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Form 990

Return of Organization Exempt From Income Tax

2011

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

► The organization may have to use a copy of this return to satisfy state reporting requirements

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 01-01-2011 and ending 12-31-2011

B Check if applicable	C Name of organization Covenant Health	D Employer identification number 62-1646734
<input type="checkbox"/> Address change	Doing Business As	E Telephone number (865) 374-6864
<input type="checkbox"/> Name change	Number and street (or P O box if mail is not delivered to street address)	F Gross receipts \$ 171,608,379
<input type="checkbox"/> Initial return	1420 Centerpoint Blvd Bldg C	
<input type="checkbox"/> Terminated		
<input type="checkbox"/> Amended return	City or town, state or country, and ZIP + 4 Knoxville, TN 379321960	
<input type="checkbox"/> Application pending	F Name and address of principal officer Anthony L Spezia 100 Fort Sanders West Blvd Knoxville, TN 37922	H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

I Tax-exempt status 501(c)(3) 501(c) () (insert no) 4947(a)(1) or 527

J Website: ► www.covenanthealth.com

K Form of organization Corporation Trust Association Other ► L Year of formation 1996 M State of legal domicile TN

Part I Summary

1 Briefly describe the organization's mission or most significant activities Covenant Health is the parent organization in a community-owned health care system in East Tenn		
2 Check this box ► if the organization discontinued its operations or disposed of more than 25% of its net assets		
3 Number of voting members of the governing body (Part VI, line 1a)	3	21
4 Number of independent voting members of the governing body (Part VI, line 1b)	4	16
5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	874
6 Total number of volunteers (estimate if necessary)	6	666
7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	1,495,503
b Net unrelated business taxable income from Form 990-T, line 34	7b	135,112
8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
9 Program service revenue (Part VIII, line 2g)	217,356	264,991
10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	72,485,482	78,068,540
11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	42,342,688	53,992,813
12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	1,765,437	1,112,707
	116,810,963	133,439,051
13 Grants and similar amounts paid (Part IX, column (A), lines 1-3)	750,368	608,694
14 Benefits paid to or for members (Part IX, column (A), line 4)	0	0
15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)	43,486,606	49,879,632
16a Professional fundraising fees (Part IX, column (A), line 11e)	0	0
b Total fundraising expenses (Part IX, column (D), line 25) ► 0		
17 Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e)	44,614,387	48,226,142
18 Total expenses Add lines 13-17 (must equal Part IX, column (A), line 25)	88,851,361	98,714,468
19 Revenue less expenses Subtract line 18 from line 12	27,959,602	34,724,583
20 Total assets (Part X, line 16)	Beginning of Current Year	End of Year
21 Total liabilities (Part X, line 26)	1,038,866,299	1,099,528,246
22 Net assets or fund balances Subtract line 21 from line 20	715,772,497	805,301,841
	323,093,802	294,226,405

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here	***** Signature of officer JOHN T GEPPI EVP/CFO Type or print name and title	2012-11-07 Date		
Paid Preparer's Use Only	Preparer's signature ► Self-prepared	Date	Check if self-employed ► <input type="checkbox"/>	Preparer's taxpayer identification number (see instructions)
	Firm's name (or yours if self-employed), address, and ZIP + 4 ►			EIN ►
				Phone no ►

May the IRS discuss this return with the preparer shown above? (see instructions) Yes No

Part III Statement of Program Service AccomplishmentsCheck if Schedule O contains a response to any question in this Part III **1 Briefly describe the organization's mission**

Covenant Health operates exclusively as a supporting organization within the meaning of Internal Revenue Code section 509(a)(3). Its mission, which is shared by its member hospitals and other organizations (see Schedule A), is to serve the community by improving the quality of life through better health, regardless of a patient's ability to pay

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? Yes No

If "Yes," describe these new services on Schedule O

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? Yes No

If "Yes," describe these changes on Schedule O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported**4a (Code) (Expenses \$ 26,902,989 including grants of \$) (Revenue \$ 26,902,989)**

Information Technology See Schedule O for additional details Information Technology Expenses - \$26,902,989, Revenue - \$26,902,989 The Information Technology (IT) division of Covenant Health provides all computing equipment and information management related services to Covenant Health facilities. Information management systems and related application support (install, upgrade, help desk) services are available on a 24/7 basis spanning healthcare functions across core patient-care clinical systems, physician, nursing, and associated ancillary systems (lab, radiology, pharmacy, therapy), as well as the supporting business functions encompassing patient accounting, materials management, finance, and human resources. IT also manages a centralized data center (and a backup disaster recovery data center) where the hardware equipment is housed to deliver the computing resources for all clinical/business functions on a 24/7 schedule. Additionally, IT is responsible for management of all PC workstations (desktop, laptop, mobile cart), all client to server internal and external network connectivity, as well as telephone services and telephone equipment (PBX, handsets, cell phones, pagers) across the company. It also facilitates project management activities related to meeting regulatory and quality reporting requirements. Key statistics for the year include: *Payroll checks/deposits - 257,488 *Pharmacy medication mgmt. system - 2,843,283 orders *Total Spam messages blocked - 11,515,549 *Network virus attempts blocked - 77,679,162 *PCs supported - 7,760 *Overall telephone usage - 34,631,262 calls *Pathway scheduling application - 629,791 appointments *Accounts payable checks - 102,084

4b (Code) (Expenses \$ 8,264,238 including grants of \$) (Revenue \$ 8,264,238)

Business Office See Schedule O for additional details Business Office Expenses - \$8,264,238, Revenue - \$8,264,238 Knoxville Business Office Services is the CBO (Centralized Business Office) for Covenant Health providing accounts receivable management for Fort Sanders Regional Medical Center, Parkwest Medical Center, Fort Loudoun Medical Center, LeConte Medical Center, Methodist Medical Center, and Morristown-Hamblen Hospital Association. These services include, but are not limited to, customer service, payment collection, financial posting, refund processing, and insurance billing and follow-up. During 2011, CBO submitted 914,634 insurance claims totaling \$3,420,378,775. Bad debt expense for 2011 was approximately 2.7% of gross revenue with bad debt recoveries/collections totaling \$10,159,947. The CBO handled 115,775 incoming phone calls, following-up on over 456,000 open accounts and processed over 2.9 million financial transactions.

4c (Code) (Expenses \$ 7,289,606 including grants of \$) (Revenue \$ 7,289,606)

Human Resources See Schedule O for additional details Human Resources Expenses - \$7,289,606, Revenue - \$7,289,606 The Corporate Human Resources division of Covenant Health provides high quality centralized services to all Covenant Health entities in sourcing and staffing (employment), standardized benefit design and administration, exempt and non-exempt salary system design and delivery, human resources information system administration, employee relations and retention, clinical and non-clinical skill development, leadership and management development, cultural change, leadership succession and continuity, and security. Additionally, Human Resources is responsible for system-wide programs, policies and procedures, regulatory and legal compliance affecting all areas of Human Resources Administration, and contemporary, cost-effective systems and processes to meet organizational strategies, goals and tactics. Through Human Resources, staffing (employment) services assisted in hiring 1,377 employees during 2011. All new hires went through various classroom orientation programs and on-line onboarding processes at the start of employment. Employment Services receives, on average, 1,020 applicants per month. Through the learning and leadership development (LLD) division of Human Resources, Human Resources provided over 363,000 training hours including both e-learning and classroom-based courses. LLD also manages a framework of over 50 identified leadership competencies with all 400+ Covenant leaders accountable for a minimum of 60 hours of developmental training each year. LLD offers more than 100 clinical nursing courses from both in-house and vendor sourcing. They also manage a host of clinical training opportunities including everything from CPR to Advanced Neuro and Neo-natal Intensive Care courses.

(Code) (Expenses \$ 44,262,505 including grants of \$ 608,694) (Revenue \$ 56,038,808)

In addition to the services previously mentioned, support provided by Covenant Health to its member facilities takes on many other forms, some examples of which are: * Executive leadership, strategic planning, and other planning both at the System and organizational level, * Financial, management and advisory services, * Third party reporting, * Integrity compliance program, * Real estate management, * Risk management, * Internal audit, * Asset and liability related treasury management functions, * Procurement, * Clinical quality improvement, * Marketing, and * External reporting. Other services and activities conducted by Covenant Health directly benefit patients and members of the communities served by the Supported Organizations. Some services are aimed at improving the operational efficiency of and the quality of care provided by the Supported Organizations, such as the service of providing sterile packs. Covenant Health Sterile Solutions is the only operation of its kind in the Knoxville area and produces its own surgical sterile packs and distributes them to Supported Organizations. The use of Sterile Packs helps reduce surgical pack supply costs, reduce inventory levels, and helps minimize waste in keeping with the organization's green initiatives. Along with those achievements, sterile packs also help reduce setup time, leaving more time for treating patients and with fewer items to open, there is also a reduced risk of contamination. Another recent service that has become centralized within Covenant Health and offered to the Supported Organization is Medical Transcription. Medical Transcription is an allied health profession, which deals in the process of converting voice-recorded reports, as dictated by physicians or other healthcare professionals, into text format. Other programs have community benefit as their main goal. One example is Covenant Health Senior Services, which assists older adults who are 50 or better in their effort to lead healthier, more independent lives.

4d Other program services (Describe in Schedule O)

(Expenses \$ 44,262,505 including grants of \$ 608,694) (Revenue \$ 56,038,808)

4e Total program service expenses \$ 86,719,338

Part IV Checklist of Required Schedules

1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A.

2 Is the organization required to complete Schedule B, *Schedule of Contributors* (see instructions)?

3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I.

4 **Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II.

5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III.

6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I.

7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," complete Schedule D, Part II.

8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III.

9 Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV.

10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V.

11 If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable

a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI.

b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII.

c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII.

d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX.

e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X.

f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X.

12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII.

b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.

13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E.

14a Did the organization maintain an office, employees, or agents outside of the United States?

b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Part I.

15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U.S.? If "Yes," complete Schedule F, Part II and IV.

16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U.S.? If "Yes," complete Schedule F, Part III and IV.

17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I.

18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II.

19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III.

