



**SUMMA HEALTH SYSTEM OBLIGATED GROUP**

**CONTINUING DISCLOSURE FOR THE SIX MONTHS ENDED JUNE 30, 2012**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS  
AND FINANCIAL POSITION – SUMMA HEALTH SYSTEM OBLIGATED GROUP**

The Summa Health System Obligated Group (Obligated Group) includes Summa Health System, Summa Akron City and St Thomas Hospitals, Summa Barberton Hospital, Summa Wadsworth Rittman Hospital, Summa Cuyahoga Falls General Hospital, Summa Akron City and St Thomas Hospitals Foundation, Summa Foundation and Summa Health Network.

**Payor Mix and Provider Statistics of the Obligated Group**

Set forth in the table below are the aggregated payor mix and utilization statistics for the members of the Obligated Group, for the six months ended June 30.

	<u>6/30/2012</u>	<u>6/30/2011</u>
<b>Payor Mix %:</b>		
Medicare Traditional & Managed Care	47.6%	47.5%
Medicaid Traditional & Managed Care	15.5%	16.0%
Commercial & Managed Care	30.4%	30.3%
Self Pay and Other	6.5%	6.2%
	<u>100.0%</u>	<u>100.0%</u>
 <b>All Services</b>		
Available Beds-weighted average	802	871
Patient Days (excluding newborn)	101,806	110,973
Admissions (excluding newborn)	21,663	22,440
 Surgical Cases:		
Inpatient	3,424	3,457
Outpatient	7,878	7,785
Total Surgical Cases	<u>11,302</u>	<u>11,242</u>
 Outpatient billable units	 4,143,690	 4,011,456
Total Emergency cases	82,571	80,931
Outpatient visits - other	238,441	232,759
 <b>Acute Care</b>		
Available beds-weighted average	782	851
Patient days (excluding newborn)	99,189	108,943
Admissions (excluding newborn)	21,429	22,250
Average length of stay	4.63	4.90
Occupancy	69.69%	70.73%
 <b>Sub-acute Care</b>		
Available beds	20	20
Patient days	2,617	2,030
Admissions (excluding newborn)	234	190
Average length of stay	11.18	10.68
Occupancy	71.90%	56.08%

Inpatient volume over the period presented has declined compared to the prior year primarily due to the transfer of inpatient rehab patient services to Summa Rehab Hospital. Summa Rehab Hospital is an inpatient acute rehabilitation hospital which Summa Health System is a 52% owner. Excluding the impact of approximately 450 admissions to the Summa Rehab Hospital the Obligated Group's total admissions at June 30, 2012 compared to June 30, 2011 declined by 1.7%, emergency cases increased 2.0% and outpatient procedures increased by 3.3%.

## Obligated Group Operating Results

The following Statement of Operations for the Obligated Group for the six months ended June 30, 2012 and 2011 was prepared by management on a consistent basis with the audited consolidated financial statements for Summa Health System.

**Summa Health System Obligated Group**  
**Consolidated Statement of Operations**  
**For Six Months Ended June 30, 2012 and 2011**  
**(In thousands of dollars)**

	<u>2012</u>	<u>2011</u>
Unrestricted revenue:		
Net patient service revenue	\$ 438,026	433,071
Provision for doubtful accounts	(39,623)	(37,423)
Net patient service revenue less provision	398,403	395,648
Other operating revenue	30,592	25,981
Total revenue, gains, and other support	<u>428,995</u>	<u>421,629</u>
Expenses:		
Salaries and wages	159,506	157,751
Employee benefits	37,358	32,967
Materials and supplies	103,527	100,214
Contracts and professional fees	83,164	80,667
Depreciation and amortization	22,806	22,813
Interest	10,573	10,635
Total expenses	<u>416,934</u>	<u>405,047</u>
Operating income (loss)	12,061	16,582
Other income (expense):		
Investment income	7,015	5,030
Unrealized Gains/Losses on trading securities	3,549	3,549
Joint Venture Income	2,865	1,331
Derivative instrument (losses) gains	(1,310)	(536)
Total other income (expense)	<u>12,119</u>	<u>9,374</u>
Excess (deficiency) of revenue over expenses	<u>\$ 24,180</u>	<u>25,956</u>

Operating income was \$12 million for the six months ended June 30, 2012, compared to \$17 million in 2011. Total operating revenues of \$429 million is an increase of \$7 million from 2011. Net patient service revenue less bad debt totaled \$398 million, a \$3 million increase from the \$422 million reported in 2011. Other operating revenue increase by \$5 million compared to 2011. The majority of the increase is due to payments from Medicare and Medicaid for the implementation of electronic medical records, sale of skilled nursing beds and the building lease for the Summa Rehab Hospital.

