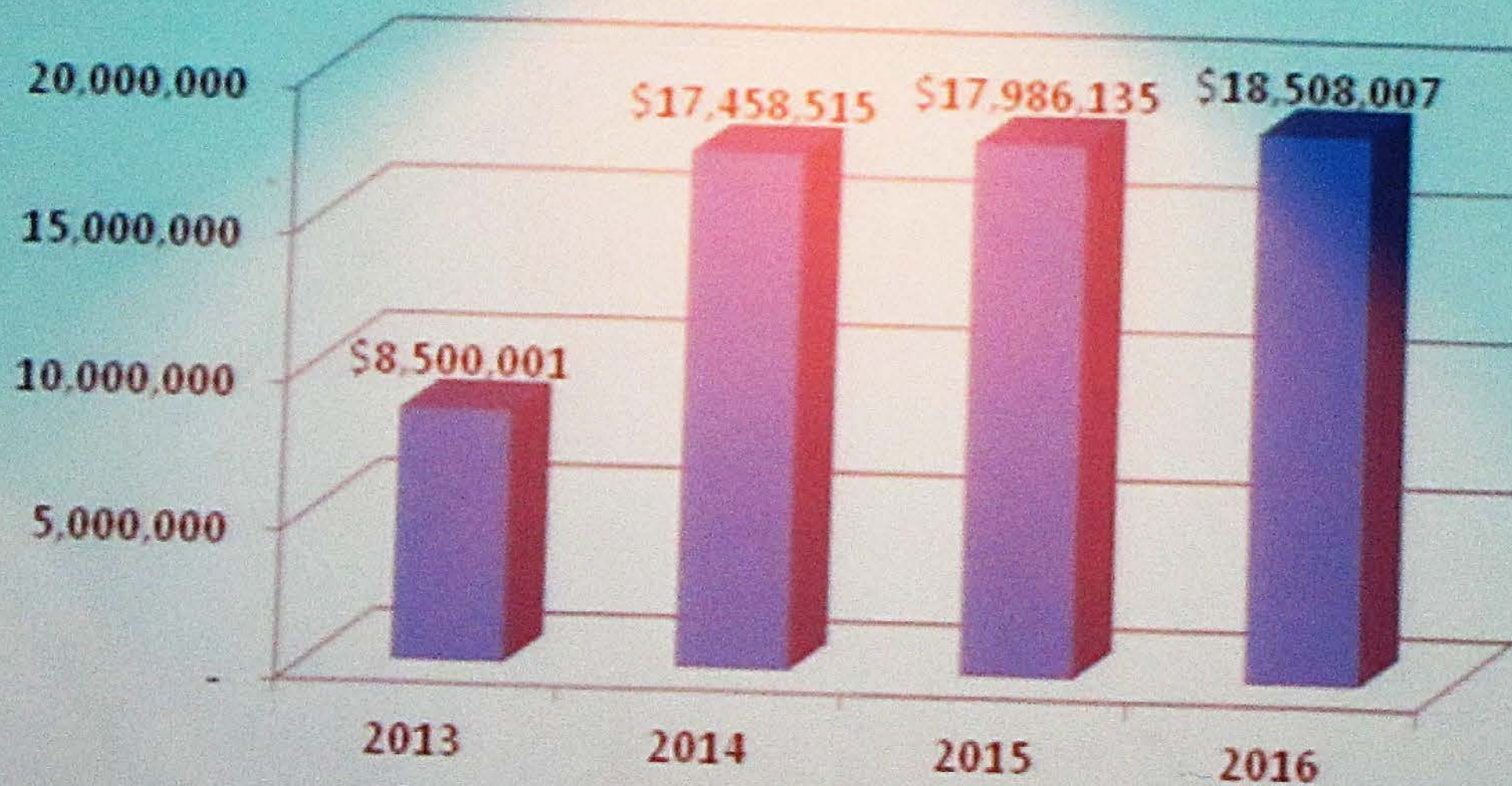
Supply Chain Impact on Key Performance Indicators

	2013	2014	2015	2016
Days cash on hand	2.18	6.00	9.14	12.22
Debt service ratio	0.15	0.33	0.35	0.40
Operating margin	0.41	0.83	0.84	0.85
Total margin	0.42	0.85	0.86	0.87



Sensitivity #4: Combined Recommendations

Combined-Operating Income



Combined Impact on Key Performance Indicators

	2013	2014	2015	2016
Days cash on hand	17.37	33.42	47.12	60.50
Debt service ratio	0.63	1.41	1.49	1.71
Operating margin	1.76	3.57	3.60	3.63
Total margin	1.80	3.66	3.70	3.73