20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H.

b If "Yes" to line 20a, did the organization attach its audited financial statement to this return? **Note.** All Form 990 filers that operated one or more hospitals must attach audited financial statements.

	Yes	No
1	Yes	
2	Yes	
3		No
4	Yes	
5		No
6		No
7		No
8		No
9		No
10		No
11a	Yes	
11b		No
11c		No
11d	Yes	
11e	Yes	
11f	Yes	
12a		No
12b	Yes	
13		No
14a		No
14b		No
15		No
16		No
17		No
18		No
19		No
20a		No
20b		

Part IV Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? If "Yes," complete Schedule I, Parts I and II	21	Yes	
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? If "Yes," complete Schedule I, Parts I and III	22	No	
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? If "Yes," complete Schedule J	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? If "Yes," answer questions 24b-24d and complete Schedule K. If "No," go to line 25	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b	No	
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c	No	
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d	No	
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? If "Yes," complete Schedule L, Part I	25a	No	
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? If "Yes," complete Schedule L, Part I	25b	No	
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? If "Yes," complete Schedule L, Part II	26	No	
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? If "Yes," complete Schedule L, Part III	27	No	
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)	28a	No	
a	A current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV	28b	No	
b	A family member of a current or former officer, director, trustee, or key employee? If "Yes," complete Schedule L, Part IV	28c	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? If "Yes," complete Schedule L, Part IV	29	Yes	
29	Did the organization receive more than \$25,000 in non-cash contributions? If "Yes," complete Schedule M	30	Yes	
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? If "Yes," complete Schedule M	31	No	
31	Did the organization liquidate, terminate, or dissolve and cease operations? If "Yes," complete Schedule N, Part I	32	No	
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? If "Yes," complete Schedule N, Part II	33	No	
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? If "Yes," complete Schedule R, Part I	34	Yes	
34	Was the organization related to any tax-exempt or taxable entity? If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1	35a	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35b	Yes	
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? If "Yes," complete Schedule R, Part V, line 2	36	No	
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? If "Yes," complete Schedule R, Part V, line 2	37	No	
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? If "Yes," complete Schedule R, Part VI	38	Yes	
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O			

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V

		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable	1a	398
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return	2a	874
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?	2b	Yes
<p>Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)</p>			
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	Yes
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O	3b	Yes
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?	4a	Yes
b	If "Yes," enter the name of the foreign country CA See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?		
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?		
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		
7	Organizations that may receive deductible contributions under section 170(c).		
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	No
d	If "Yes," indicate the number of Forms 8282 filed during the year	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8	
9	Sponsoring organizations maintaining donor advised funds.		
a	Did the organization make any taxable distributions under section 4966?	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b	
10	Section 501(c)(7) organizations. Enter		
a	Initiation fees and capital contributions included on Part VIII, line 12	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b	
11	Section 501(c)(12) organizations. Enter		
a	Gross income from members or shareholders	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	11b	
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	12b	
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
a	Is the organization licensed to issue qualified health plans in more than one state? Note. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state	13a	
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b	
c	Enter the aggregate amount of reserves on hand	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O	14b	

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI

Section A. Governing Body and Management

1a Enter the number of voting members of the governing body at the end of the tax year **1a** 21

b Enter the number of voting members included in line 1a, above, who are independent **1b** 16

2 Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? **2** No

3 Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? **3** No

4 Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? **4** No

5 Did the organization become aware during the year of a significant diversion of the organization's assets? **5** No

6 Did the organization have members or stockholders? **6** No

7a Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? **7a** No

b Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? **7b** No

8 Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following

a The governing body? **8a** Yes

b Each committee with authority to act on behalf of the governing body? **8b** Yes

9 Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O **9** Yes

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

10a Did the organization have local chapters, branches, or affiliates? **10a** No

b If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes? **10b**

11a Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form? **11a** Yes

b Describe in Schedule O the process, if any, used by the organization to review the Form 990 **12a** Yes

12a Did the organization have a written conflict of interest policy? If "No," go to line 13 **12b** Yes

b Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? **12c** Yes

c Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done **13** Yes

13 Did the organization have a written whistleblower policy? **14** Yes

14 Did the organization have a written document retention and destruction policy? **15** Yes

15 Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?

a The organization's CEO, Executive Director, or top management official **15a** Yes

b Other officers or key employees of the organization **15b** Yes

If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)

16a Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year? **16a** No

b If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements? **16b**

Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed

18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you made these available. Check all that apply

Own website Another's website Upon request

19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization

Nancy Beck
1420 Centerpoint Blvd Bldg C
Knoxville, TN 379321960
(865) 374-6864

Part VII: Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations

List persons in the following order: individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons.

Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee.

Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization **49**

	Yes	No
3 Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>	3	No
4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	4	Yes
5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>	5	No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
Morrison Mgmt Specialists Inc PO Box 102289 Atlanta, GA 303682289	Cafeteria Management	18,914,424
McKesson Info Solutions PO Box 98347 Chicago, IL 606938347	IT consulting services	9,810,577
Innovative Healthcare Solutions Inc PO Box 380697 Murdock, FL 33983	Consulting services	2,152,411
Lewis Group Architects Inc 6512 Deane Hill Drive Knoxville, TN 37919	Architectural services	2,027,057
Dell Marketing LP 2300 W Plano Pkwy Treas Dept B1 Plano, TX 75075	Professional Service fees	1,681,641

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization **54**

Part VIII Statement of Revenue

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514		
Contributions, gifts, grants and other similar amounts	1a Federated campaigns	1a					
	b Membership dues	1b					
	c Fundraising events	1c					
	d Related organizations	1d	264,991				
	e Government grants (contributions)	1e					
	f All other contributions, gifts, grants, and similar amounts not included above	1f					
	g Noncash contributions included in lines 1a-1f \$		88,097				
h Total. Add lines 1a-1f		264,991					
Program Service Revenue	Business Code						
			2a Management Fees	561000	67,603,738	67,603,738	
			b Telephone Services	517000	5,115,144	4,718,906	396,238
			c Transcription Services	561499	4,965,358	4,444,433	520,925
			d Community Outreach	621990	310,558	281,058	29,500
			e Managed Care Services	541900	73,742		73,742
	f All other program service revenue						
g Total. Add lines 2a-2f		78,068,540					
3 Investment income (including dividends, interest and other similar amounts)		19,997,128	19,997,128				
4 Income from investment of tax-exempt bond proceeds		1,079,248	1,079,248				
5 Royalties							
6a Gross rents	(i) Real	(ii) Personal					
b Less rental expenses	589,174						
c Rental income or (loss)	350,855						
d Net rental income or (loss)	238,319				238,319		
7a Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other					
b Less cost or other basis and sales expenses	56,241,591	11,630,988					
c Gain or (loss)	34,954,236	1,906					
d Net gain or (loss)	21,287,355	11,629,082					
8a Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18							
b Less direct expenses	b						
c Net income or (loss) from fundraising events							
9a Gross income from gaming activities See Part IV, line 19							
b Less direct expenses	b						
c Net income or (loss) from gaming activities							
10a Gross sales of inventory, less returns and allowances							
b Less cost of goods sold	b	3,233,461					
c Net income or (loss) from sales of inventory		2,862,331					
Miscellaneous Revenue	Business Code						
11a Info Technology Servi	518210	503,258		503,258			
b							
c							
d All other revenue							
e Total. Add lines 11a-11d		503,258					
12 Total revenue. See Instructions		133,439,051	98,495,641	1,495,503	33,182,916		

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)

Check if Schedule O contains a response to any question in this Part IX **Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.**

	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the United States See Part IV, line 21	608,694	608,694		
2 Grants and other assistance to individuals in the United States See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	5,253,417	4,413,365	840,052	
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages	34,059,616	28,659,121	5,400,495	
8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	1,847,548	1,556,744	290,804	
9 Other employee benefits	5,854,250	4,948,381	905,869	
10 Payroll taxes	2,864,801	2,413,881	450,920	
11 Fees for services (non-employees)				
a Management				
b Legal	1,348,486	481,124	867,362	
c Accounting	64,700		64,700	
d Lobbying				
e Professional fundraising See Part IV, line 17				
f Investment management fees	26,000	26,000		
g Other	6,444,558	5,127,881	1,316,677	
12 Advertising and promotion	820,322	745,142	75,180	
13 Office expenses	6,115,295	5,982,899	132,396	
14 Information technology	9,773,986	9,773,986		
15 Royalties				
16 Occupancy	1,457,874	1,350,227	107,647	
17 Travel	279,128	266,437	12,691	
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings	718,332	397,214	321,118	
20 Interest	14,292,260	14,292,260		
21 Payments to affiliates				
22 Depreciation, depletion, and amortization	3,479,148	2,973,027	506,121	
23 Insurance	552,759	295,530	257,229	
24 Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a Unrelated Business Income	61,271		61,271	
b Malpractice Insurance	1,162,662	1,162,662		
c Dues and Licenses	946,190	798,490	147,700	
d Subscriptions	443,687	433,845	9,842	
e				
f All other expenses	239,484	12,428	227,056	
25 Total functional expenses. Add lines 1 through 24f	98,714,468	86,719,338	11,995,130	0
26 Joint costs. Check here <input checked="" type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X Balance Sheet