The Obligated Group reported operating expenses of \$417 million in 2012, an increase of \$12 million compared to 2011. Expenses increased in the following areas: Employee benefits expense of \$37 million reported in 2012 is an increase of \$4 million or 13% over the same period in 2011. Employee benefits has increased due to high claims experience in hospitalization expense. The remaining \$6 million increase is due

to material and supplies and contracts/professional fees increasing over the previous year by 3% and 6% respectively.

The Obligated Group reported other income of \$12 million for 2012 compared to \$9 million reported in 2011. Increased investment returns combined with the joint venture income accounted for the increase from the previous year.

## Obligated Group Financial Ratios

### Liquidity Position and Cash to Debt – Obligated Group - 12-month rolling basis

The table below sets forth the liquidity position - excluding Summa Health Network for the rolling 12-month period ending June 30, 2012 and June 30, 2011.

	2012	2011
Cash and cash equivalents	\$ 120,476	\$ 124,178
Unrestricted investments	<u>119,173</u>	<u>112,806</u>
Total cash and unrestricted investments	\$ 239,649	\$ 236,984
Total expenses including provision for doubtful accounts less depreciation and amortization	\$ 809,384	\$ 764,054
Days of cash on hand	108.4	113.2
Cash to debt	54%	52%

The table below sets forth the liquidity position - including Summa Health Network for the rolling 12-month period ending June 30, 2012 and June 30, 2011.

	2012	2011
Cash and cash equivalents	\$ 130,235	\$ 133,096
Unrestricted investments	<u>125,132</u>	<u>118,475</u>
Total cash and unrestricted investments	\$ 255,367	\$ 251,571
Total expenses including provision for doubtful accounts less depreciation and amortization	\$ 813,785	\$ 767,458
Days of cash on hand	114.9	119.6
Cash to debt	58%	55%

**Liquidity Position and Cash to Debt – Obligated Group – Fiscal period ending June 30th**

The table below sets forth the liquidity position - excluding Summa Health Network for the Fiscal period ending June 30, 2012 and June 30, 2011.

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 120,476	\$ 124,178
Unrestricted investments	<u>119,173</u>	<u>112,806</u>
Total cash and unrestricted investments	\$ 239,649	\$ 236,984
Total expenses including provision for doubtful accounts less depreciation and amortization	\$ 431,841	\$ 418,005
Days of cash on hand	101.0	102.6
Cash to debt	54%	52%

The table below sets forth the liquidity position - including Summa Health Network for the Fiscal period ending June 30, 2012 and June 30, 2011

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 130,235	\$ 133,096
Unrestricted investments	<u>125,132</u>	<u>118,475</u>
Total cash and unrestricted investments	\$ 255,367	\$ 251,571
Total expenses including provision for doubtful accounts less depreciation and amortization	\$ 433,751	\$ 419,657
Days of cash on hand	107.2	108.5
Cash to debt	58%	55%

**Maximum Annual Debt Service Coverage – Obligated Group - 12-month rolling basis**

The table below sets forth the maximum annual debt service for the rolling 12-month period ending June 30, 2012 and June 30, 2011.

	<u>2012</u>	<u>2011</u>
Excess of revenues over expenses	\$ 49,551	\$ 72,567
Add: Depreciation Expense	43,020	45,828
Interest Expense	20,874	20,819
Unrealized (gains)/losses on investments	<u>4,706</u>	<u>(14,470)</u>
Income available for debt service	\$ 118,151	\$ 124,744
Maximum annual debt service	\$ 34,359	\$ 35,210
Maximum debt service coverage ratio	3.44	3.54

## Leverage Position – Obligated Group

The table below sets forth the leverage position at June 30, 2012 and June 30, 2011

	<u>2012</u>	<u>2011</u>
Current installments of long-term debt	\$ 9,804	\$ 9,600
Revolving credit borrowing	-	5,286
Long-term debt and other non-current obligations		
less current installments	<u>433,710</u>	<u>443,250</u>
Total debt	\$ 443,514	\$ 458,136
Unrestricted net assets	\$ 475,813	\$ 460,162
Total unrestricted capitalization	\$ 919,327	\$ 918,298
Debt-to-unrestricted capitalization	48.2%	49.9%

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL POSITION – CONSOLIDATED SUMMA HEALTH SYSTEM

### Consolidated System Operating Results

The following Statement of Operations for the Consolidated System for the six months ended June 30, 2012 and 2011 was prepared by management on a consistent basis with the audited consolidated financial statements for the Summa Health System.