		(A) Beginning of year	(B) End of year
Assets	1 Cash—non-interest-bearing	1,800	1,800
	2 Savings and temporary cash investments	28,911,749	24,331,691
	3 Pledges and grants receivable, net	3	
	4 Accounts receivable, net	4	
	5 Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L	5	
	6 Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L	6	
	7 Notes and loans receivable, net	7	
	8 Inventories for sale or use	442,964	482,400
	9 Prepaid expenses and deferred charges	5,566,314	6,689,469
	10a Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a	72,080,503
	b Less accumulated depreciation	10b	16,138,561
		30,328,701	10c
		768,458,922	55,941,942
	11 Investments—publicly traded securities	11	844,634,509
	12 Investments—other securities See Part IV, line 11	12	18,622,469
	13 Investments—program-related See Part IV, line 11	13	
	14 Intangible assets	14	
	15 Other assets See Part IV, line 11	198,238,486	148,823,966
	16 Total assets. Add lines 1 through 15 (must equal line 34)	1,038,866,299	16
		1,099,528,246	
Liabilities	17 Accounts payable and accrued expenses	47,323,061	17
	18 Grants payable	18	
	19 Deferred revenue	56,298,033	19
	20 Tax-exempt bond liabilities	586,520,252	20
	21 Escrow or custodial account liability Complete Part IV of Schedule D	21	
	22 Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L	22	
	23 Secured mortgages and notes payable to unrelated third parties	23	
	24 Unsecured notes and loans payable to unrelated third parties	24	
	25 Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D	25	28,147,040
	26 Total liabilities. Add lines 17 through 25	715,772,497	26
		805,301,841	
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.		
	27 Unrestricted net assets	323,093,802	27
	28 Temporarily restricted net assets	28	
	29 Permanently restricted net assets	29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.		
	30 Capital stock or trust principal, or current funds	30	
	31 Paid-in or capital surplus, or land, building or equipment fund	31	
	32 Retained earnings, endowment, accumulated income, or other funds	32	
	33 Total net assets or fund balances	323,093,802	33
	34 Total liabilities and net assets/fund balances	1,038,866,299	34
		294,226,405	
		1,099,528,246	

Part XI Reconciliation of Net AssetsCheck if Schedule O contains a response to any question in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	133,439,051
2	Total expenses (must equal Part IX, column (A), line 25)	2	98,714,468
3	Revenue less expenses Subtract line 2 from line 1	3	34,724,583
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	323,093,802
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-63,591,980
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	294,226,405

Part XII Financial Statements and ReportingCheck if Schedule O contains a response to any question in this Part XII

	Yes	No
1 Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a Were the organization's financial statements compiled or reviewed by an independent accountant? <input type="checkbox"/>	2a	No
2b Were the organization's financial statements audited by an independent accountant? <input type="checkbox"/>	2b	Yes
2c If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O <input type="checkbox"/>	2c	Yes
2d If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
3a As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133? <input type="checkbox"/>	3a	Yes
3b If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits <input type="checkbox"/>	3b	Yes

2011

Open to Public
Inspection**SCHEDULE A**
(Form 990 or 990EZ)**Public Charity Status and Public Support**

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

Department of the Treasury
Internal Revenue Service
Name of the organization
Covenant Health

Employer identification number

62-1646734

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1 A church, convention of churches, or association of churches **section 170(b)(1)(A)(i)**.

2 A school described in **section 170(b)(1)(A)(ii)**. (Attach Schedule E)

3 A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii)**.

4 A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii)**. Enter the hospital's name, city, and state

5 An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv)**. (Complete Part II)

6 A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v)**.

7 An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8 A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9 An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2)**. (Complete Part III)

10 An organization organized and operated exclusively to test for public safety See **section 509(a)(4)**.

11 An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3)**. Check the box that describes the type of supporting organization and complete lines 11e through 11h

e a Type I b Type II c Type III - Functionally integrated d Type III - Other

f By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

g If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

h Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

(i) a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii) a family member of a person described in (i) above?

(iii) a 35% controlled entity of a person described in (i) or (ii) above?

	Yes	No
11g(i)		No
11g(ii)		No
11g(iii)		No

i Provide the following information about the supported organization(s)

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
See Additional Data Table									
Total									0

Part II Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (See instructions)					12	
13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						►

Section C. Computation of Public Support Percentage

14 Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))	14
15 Public Support Percentage for 2010 Schedule A, Part II, line 14	15
16a 33 1/3% support test—2011. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here . The organization qualifies as a publicly supported organization	►
b 33 1/3% support test—2010. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here . The organization qualifies as a publicly supported organization	►
17a 10%-facts-and-circumstances test—2011. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here . Explain in Part IV how the organization meets the "facts and circumstances" test. The organization qualifies as a publicly supported organization	►
b 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here . Explain in Part IV how the organization meets the "facts and circumstances" test. The organization qualifies as a publicly supported organization	►
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions	►

Part III Support Schedule for Organizations Described in IRC 509(a)(2)

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6)						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 Total support (Add lines 9, 10c, 11 and 12)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here						

Section C. Computation of Public Support Percentage

15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15
16 Public support percentage from 2010 Schedule A, Part III, line 15	16

Section D. Computation of Investment Income Percentage

17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18
19a 33 1/3% support tests—2011. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization	
b 33 1/3% support tests—2010. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization	
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions	

Part IV **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

Schedule A, Part IV, Supplemental Information Explanation for Part I, Line 11(h)(iv) Covenant Health is operated or controlled in connection with all of its listed supported organizations, and its articles of organization require that it be operated to support or benefit these organizations. All of the above described organizations are governed by a board of directors with 100% overlap of board membership
Explanation for Part I, Line 11(h)(vii) Covenant Health operates to serve the interests of its member hospitals and the other non-profit health organizations named in Schedule A, Part I (the "Supported Organizations") The organization's activities have been discussed in detail on Schedule O in response to Form 990, Part III, Lines 4a thru 4d Covenant Health may also pay expenses on behalf of, provide operating cash to, or make a grant to one of its Supported Organizations See Schedule R, Part V for information about transfers to controlled organizations

Additional Data

Software ID:
Software Version:
EIN: 62-1646734
Name: Covenant Health

Form 990, Schedule A, Part I, Line 11h - Provide the following information about the organizations the organization supports.

(i) Name of Supported Organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section)	(iv) Is the organization in (i) listed in your governing document?		(v) Did you notify the organization in (i) of your support?		(vi) Is the organization in (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
(A) Fort Loudoun Medical Ctr	621373691	3		No	Yes		Yes		0
(B) Fort Sanders Perinatal Ctr	043760551	3		No	Yes		Yes		0
(C) Fort Sanders Regional Med Ctr	620528340	3		No	Yes		Yes		0
(D) LeConte Medical Ctr	621114867	3		No	Yes		Yes		0
(E) Methodist Medical Ctr	620636239	3		No	Yes		Yes		0
(F) Parkwest Medical Ctr	581897274	3		No	Yes		Yes		0
(G) Roane County Medical Ctr	680673354	3		No	Yes		Yes		0
(H) Thompson Cancer Survival Ctr	621250943	3		No	Yes		Yes		0
(I) Covenant Homecare	621623114	9		No	Yes		Yes		0
(J) Thompson Oncology Group	621619239	3		No	Yes		Yes		0
(K) Morristown- Hamblen Healthcare System	620545814	3		No	Yes		Yes		0

SCHEDULE C
(Form 990 or 990-EZ)**Political Campaign and Lobbying Activities****2011****For Organizations Exempt From Income Tax Under section 501(c) and section 527**

► Complete if the organization is described below.
► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

**Open to Public
Inspection**

If the organization answered "Yes," to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered "Yes," to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered "Yes," to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, line 35c (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization Covenant Health	Employer identification number 62-1646734
---	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

- 1 Provide a description of the organization's direct and indirect political campaign activities on behalf of or in opposition to candidates for public office in Part IV
- 2 Political expenditures ► \$ _____
- 3 Volunteer hours

Part I-B Complete if the organization is exempt under section 501(c)(3).

- 1 Enter the amount of any excise tax incurred by the organization under section 4955 ► \$ _____
- 2 Enter the amount of any excise tax incurred by organization managers under section 4955 ► \$ _____
- 3 If the organization incurred a section 4955 tax, did it file Form 4720 for this year? Yes No
- 4a Was a correction made? Yes No
- 4b If "Yes," describe in Part IV

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

- 1 Enter the amount directly expended by the filing organization for section 527 exempt function activities ► \$ _____
- 2 Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities ► \$ _____
- 3 Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b ► \$ _____
- 4 Did the filing organization file **Form 1120-POL** for this year? Yes No
- 5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

A Check if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)

B Check if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)			
b Total lobbying expenditures to influence a legislative body (direct lobbying)			
c Total lobbying expenditures (add lines 1a and 1b)			
d Other exempt purpose expenditures			
e Total exempt purpose expenditures (add lines 1c and 1d)			
f Lobbying nontaxable amount Enter the amount from the following table in both columns			
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:		
Not over \$500,000	20% of the amount on line 1e		
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000		
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000		
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000		
Over \$17,000,000	\$1,000,000		
g Grassroots nontaxable amount (enter 25% of line 1f)			
h Subtract line 1g from line 1a If zero or less, enter -0-			
i Subtract line 1f from line 1c If zero or less, enter -0-			
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes	<input type="checkbox"/> No

4-Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

	(a)		(b)
	Yes	No	
			Amount
1 During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a Volunteers?	Yes		
b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?	Yes		
c Media advertisements?		No	
d Mailings to members, legislators, or the public?	Yes		50
e Publications, or published or broadcast statements?		No	
f Grants to other organizations for lobbying purposes?		No	
g Direct contact with legislators, their staffs, government officials, or a legislative body?	Yes		8,998
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i Other activities? If "Yes," describe in Part IV	Yes		114,419
j Total lines 1c through 1i			123,467
2a Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?			
b If "Yes," enter the amount of any tax incurred under section 4912			
c If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

1 Were substantially all (90% or more) dues received nondeductible by members?	Yes	No
2 Did the organization make only in-house lobbying expenditures of \$2,000 or less?	1	
3 Did the organization agree to carryover lobbying and political expenditures from the prior year?	2	
	3	

Part III-B Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1 Dues, assessments and similar amounts from members	1	
2 Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).	2a	
a Current year	2b	
b Carryover from last year	2c	
c Total	3	
3 Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	4	
4 If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	5	
5 Taxable amount of lobbying and political expenditures (see instructions)		

Part IV Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1.

Also, complete this part for any additional information

Identifier	Return Reference	Explanation
Explanation of Lobbying Activities	Part II-B, Line 1	Covenant Health indirectly conducts lobbying activities through various membership organizations. A portion of membership dues paid is included in the amount on Line 1.

2011

Open to Public
Inspection**SCHEDULE D**
(Form 990)Department of the Treasury
Internal Revenue Service**Supplemental Financial Statements**

► Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
 ► Attach to Form 990. ► See separate instructions.

Name of the organization
Covenant Health**Employer identification number**

62-1646734

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1 Total number at end of year		
2 Aggregate contributions to (during year)		
3 Aggregate grants from (during year)		
4 Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? Yes No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? Yes No

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)

Preservation of land for public use (e.g., recreation or pleasure) Preservation of an historically importantly land area

Protection of natural habitat Preservation of a certified historic structure

Preservation of open space

2 Complete lines 2a-2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
2a	
2b	
2c	
2d	

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ► _____

4 Number of states where property subject to conservation easement is located ► _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? Yes No

6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ► _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year

► \$ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? Yes No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets.

Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ► \$ _____

(ii) Assets included in Form 990, Part X ► \$ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1 ► \$ _____

b Assets included in Form 990, Part X ► \$ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3 Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a Public exhibition d Loan or exchange programs
 b Scholarly research e Other
 c Preservation for future generations

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? Yes No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? Yes No

b If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a Did the organization include an amount on Form 990, Part X, line 21? Yes No

b If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current Year	(b) Prior Year	(c) Two Years Back	(d) Three Years Back	(e) Four Years Back
1a Beginning of year balance					
b Contributions					
c Investment earnings or losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2 Provide the estimated percentage of the year end balance held as

a Board designated or quasi-endowment ►

b Permanent endowment ►

c Term endowment ►

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

(i) unrelated organizations 3a(i) Yes No

(ii) related organizations 3a(ii) Yes No

b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? 3b Yes No

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.

	Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		9,427,981			9,427,981
b Buildings		14,999,092	1,875,559		13,123,533
c Leasehold improvements		1,422,709	1,232,017		190,692
d Equipment		16,857,566	13,030,985		3,826,581
e Other		29,373,155			29,373,155
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).)					55,941,942

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
Other		

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements

1 Total revenue (Form 990, Part VIII, column (A), line 12)	1
2 Total expenses (Form 990, Part IX, column (A), line 25)	2
3 Excess or (deficit) for the year Subtract line 2 from line 1	3
4 Net unrealized gains (losses) on investments	4
5 Donated services and use of facilities	5
6 Investment expenses	6
7 Prior period adjustments	7
8 Other (Describe in Part XIV)	8
9 Total adjustments (net) Add lines 4 - 8	9
10 Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1 Total revenue, gains, and other support per audited financial statements	1
2 Amounts included on line 1 but not on Form 990, Part VIII, line 12	
a Net unrealized gains on investments	2a
b Donated services and use of facilities	2b
c Recoveries of prior year grants	2c
d Other (Describe in Part XIV)	2d
e Add lines 2a through 2d	2e
3 Subtract line 2e from line 1	3
4 Amounts included on Form 990, Part VIII, line 12, but not on line 1	
a Investment expenses not included on Form 990, Part VIII, line 7b	4a
b Other (Describe in Part XIV)	4b
c Add lines 4a and 4b	4c
5 Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	5

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1 Total expenses and losses per audited financial statements	1
2 Amounts included on line 1 but not on Form 990, Part IX, line 25	
a Donated services and use of facilities	2a
b Prior year adjustments	2b
c Other losses	2c
d Other (Describe in Part XIV)	2d
e Add lines 2a through 2d	2e
3 Subtract line 2e from line 1	3
4 Amounts included on Form 990, Part IX, line 25, but not on line 1:	
a Investment expenses not included on Form 990, Part VIII, line 7b	4a
b Other (Describe in Part XIV)	4b
c Add lines 4a and 4b	4c
5 Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	5

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information

Identifier	Return Reference	Explanation
Description of Uncertain Tax Positions Under FIN 48	Part X	Part X, Line 2 Note G to the consolidated audited financial statements of Covenant Health, reads in part. At December 31, 2011, tax returns for 2008 through 2011 are subject to examination by the Internal Revenue Service. Covenant has no uncertain tax positions that would require financial statement recognition or disclosure under generally accepted accounting principles at December 31, 2011 or 2010.

**Schedule I
(Form 990)**

Grants and Other Assistance to Organizations, Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.

► Attach to Form 990

2011

Open to Public Inspection

Department of the Treasury
Internal Revenue Service

Name of the organization
Covenant Health

Employer identification number

Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? Yes No

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II Grants and Other Assistance to Governments and Organizations in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Use Part IV and Schedule I-1 (Form 990) if additional space is needed.

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
See Additional Data Table							

Part III Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22. Use Schedule I-1 (Form 990) if additional space is needed.

(a) Type of grant or assistance	(b) Number of recipients	(c) Amount of cash grant	(d) Amount of non-cash assistance	(e) Method of valuation (book, FMV, appraisal, other)	(f) Description of non-cash assistance

Part IV Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

Identifier	Return Reference	Explanation
Procedure for Monitoring Grants in the U S	Part I, Line 2	Schedule I, Part I, Line 2 Eligibility and selection criteria for charitable contributions from Covenant Health are determined by a review of a written proposal or similar documentation submitted by the requesting organization. Intended use of funds must be stated or evident in the proposal/documentation. Recipient organizations generally verify use of funds in one or more of the following ways event publicity, follow-up reports or newsletters, sponsor recognition at a program or event, itemized receipts, year-end summaries

Software ID:**Software Version:****EIN:** 62-1646734**Name:** Covenant Health**Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States**

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Cancer Support Community Inc 2230 Sutherland Ave Knoxville, TN 37919	58-1846210	501(c)(3)	15,000				Support for 2012 Cancer Support
American Heart Association 4708 Papermill Road Knoxville, TN 37909	13-5613797	501(c)(3)	20,000				Sponsorship of 2011 Heart Walk and 2012 Gala

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Boys and Girls Club of the TN Valley 220 Carrick St Suite 318 Knoxville, TN 37921	62-0475743	501(c)(3)	8,334				Drug screenings
Catholic Charities of East TN Inc 3009 Lake Brook Blvd Knoxville, TN 37909	62-1377551	501(c)(3)	52,000				Support of HUD housing and sponsorship of fundraisers

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
East TN Children's Hospital PO Box 15016 Knoxville, TN 37901	62-6002604	501(c)(3)	7,720				Sponsorship of fundraisers
Coalition to Protect Americas Health Care PO Box 30211 Bethesda, MD 20824	52-2253225	501(c)(3)	12,000				General support

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Fort Sanders Foundation 280 Ft Sanders West Blvd Ste 100 Knoxville, TN 37922	62-1748601	501(c)(3)	12,500				Fundraisers benefiting Patricia Neal Rehab Center, Peninsula, & the Hope Center
Foundation of National Student Nurses 45 Main Street Suite 606 Brooklyn, NY 11201	13-3123125	509(a)(3)	7,500				General support

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Honor Air Knoxville 7536 Taggart Ln Knoxville, TN 37938	26- 2825063	501(c)(3)	30,000				General support General support
Methodist Medical Center Foundation 990 Oak Ridge Tpk Knoxville, TN 37830	62- 1414205	501(c)(3)	5,290				General support fundraising

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Interfaith Health Clinic 315 Gill Avenue Knoxville, TN 37917	58-1947641	501(c)(3)	60,000				General support for Interfaith Health Clinic
Knoxville Academy of Medicine Foundation 115 Suburban Road Knoxville, TN 37923	62-1458199	501(c)(3)	17,500				Knoxville Area Project Access - medical care for needy

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Knoxville News Sentinel Charities Inc 2332 News Sentinel Drive Knoxville, TN 37921	51- 0141541	501(c)(3)	25,500				General support fundraiser - Knoxville Sentinel Open Tournament
Knoxville Symphony Orchestra PO Box 360 Knoxville, TN 37901	62- 6008097	501(c)(3)	8,000				General support

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Knoxville Soccer LLCPO Box 52250 Knoxville, TN 37950	27- 2949086	501(c)(3)	20,000				2011 Knoxville Marathon and Covenant Kids' Run
Komen Knoxville Race for Cure 9724 Kingston Pike Ste 705 Knoxville, TN 37922	75- 1835298	501(c)(3)	12,000				Race sponsor for organization supporting breast cancer research and awareness

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Robert F Thomas Foundation PO Box 4395 Sevierville, TN 37864	58-1537582	501(c)(3)	8,000				Fundraisers to benefit Leconte Medical Center
Metropolitan Drug Commission PO Box 53375 Knoxville, TN 37950	58-1704454	501(c)(3)	10,000				2011 Heart Gala Fundraiser

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Sacred Heart Church 711 S Northshore Drive Knoxville, TN 37919	62-0572260	501(c)(3)	13,000				Hope for Haiti medical outreach, general support for fundraising
Knoxville Track Club PO Box 32035 Knoxville, TN 37930	62-0731345	501(c)(3)	50,000				General support, Covenant Health Marathon

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Wee Course Classic PO Box 2123 Morristown, TN 37816	30-0155523	501(c)(3)	10,000				Sponsor fundraising event - Larry Flemming Kids Classic
Variety Children's Charity of East TN 7132 Regal Lane Knoxville, TN 37918	33-1025696	501(c)(3)	20,000				General support

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Morristown Hamblen Hospital Foundation PO Box 1178 Morristown, TN 37816	62-1697090	501(c)(6)	6,200				General support fundraising
							General support

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
United Way of Greater Knoxville 1301 Hannah Ave Knoxville, TN 37921	62-6001636	501(c)(3)	60,500				2011 & 2012 General support
University of TN Athletic Dept PO Box 15016 Knoxville, TN 37901	62-6001636	501(c)(3)	9,000				General support

Form 990, Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
Emerald Youth Foundation 1718 N Central St Knoxville, TN 37917	62-1474791	501(c)(3)	17,500				General support fundraiser
Thompson Cancer Center Foundation 1915 White Ave Knoxville, TN 37916	58-2130450	501(c)(3)	7,025				2011 Buddy's Race for a Cure

Schedule J
(Form 990)**Compensation Information**

OMB No 1545-0047

2011Department of the Treasury
Internal Revenue Service

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees
► Complete if the organization answered "Yes" to Form 990, Part IV, question 23.
► Attach to Form 990. ► See separate instructions.