#### Summa Health System Consolidated Statement of Operations For the Six Months Ended June 30, 2012 and 2011 (In thousands of dollars)

	2012	2011
Unrestricted revenue:		
Net patient service revenue	\$ 441,397	434,670
Provision for doubtful accounts	(42,932)	(41,331)
Net patient service revenue less provision	398,465	393,339
Premiums earned	225,535	210,178
Other operating revenue	42,863	36,623
Total revenue, gains, and other support	666,863	640,140
Expenses:		
Salaries and wages	220,257	215,224
Employee benefits	46,162	40,244
Healthcare claims	147,960	132,849
Materials and supplies	111,305	105,068
Contracts and professional fees	103,014	97,956
Depreciation and amortization	24,877	24,715
Interest	10,645	10,783
Total expenses	664,220	626,839
Operating income (loss)	2,643	13,301
Other income (expense):		
Investment income	11,093	9,831
Derivative instrument net (losses) gain	(2,156)	(859)
Joint venture income	3,663	1,331
Provision for income tax	(1,102)	(1,379)
Other	303	(129)
Total other income (expense)	11,801	8,795
Excess (deficiency) of revenue over expenses	\$ 14,444	22,096

Operating income was \$3 million for the six months ended June 30, 2012, compared to \$13 million in 2011. Total operating revenues of \$667 million is an increase of \$27 million from 2011. Net patient service revenue less bad debt totaled \$398 million, a \$5 million increase from the \$393 million reported in 2011. Premiums earned, totaling \$226 million in 2012 increased \$16 million compared to 2011. The change is associated with the net change in the number of subscribers and lives covered by Summa Insurance Company. Other operating revenue increase by \$5 million compared to 2011. The majority of the increase is due to payments

from Medicare and Medicaid for the implementation of electronic medical records, sale of skilled nursing beds at the Summa Barberton Hospital campus, and the building lease for the Summa Rehab Hospital.

Operating expenses were \$664 million in 2012 a \$37 million increase compared to 2011. Employee benefits expense of \$46 million reported in 2012 is an increase of \$6 million over the same period in 2011. Employee benefits has increased due to high claims experience in hospitalization expense. Healthcare claims increased by \$15 million over the previous year as Summa Insurance Company has experienced an increase in overall insured memberships. Remaining increases are in Material and Supplies of (\$6 million) and contract and professional fees (\$5 million).

Other income was \$12 million for 2012 compared to \$9 million reported in 2011. Increased investment returns net of the change in the value of derivative accounted the increase from the previous year.

### Consolidated System's Financial Ratios

The table below sets forth the liquidity position at June 30, 2012 and June 30, 2011 - including provision for doubtful accounts as an operating expense.

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 199,724	\$ 173,896
Unrestricted investments	<u>210,714</u>	<u>200,719</u>
Total cash and unrestricted investments	\$ 410,438	\$ 374,615
Total expenses <u>including</u> provision for doubtful accounts less depreciation and amortization	\$ 682,275	\$ 680,836
Days of cash on hand	108.3	99.0
Cash to debt	89%	79%

The table below sets forth the liquidity position at June 30, 2012 and June 30, 2011 - excluding provision for doubtful accounts as an operating expense.

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 199,724	\$ 173,896
Unrestricted investments	<u>210,714</u>	<u>200,719</u>
Total cash and unrestricted investments	\$ 410,438	\$ 374,615
Total expenses <u>excluding</u> provision for doubtful accounts less depreciation and amortization	\$ 639,343	\$ 639,505
Days of cash on hand	115.6	105.4
Cash to debt	89%	79%

## Leverage Position – Consolidated System

The table below sets forth the leverage position at June 30, 2012 and June 30, 2011.

	<u>2012</u>	<u>2011</u>
Current installments of long-term debt	\$ 10,119	\$ 10,174
Revolving credit borrowing	-	5,286
Long-term debt and other non-current obligations		
less current installments	<u>451,387</u>	<u>457,893</u>
Total debt	\$ 461,506	\$ 473,353
Unrestricted net assets	\$ 513,880	\$ 501,172
Total unrestricted capitalization	\$ 975,386	\$ 974,525
Debt-to-unrestricted capitalization	47.3%	48.6%