Open to Public Inspection**Name of the organization**
Covenant Health**Employer identification number**

62-1646734

Part I Questions Regarding Compensation

1a Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items

<input type="checkbox"/> First-class or charter travel	<input checked="" type="checkbox"/> Housing allowance or residence for personal use
<input checked="" type="checkbox"/> Travel for companions	<input type="checkbox"/> Payments for business use of personal residence
<input checked="" type="checkbox"/> Tax indemnification and gross-up payments	<input type="checkbox"/> Health or social club dues or initiation fees
<input checked="" type="checkbox"/> Discretionary spending account	<input type="checkbox"/> Personal services (e.g., maid, chauffeur, chef)

b If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain

2 Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?

3 Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director. Check all that apply

<input checked="" type="checkbox"/> Compensation committee	<input type="checkbox"/> Written employment contract
<input checked="" type="checkbox"/> Independent compensation consultant	<input checked="" type="checkbox"/> Compensation survey or study
<input type="checkbox"/> Form 990 of other organizations	<input checked="" type="checkbox"/> Approval by the board or compensation committee

4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization

a Receive a severance payment or change-of-control payment?
b Participate in, or receive payment from, a supplemental nonqualified retirement plan?
c Participate in, or receive payment from, an equity-based compensation arrangement?
 If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III

Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.

5 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of

a The organization?

b Any related organization?

If "Yes," to line 5a or 5b, describe in Part III

6 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of

a The organization?

b Any related organization?

If "Yes," to line 6a or 6b, describe in Part III

7 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III

8 Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs. section 53.4958-4(a)(3)? If "Yes," describe in Part III

9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?

	Yes	No
1b	Yes	
2	Yes	
4a		No
4b	Yes	
4c		No
5a		No
5b		No
6a		No
6b		No
7		No
8		No
9		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii). Do not list any individuals that are not listed on Form 990, Part VII.

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual.

(A) Name	(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
	(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) Anthony L Spezia	(i) 924,445 (ii) 0	326,250 0	1,241,947 0	9,800 0	15,907 0	2,518,349 0	759,468 0
(2) John T Geppi	(i) 393,584 (ii) 0	237,900 0	73,983 0	9,800 0	19,248 0	734,515 0	0 0
(3) James D Vandersteeg	(i) 421,899 (ii) 0	174,000 0	58,416 0	9,800 0	19,215 0	683,330 0	0 0
(4) William M Ward	(i) 234,760 (ii) 0	76,794 0	38,433 0	9,800 0	21,995 0	381,782 0	0 0
(5) Lawrence C Kleinman	(i) 242,808 (ii) 0	25,000 0	47,561 0	22,672 0	7,815 0	345,856 0	0 0
(6) Samuel R Buscetta	(i) 69,528 (ii) 0	161,600 0	80,704 0	9,800 0	6,048 0	327,680 0	0 0
(7) Janice McKinley	(i) 185,371 (ii) 6,287	18,664 0	18,522 357	8,721 0	8,064 295	239,342 6,939	0 0
(8) Michael R Belbeck Jr	(i) 275,817 (ii) 0	104,450 0	33,042 0	9,800 0	24,152 0	447,261 0	0 0
(9) Larry R Lassiter	(i) 279,389 (ii) 0	81,725 0	41,933 0	10,597 0	19,784 0	433,428 0	0 0
(10) Richard L Clark	(i) 235,546 (ii) 0	6,778 0	98,318 0	9,800 0	19,931 0	370,373 0	0 0
(11) Keith N Altshuler	(i) 254,454 (ii) 0	26,896 0	44,620 0	9,800 0	19,677 0	355,447 0	0 0
(12) Gordon E Lintz	(i) 192,198 (ii) 0	55,350 0	34,371 0	9,800 0	8,857 0	300,576 0	0 0

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information

Identifier	Return Reference	Explanation
	Part I, Line 1a	Part I, Line 1a Tax gross-up payments are provided to certain executives and managers. Additionally, housing allowances are provided to certain executives and managers in connection with relocation. These benefits are treated as taxable compensation to the recipients. Officers and Board members attending official Board retreats are offered a discretionary spending allowance that may be used for incidental spending and/or companion travel. The allowance is treated as taxable compensation to the recipient. In addition, Board members receive tax indemnification payments related to reportable compensation from the spending allowances, which are also treated as taxable compensation.
	Part I, Line 4b	Part II, Anthony L Spezia (compensated by Covenant Health, parent organization) - Column (B)(III) Other reportable compensation \$1,010,702 of the total amount reported as "other reportable compensation" under Column (B)(III) is the total amount accrued during years 2007, 2008, 2009, 2010 and 2011 under a 457(f) deferred compensation plan established for Mr. Spezia in year 2000. Amounts accrued in years 2007 through 2010 have been previously reported and included in compensation on Form 990 for the applicable year. Although all deferred amounts became fully vested and taxable in 2011, only 2007 accruals were distributed to Mr. Spezia in 2011. Accruals for 2008-2011 are distributable in future years. Consequently, the \$1,103,451 is comprised of the following: \$586,516 accrued and previously reported as income on Form 990 for years 2008, 2009, and 2010, which is fully vested but has not been distributed; \$235,299 distributed in 2011, of which \$172,952 was previously reported as income on Form 990 for year 2007, the remainder representing earnings on the deferred amount distributed; \$188,887 accrued in 2011, which is fully vested but has not been distributed.

**Schedule K
(Form 990)****2011**Open to Public
InspectionDepartment of the Treasury
Internal Revenue Service**Supplemental Information on Tax Exempt Bonds**

► Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).

► Attach to Form 990. ► See separate instructions.

Name of the organization
Covenant HealthEmployer identification number
62-1646734**Part I Bond Issues**

(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A Health Educ & Housing Facil Brd of Knox Co	62-1220275	499523UU0	12-20-2006	46,245,448	See Part VI		X		X		X
B Health Educ & Housing Facil Brd of Knox Co	62-1220275	499523VR6	03-24-2011	103,700,000	See Part VI		X		X		X
C Health Educ & Housing Facil Brd of Knox Co	62-1220275	noneavail	09-15-2011	135,500,000	See Part VI		X		X		X
D Health Educ & Housing Facil Brd of Knox Co	62-1220275	noneavail	09-15-2011	125,000,000	See Part VI		X		X		X

Part II Proceeds

		A	B	C	D
			122,000,000	35,500,000	
1 Amount of bonds retired		23,755,001			
2 Amount of bonds defeased					
3 Total proceeds of issue		46,245,448	103,700,000	135,500,000	125,000,000
4 Gross proceeds in reserve funds					
5 Capitalized interest from proceeds					
6 Proceeds in refunding escrow		18,647,502			
7 Issuance costs from proceeds		506,941			
8 Credit enhancement from proceeds					
9 Working capital expenditures from proceeds					
10 Capital expenditures from proceeds		21,983,506		29,917,819	
11 Other spent proceeds					
12 Other unspent proceeds				70,082,181	
13 Year of substantial completion		2010	2006		2010

		Yes	No	Yes	No	Yes	No	Yes	No
14 Were the bonds issued as part of a current refunding issue?			X	X		X		X	
15 Were the bonds issued as part of an advance refunding issue?		X			X		X		X
16 Has the final allocation of proceeds been made?		X		X			X	X	
17 Does the organization maintain adequate books and records to support the final allocation of proceeds?		X		X		X		X	

Part III Private Business Use

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1 Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?			X		X		X		X
2 Are there any lease arrangements that may result in private business use of bond-financed property?			X		X		X		X

Part III Private Business Use (Continued)

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use?		X		X		X		X
b If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c Are there any research agreements that may result in private business use of bond-financed property?		X		X		X		X
d If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ►	0 %		0 %		0 %		0 %	
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ►	0 %		0 %		0 %		0 %	
6 Total of lines 4 and 5	0 %		0 %		0 %		0 %	
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X			X	X		X	

Part IV Arbitrage

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X		X		X		X
2 Is the bond issue a variable rate issue?		X	X		X		X	
3a Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?		X		X		X		X
b Name of provider								
c Term of hedge								
d Was the hedge superintegrated?								
e Was a hedge terminated?								
4a Were gross proceeds invested in a GIC?		X		X		X		X
b Name of provider								
c Term of GIC								
d Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5 Were any gross proceeds invested beyond an available temporary period?		X		X		X		X
6 Did the bond issue qualify for an exception to rebate?		X		X		X		X

Part V Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations

Yes No

Part VI Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

Identifier	Return Reference	Explanation
		Schedule K, Part I, Column (F) Bond issues - description of purpose Bond Issue A - These capital appreciation bonds were initially related to a larger bond issue, subsequently refinanced as noted below, the majority of which were used to build a replacement hospital and cancer treatment center in Sevier County and to make numerous renovations and improvements at all the member hospitals. A portion of the capital appreciation bonds were used for the refunding of bonds issued December 12, 2002 Bond Issue B - These bonds were issued for the partial refunding of bonds issued December 12, 2002 Bond Issue C - \$35,500,000 relates to the conversion of a portion of the bonds issued December 20, 2006. All other proceeds are designated to build a replacement hospital in Roane County and for various facility and equipment improvements and additions at other affiliates Bond Issue D - These bonds relate to the conversion of a portion of the bonds issued December 20, 2006

Schedule L
(Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2011

Department of the Treasury
Internal Revenue Service

► Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V lines 38a or 40b.

► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

**Open to Public
Inspection**

Name of the organization

Covenant Health

Employer identification number

62-1646734

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only)

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b.

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 ➤ \$ _____
3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ➤ \$ _____

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a.

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

Part IV Business Transactions Involving Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) First Tennessee Bank	Independent contractor	159,842	Investment management		No

Part V Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule L (see instructions)

Identifier	Return Reference	Explanation

SCHEDULE M
(Form 990)

NonCash Contributions

OMB No 1545-0047

2011

Open to Public
InspectionDepartment of the Treasury
Internal Revenue Service

►Complete if the organization answered "Yes" on Form
990, Part IV, lines 29 or 30.
►Attach to Form 990.

Name of the organization
Covenant HealthEmployer identification number
62-1646734

Part I Types of Property

	(a) Check if applicable	(b) Number of Contributions or items contributed	(c) Contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining contribution amounts
1 Art—Works of art	X	21	17,534	Retail value, expert
2 Art—Historical treasures				
3 Art—Fractional interests				
4 Books and publications	X		50	FMV
5 Clothing and household goods	X		56,827	Various
6 Cars and other vehicles				
7 Boats and planes				
8 Intellectual property				
9 Securities—Publicly traded				
10 Securities—Closely held stock				
11 Securities—Partnership, LLC, or trust interests				
12 Securities—Miscellaneous				
13 Qualified conservation contribution—Historic structures				
14 Qualified conservation contribution—Other				
15 Real estate—Residential				
16 Real estate—Commercial				
17 Real estate—Other				
18 Collectibles	X	1	200	Comparables
19 Food inventory	X	3	2,600	
20 Drugs and medical supplies				
21 Taxidermy				
22 Historical artifacts				
23 Scientific specimens				
24 Archeological artifacts				
25 Other ► (
Gift cards/certificates/tickets)				
Donated services/use	X	18	5,886	Retail or face value
26 Other ► (of facilities)	X	1	5,000	Retail value
27 Other ► (_____)				
28 Other ► (_____)				
29 Number of Forms 8283 received by the organization during the tax year for contributions for which the organization completed Form 8283, Part IV, Donee Acknowledgement		29		

	Yes	No
30a During the year, did the organization receive by contribution any property reported in Part I, lines 1-28 that it must hold for at least three years from the date of the initial contribution, and which is not required to be used for exempt purposes for the entire holding period?	30a	No
b If "Yes," describe the arrangement in Part II		
31 Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?	31	No
32a Does the organization hire or use third parties or related organizations to solicit, process, or sell non-cash contributions?	32a	No
b If "Yes," describe in Part II		
33 If the organization did not report revenues in column (c) for a type of property for which column (a) is checked, describe in Part II		

Part II

Supplemental Information. Complete this part to provide the information required by Part I, lines 30b, 32b, and 33. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
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SCHEDULE O
(Form 990 or 990-EZ)Department of the Treasury
Internal Revenue Service**Supplemental Information to Form 990 or 990-EZ**

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
► Attach to Form 990 or 990-EZ.

2011**Open to Public
Inspection**Name of the organization
Covenant Health**Employer identification number**

62-1646734

Identifier	Return Reference	Explanation
Organization Mission Statement	Form 990, Part III, Line 1	<p>In 1996 two healthcare systems - Fort Sanders Alliance and MMC Healthcare System of Oak Ridge consolidated to form what is known today as Covenant Health. The two organizations, which had a combined legacy of more than 100 years of service in East Tennessee, united with the strong belief that by working together, they could do more for their communities than they could alone. Nearly two decades later, the connections Covenant Health has forged with East Tennessee communities have strengthened as the health system has worked in tandem with area leaders, businesses and organizations to provide excellent local healthcare. In recent years Covenant Health has opened replacement hospitals, outpatient centers and clinics, made innovative technology and medical advances available, and achieved national recognition for quality care and service excellence. As a tax-exempt health system, Covenant Health reinvests every dollar for the benefit of the community, not profitability or shareholder interests. As the largest private employer in the greater Knoxville area, Covenant Health's staff of more than 10,000 supports local communities by purchasing goods and services, participating in local activities, and contributing volunteer time and leadership in local organizations. Covenant Health is both committed to and connected to the communities it serves, as it lives out the health system's mission. COVENANT HEALTH'S MISSION We serve the community by improving the quality of life through better health. COVENANT HEALTH'S VALUES In service to God and community, we value Integrity, Quality, Service, Caring, Developing People, and Using Resources Wisely. COVENANT HEALTH'S VISION Covenant Health's clinical and service excellence will make us the first and best choice for patients, employees, physicians, employers, volunteers, and the community.</p> <p>COVENANT HEALTH MEMBER ORGANIZATIONS AND SERVICES The Covenant Health System ("the System") provides comprehensive healthcare services throughout East Tennessee. Headquartered in Knoxville, Tennessee, Covenant Health and its affiliates seek to provide affordable, superior healthcare to patients through continued operation of both acute care and non-hospital programs. The System includes seven acute care hospitals with a total of more than 1,700 licensed beds, a behavioral health hospital, and numerous outpatient services and clinics. The System also includes specialty providers of behavioral, oncology and rehabilitation services, along with home health care, physician clinics, community wellness programs and managed care products and services. Member organizations and programs are listed by name below.</p> <p>Hospitals and Other Healthcare Providers</p> <ul style="list-style-type: none"> Covenant Homecare and Hospice Fort Loudoun Medical Center Fort Sanders Perinatal Center Fort Sanders Regional Medical Center LeConte Medical Center Methodist Medical Center of Oak Ridge Morristown-Hamblen Healthcare System Parkwest Medical Center Peninsula Hospital, a Division of Parkwest Medical Center Roane County Medical Center Thompson Cancer Survival Center Thompson Oncology Group Outpatient and Specialty Care Departments, and Joint Ventures Fort Sanders Sevier Nursing Home Fort Sanders West Diagnostic Center Fort Sanders West Outpatient Surgery Center Morristown Regional Diagnostic Center Patricia Neal Rehabilitation Center Peninsula Outpatient Centers Surgery-Endoscopy Center of Morristown Foundations Fort Sanders Foundation Methodist Medical Center Foundation Morristown-Hamblen Hospital Foundation Thompson Cancer Survival Center Foundation <p>CONNECTING WITH OUR COMMUNITIES THROUGH QUALITY CARE</p> <p>Covenant Health delivers quality care in local settings, with services designed to meet the needs of our communities. The acute care hospitals located in Knoxville and surrounding areas comprise the foundation of the health system. They offer comprehensive care provided by board certified medical staffs, including emergency care, specialty services, and a full range of diagnostics and treatment. When specialty care is needed, Covenant Health provides:</p> <ul style="list-style-type: none"> * Innovative cancer care and technologies to deliver radiation therapy and other cancer treatment at facilities affiliated with Thompson Cancer Survival Center in Knox and surrounding counties * Nationally recognized care for patients suffering from physical disabilities, stroke and traumatic brain injury at Fort Sanders Regional Medical Center's Patricia Neal Rehabilitation Center * Rehabilitation services including physical therapy, speech therapy, sports medicine, and specialized therapy such as hand therapy and vestibular (balance) rehabilitation are offered at a dozen Covenant Therapy Centers locations. In addition, more than 30 affiliated physician clinics throughout the region offer convenient access to primary and specialty care. <p>BEHAVIORAL HEALTH - A COMMITMENT TO ESSENTIAL SERVICES</p> <p>Covenant Health provides comprehensive behavioral health services under the auspices of Peninsula, a Division</p>

Identifier	Return Reference	Explanation
Organization Mission Statement	Form 990, Part III, Line 1	<p>of Parkwest Medical Center ("Peninsula") Peninsula operates a behavioral health hospital and outpatient centers for treatment of addictive behaviors, depression, and other mental health issues With 75 years of combined experience, Peninsula organizations have helped thousands of people recover from disorders and dependencies and lead healthy, positive and productive lives In 2012 the State of Tennessee announced the closing of Lakeshore Mental Health Institute in Knoxville, as Tennessee moves toward more community-based mental health services In response, Covenant Health announced that Peninsula would do everything it could to help the vulnerable population Lakeshore served Peninsula pledged to take as many Lakeshore patients as it feasibly could, adding staff (including some former Lakeshore employees) and expanding facilities to handle the expected influx It is not the first time the State has sought Peninsula's help When Lakeshore closed its child and adolescent program in 2004, Peninsula became the only child and adolescent inpatient psychiatric facility between Chattanooga and Johnson City, Tennessee</p> <p>COMMUNITY CELEBRATES PROGRESS FOR NEW ROANE COUNTY MEDICAL CENTER "One Community One Hospital" is the theme of progress for the new Roane County Medical Center, a replacement hospital for the current facility in Harriman The new facility is under construction near the Midtown exit off I-40, and scheduled to open in February 2013 About 200 people attended a mid-progress celebration in Spring 2012 at the hospital construction site Covenant Health President Tony Spezia welcomed guests and introduced dignitaries, including legislative representatives, Roane County leaders, Covenant Health board members, and others The celebration included a time capsule where speakers could place items that represent the legacy and future of Roane County Medical Center Items will be placed in the time capsule until it is sealed in February 2013 Gaye Jolly, the President and CAO of Roane County Medical Center, said employees and physicians look forward to continuing recent quality accomplishments and the hospital's tradition of excellent care for every patient in the new facility Key features of the new hospital include all private, modern patient rooms with large natural light windows, 15 emergency suites, technologically-advanced surgery suites, and enlarged and modern nursing units Patient drop-off and pick-up areas will be available, as well as free parking in more than 500 parking spots Patients and visitors can enjoy freshly prepared meals in the new Three Rivers Cafe The new medical center campus will be wired with new and innovative technologies including computer systems, information technologies and hardware for transition to electronic medical records Adjacent to the hospital will be a new professional office building, which will be home to medical professionals including Thompson Oncology Group, Roane Medical Patricia Neal Outpatient Center, and Roane Medical Cardiopulmonary Rehabilitation The Thompson Oncology Group will be staffed with board-certified oncology physicians, who will have access to nationally-acclaimed multidisciplinary cancer care through Thompson Cancer Survival Center Roane Patricia Neal Outpatient Center will feature an in-ground therapy pool complete with a built-in treadmill, and Roane Cardiopulmonary Rehabilitation will offer a new, state-of-the-art telemetry monitoring system</p>

Identifier	Return Reference	Explanation
		<p>CARDIAC INNOVATIONS FOR THE HEARTS OF EAST TENNESSEE Innovative Valve Centers Offer Specialty Cardiac Care The most complex cardiovascular problems can now be treated in Knoxville Covenant Health is debuting Valve Centers at Parkwest, Fort Sanders Regional, and Methodist Medical Centers Valve centers are staffed by experienced cardiovascular surgeons, cardiologists, nurses and other professional medical staff who are educated in the latest protocols The coordination of care made possible by the Valve Centers will help Covenant Health hospitals deliver better outcomes, with fewer complications and higher survival rates A new \$2.6 million "hybrid" operating room opened this spring at Parkwest Medical Center and is used by Covenant Health physicians primarily for cardiac and vascular procedures A hybrid operating room combines the best of a traditional surgical suite with large imaging equipment such as real-time X-ray and CT in a sterile setting Hybrid operating rooms allow surgeons to perform combined open, minimally invasive, image-guided and/or catheter-based procedures in the same operating room Patients facing aortic aneurysm surgery or aortic valve replacement may have a less invasive option and a quicker recovery COVENANT HEALTH PERFORMS REGION'S FIRST BREAKTHROUGH TAVR PROCEDURE What if a heart valve could be replaced without surgically opening the chest cavity? That is now a reality for some patients Parkwest Medical Center is one of only 140 sites in the nation and the first Knoxville hospital to offer Trans Aortic Valve Replacement (TAVR), an innovative procedure to replace diseased aortic valves TAVR is appropriate for some high-risk patients with severe aortic stenosis (narrowing of the aortic valve opening) who are not candidates for surgery In the United States, TAVR continues to be studied as part of the PARTNER (Placement of Aortic Transcatheter Valves) trial which studied inoperable patients with severe symptomatic aortic stenosis Covenant Health has been selected by Edwards Lifesciences as the only entity in Knoxville to have surgeons trained in the TAVR procedure STANDING STRONG FOR THE COMMUNITIES WE SERVE As a tax-exempt organization governed by a voluntary Board of Directors, Covenant Health reinvests excess revenues after expenses in improving patient care Since 2000 Covenant Health has invested nearly \$1 billion in facilities, technologies, programs and services No other health system in East Tennessee in this decade has approached Covenant Health's investment in clinical and medical information technology, and new, renovated and expanded hospitals and services The current economic environment has been particularly difficult and challenging for healthcare organizations, and has included cuts in reimbursement for services and the sale or closure of hospitals in our region Covenant Health is committed to standing strong, and to the wise use of the health system's resources Despite operating results at roughly a break-even level over the last five years, a strong balance sheet has allowed Covenant Health to continue providing substantial care to those with limited resources In 2011 Covenant Health provided more than \$150 million in charity and uncompensated care CONNECTING MEDICAL COMMUNITIES WITH ADVANCED TECHNOLOGY When one thinks of technology, machines are often thought of - not only imposing-looking diagnostic equipment, but smaller electronic tools such as computers and hand-held devices Often the concept of technology revolves around the hardware seen in healthcare settings Using Technology to Achieve Quality Covenant Health's data center includes over 850 servers and 200 terabytes of storage capacity that are available to each hospital across the system via a high-speed gigabit network The system is progressing toward a national meaningful use mandate, where healthcare organizations are challenged to use data in ways that improve patient safety and outcomes while paying close attention to information security Some Covenant Health meaningful use initiatives include computerized patient order entry, real-time medication alerts to prevent allergy or drug interactions, and automated evidence-based care processes so that physicians and caregivers have immediate access to information about best practices Other initiatives include computer-generated review and reconciliation of the patient's medications upon admission to the hospital, and delivery of relevant clinical information to the case management system in order to plan appropriate post-discharge care Beyond Health System Boundaries Covenant Health is also leading the charge to expand technology benefits by participants beyond the system The East Tennessee Health Information Network is a collaboration of leaders at other tax-exempt health systems to create what will eventually be an electronic community of care that will encompass 17 counties in East Tennessee The local initiative supports national efforts</p>

Identifier	Return Reference	Explanation
		<p>nts to move to electronic health records and create secure networks for sharing information through a health information exchange REACHING OUT TO CREATE A HEALTHIER EAST TENNESSEE To improve the health of the community, Covenant Health reaches beyond hospital walls Local initiatives and partnerships create opportunities to interact with people of all ages and encourage healthier lifestyles * In Knoxville nearly 7,000 people participated in the 2012 Covenant Health Knoxville Marathon, which attracted local runners and hand cyclists, as well as competitors from throughout the U.S. and other countries * The Covenant Kids Run attracted over 1,000 children who participated in a "marathon" of activities over a period of several weeks, culminating in a run to Neyland Stadium on the day before the Covenant Health Knoxville Marathon * Covenant Health's Body Works program makes community fitness classes convenient, affordable, and fun With more than 80 classes offered weekly throughout East Tennessee, Body Works offers a variety of exercise options for adults of all ages and fitness levels *</p> <p>Covenant Health was the fitness sponsor of the Dogwood Arts Festival, held annually in April Fitness activities included several outdoor walks, Bikes and Blooms bike rides on local dogwood trails, and a Dogwood Mile run and Kids Race held downtown Knoxville * Covenant Passport is a free membership program for adults age 50 and older The program encourages healthy, active lifestyles through a newsletter, community presentations, health screenings, and travel/recreation opportunities Nearly 25,000 members are currently enrolled * Covenant Health annually sponsors M*A*S*H* Camp at Methodist Medical Center to give high school students a sneak preview of healthcare career options and a chance to job shadow professionals in several hospital departments *</p> <p>Covenant HomeCare Hospice helps children grieving the loss of a loved one through Katerpillar Kids Camp, offered with the support of Variety-The Children's Charity The camp is staffed by health system volunteers and helps children in grades 1-12 express their feelings in a supportive environment while enjoying camp activities *</p> <p>Morristown-Hamblen's Wellness of Women is dedicated to improving the lives of area women and their families The program sponsors events such as an annual Girls' Night Out, which offers free health screenings and encourages women to have fun while learning to stay healthy *</p> <p>Fort Sanders Regional Medical Center's Patricia Neal Rehabilitation Center leads the Innovation Recreation Cooperative, a collaboration of groups and individuals who help disabled persons enjoy leisure and recreation activities such as water skiing and cycling *</p> <p>Fort Loudoun Medical Center sponsors "Let's Move Day" for area children and their families, featuring a day of games and activities, healthy snacks, and fitness checks</p>

Identifier	Return Reference	Explanation
		<p>HEARTFELT CONNECTIONS INCREASE AWARENESS OF WOMEN AND HEART DISEASE The latest advancement in reducing heart disease in women is not a new test or treatment. Women can dramatically reduce their risks of developing heart disease by doing just four things - eating right, being physically active, not smoking, and maintaining a healthy weight. According to the most current research 62 percent of women are aware that heart disease is the number one killer of women. But many women still fail to take their risks personally or seriously. The Heart Truth Champions of Covenant Health are reaching out to help women understand that heart disease risk is a personal thing. Covenant Health was selected by the National Heart Lung and Blood Institute and the Office on Women's Health as one of a handful of sites across the United States to initiate a Heart Truth Champions program. Twelve Heart Truth Champion volunteers were selected based on their involvement in community health education activities, and their willingness to create and participate in local events to raise awareness of women and heart disease.</p> <p>SIX NUMBERS AT THE HEART OF GOOD HEALTH What you measure, you improve. That was the goal of Know Your Six, Chicks, a year-long community campaign to help women fight heart disease through awareness of six measures of heart health: blood pressure, cholesterol, fasting glucose, body mass index (BMI), physical activity and sleep habits. The campaign included heart health information, Lunch and Learns, community screenings, an interactive website and online health assessment, and mobile blood pressure screening units placed at local businesses. Know Your Six, Chicks is estimated to have directly reached just over 10,000 participants. Local businesses played an important role in Know Your Six, Chicks, providing locations for mobile Heart Centers and even providing spokespersons for the initiative. In addition to business participation, Know Your Six, Chicks also reached out to community centers, church locations, cultural events and trade shows - and expanded to include men in its outreach efforts.</p> <p>CONNECTING TO THE FUTURE THROUGH EDUCATION Covenant Health actively supports education programs for future nurses and other healthcare professionals. One example is the health system's partnership with Tennessee Wesleyan College-Fort Sanders Nursing, ("TWC"). The program offers a bachelor's degree in nursing through TWC in Athens, Tennessee, with classroom and clinical training opportunities at the school's Knoxville campus and at Covenant Health organizations. The collaboration has been in place for more than 10 years. This past Spring of 2012, more than 70 nursing students graduated from TWC. In summer 2012 the program launched an online RN-to-BSN degree designed especially for professional nurses who want to earn a baccalaureate degree while still continuing their nursing responsibilities. In addition to the TWC partnership, Covenant Health provides clinical training opportunities for students in health career programs at other area universities, community colleges and post-secondary schools, and has affiliation agreements with more than 100 schools across the country.</p> <p>COMMUNITY LEADERS PLAY KEY ROLES IN FOUNDATIONS' EVENTS AND PROGRAMS The Covenant Health Office of Philanthropy coordinates the philanthropic contributions of individuals and businesses throughout East Tennessee and beyond. Fund raising efforts are coordinated by four foundations: Fort Sanders Foundation, Methodist Medical Center Foundation, Morristown-Hamblen Hospital Foundation, and Thompson Cancer Survival Center Foundation. During the past year these foundations received contributions of about \$4 million to help provide new equipment and facilities at the hospitals, staff training, and provide assistance to patients. While the Foundations coordinate community events and fund raisers, local community involvement is critical to the success of the events.</p> <p>CARING FOR THOSE UNABLE TO PAY One of the most tangible expressions of the charitable purpose of Covenant Health is providing care to people in need. As a tax-exempt system, Covenant Health provides medically necessary services to people with limited resources. Covenant Health actively participates in the state's TennCare program, and collaborates with other area providers to identify and support efforts to make community healthcare resources available for those in need.</p> <p>2011 Summary of Community Benefit Totals for Uncompensated Care* Charity Care \$44 million TennCare \$52 million Medicare \$60 million Total Uncompensated Care \$156 million</p> <p>*Care which costs more to provide than reimbursements from state and national programs cover. Covenant Health provides community benefit that far exceeds the value of its tax-exempt status.</p>

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 11	<p>Part VI, Section B, Line 11</p> <p>Covenant Health is a large integrated health system which files twelve Forms 990 Annually, at the September Finance Committee meeting, one of the twelve 990's is selected (a different entity each year) for distribution to each member of the Committee. Management then reviews in detail each of the Form 990 schedules and describes variances between entities, if any. The remaining eleven Forms are made available for review by any committee member. The same presentation is made to the Covenant Health Board of Directors at the October meeting. All twelve Forms 990 are then made available to all Board members for their review throughout the month of October.</p>

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 12c	<p>Board members, officers and employees are required to adhere to rules and policies regarding conflicts of interest. Covenant Health distributes a Board-approved employee handbook to all employees. The handbook covers among other subjects, conflicts of interest. Additionally, managers are required to complete and sign an annual management certification that addresses conflicts of interest. Board members' conflicts of interests are dealt with in the corporate bylaws, and Board members are required to complete and sign a conflict of interest questionnaire on an annual basis. The Integrity Compliance Office maintains records that contain conflict of interest information obtained from Board members, officers and employees. These records are available to be queried prior to engaging in business transactions. The Integrity Compliance Officer initially reviews all conflict of interest data. Based on this information, the officer determines what conflicts of interest exist at that point in time. Between times when surveys are collected Board members are expected to disclose any new conflicts that have arisen that affect pending Board decisions. As well, managers and other employees are expected to report conflicts to the Integrity Compliance Officer as they arise. Depending on the nature of the conflict and the circumstances surrounding the conflict and transaction, the Integrity Compliance Officer, Senior Leadership, or the Board of Directors may review the conflict of interest. Where appropriate these bodies may also consult legal counsel. Restrictions imposed on persons with a conflict of interest are determined on a case by case basis. For Covenant Health employees, the Integrity Compliance Officer in conjunction with Executive Leadership determines how to appropriately handle the conflict. In any conflict involving a Board member, such member is expected to excuse himself or herself from voting on matters that give rise to the conflict.</p>

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, Line 15a Form 990, Part VI, Section B, Line 15b	<p>Form 990, Part VI, Section B, Line 15a Annual compensation for Covenant Health's President and CEO, Anthony L Spezia, is determined by the Compensation Committee of the Covenant Health Board of Directors, ("the Committee") which is composed of independent members of the board and chaired by the chairman of the board. The Committee is guided in its decision-making process by an independent, nationally recognized executive compensation consultant experienced in advising nonprofit hospital boards ("consultant") whose services include (1) providing pay comparisons with market comparables, (2) recommending salary ranges and annual base salary adjustments, (3) designing incentive compensation and deferred compensation components of the CEO's total compensation package, (4) reviewing benefits and perquisites, and (5) certifying as to the reasonableness of total annual compensation. The consultant analyzes and makes recommendations with respect to the CEO's total compensation package through analysis of CEO compensation data for comparable healthcare nonprofit health systems in the United States. The systems selected for comparison are similar to Covenant Health in size, revenue, total assets, number of full time employees and services provided. Covenant Health's current compensation methodology includes setting base salary at, or near the midpoint recommended by the consultant based on the CEO's experience and market conditions. In addition, annual incentive bonus compensation may be awarded upon achievement of established targets. Bonus opportunity ranges from 35-50% of base salary depending upon the executive's performance. The CEO also earns forfeitable, deferred compensation, the amount of which depends upon the amount of any annual bonus awarded. As a part of its CEO performance evaluation process, the Committee asks each member of the board of directors to submit a written evaluation of the CEO's performance using an evaluation form prepared by an independent audit firm. This information is collected, collated, and reported to the Committee by the audit firm, however, results are "blinded" so that individual board members are not identified. The collated results are shared with the CEO as part of the evaluation process. Any increase in base salary, award of annual bonus, or changes in overall compensation methodology are made by the Committee after discussion with and advice of the consultant and conditioned upon the consultant's determination that such decisions result in total annual compensation that is reasonable and within a fair market value range. Once the annual performance evaluation is completed, the chairman and at least one other member of the Committee meet with the CEO and share the Committee and board's evaluation of his prior year's performance, communicate his performance goals for the upcoming year, and inform him of the Committee's actions with respect to any annual bonus award for the prior year and any base salary adjustment for the upcoming year. Minutes of the actions of the Committee are recorded and kept on file. In addition, all determinations of the Committee with respect to the CEO's compensation are reported to and ratified by the full board of directors. Form 990, Part VI, Section B, Line 15b Base salaries and annual bonus opportunities for Key Executives (*1) are set by the Covenant Health CEO or Executive Vice President-Human Resources, subject to approval of the Compensation Committee of the Covenant Health Board of Directors ("the Committee"), after review by and discussion with the executive compensation consultant ("the consultant") to insure that total compensation for each executive is reasonable and within a fair market value range. Salary ranges for each executive position are based upon the recommendations of the consultant made after comparison with similar jobs in similar size health systems across the nation. Bonuses are recommended by the CEO and approved by the Committee conditioned upon receipt of a written opinion from the consultant that total compensation for each Key Executive is reasonable and consistent with fair market value. Base salaries are initially targeted at midpoint and vary according to the individual's experience, market conditions and competition. Annual bonuses are designed to award 0 - 45% for the EVPs, and 0 - 35% for the SVPs and CAO's of base salary based upon system performance and accomplishment of certain targets established by the CEO. (*1) KEY EXECUTIVES Covenant Health employees John T Geppi, EVP-Chief Financial Officer James D Vandersteeg, EVP-Hospital Operations Lawrence C Kleinman, EVP-Human Resources Samuel R Buscetta, EVP-Human Resources William M Ward, SVP-Chief Information Officer Janice M McKinley, SVP-Quality, Safety & Nursing Operations Related organization employees compensated by Covenant Health Keith Altshuler, President & CAO of Fort Sanders Regional Medical Ctr Michael R Belbeck, Jr , President & CAO of Me</p>

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section B, line 15	Thodist Medical Center Larry R Lassiter, President & CAO of Parkwest Medical Center Ellen F Wilhoit, President & CAO of LeConte Medical Center Jeffrey Feike, President & CAO of Fort Loudoun Medical Center James Gann, President & CAO of Roane Medical Center Richard Clark, President & CAO of Morristown Hamblen Medical Center

Identifier	Return Reference	Explanation
	Form 990, Part VI, Section C, line 19	Form 990, Part VI, Section C, Line 19 Per its tax exempt bond provisions, Covenant Health, is required to file quarterly and annual consolidated and obligated group financial statements in addition to other documentation, with various bond insurers and other agencies, including the Electronic Municipal Market Access, EMMA ,website Any member of such a repository has access to these financial statements

Identifier	Return Reference	Explanation
Average Hours Per Week/Contact Addresses for Highest Compensated Employees	Form 990, Part VI, Section A, Line 9 & Part VII, Section A	<p>Covenant Health compensates the Presidents and CAOs of its member hospitals in its role as a supporting organization. Average hours worked per week by the following persons are reported on the Form 990 of the facility for which they work. Their contact addresses are provided here, as well.</p> <p>Michael R Belbeck, Jr Methodist Medical Center 990 Oak Ridge Turnpike Oak Ridge, TN 37830 Larry R Lassiter Parkwest Medical Center 9352 Park West Boulevard Knoxville, TN 37923 Richard Clark 3102 Hampton Circle Morristown, TN 37814 Keith Altshuler Fort Sanders Regional Medical Center & Fort Sanders Perinatal Center 1901 Clinch Avenue Knoxville, TN 37916 Gordon Lintz Morristown-Hamblen Healthcare System 908 West Fourth North Morristown, TN 37814 All other persons listed in Part VII, Section A may be contacted at the organization's address</p>

Identifier	Return Reference	Explanation
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 5	Net unrealized losses on investments -17,251,918 Book/Tax Diff in Income(Loss) from Partnerships/Trusts -13,371,470 UBI Accrual -5,230 Return of capital from subsidiaries 150,771 Capital contributed to subsidiaries -32,937,198 Change in 457(b) unrealized gain/loss -176,935 Total to Form 990, Part XI, Line 5 -63,591,980

Identifier	Return Reference	Explanation
	Form 990, Part XII, Line 2c	The Finance Committee of the Board of Directors assumes responsibility for oversight of the audit of the consolidated financial statements and selection of an independent accountant

SCHEDULE R (Form 990)

Related Organizations and Unrelated Partnerships

OMB No 1545-0047

2011

**Open to Public
Inspection**

Department of the Treasury
Internal Revenue Service

Name of the organization

Covenant Health

Employer identification number

62-1646734

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

Part III Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations?		(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?	(k) Percentage ownership
							Yes	No			
(1) Endoscopy Center of Oak Ridge LLC 988 Oak Ridge Turnpike Ste 220 Oak Ridge, TN 37830 62-1667358	Outpatient medical facility	TN	N/A								
(2) Fort Sanders West OP Surgery Ctr LLC 210 Fort Sanders West Blvd Ste 106 Knoxville, TN 37922 62-1366907	Outpatient surgery center	TN	N/A								
(3) Fort Sanders West Associates 280 Fort Sanders West Blvd Ste 214 Knoxville, TN 37922 62-1384171	Building ownership	TN	N/A								
(4) Assoc of the Meridian Health Outpatient Surgery Ctr LLC 908 W 4th North St Morristown, TN 37814 86-1167487	Outpatient surgery center	TN	N/A								
(5) Tellico Senior Living LLC PO Box 308 Caryville, TN 37714 36-4353505	Retirement village	TN	N/A								
(6) KOSC Properties LLC 260 Fort Sanders West Blvd Ste 200 Knoxville, TN 37922 26-2444076	Building ownership	TN	N/A								
(7) Knoxville Orthopaedic Surgery Center LLC 260 Fort Sanders West Blvd Ste 200 Knoxville, TN 37922 26-2437385	Orthodopaedic surgery	TN	N/A								

Part IV Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) Fortress Corporation 280 Ft Sanders West Blvd Suite 214 Knoxville, TN 37922 62-1308885	Management company	TN	N/A	C			
(2) KASC Acquisition Company Inc 1420 Centerpoint Blvd Bldg C Knoxville, TN 37932 26-3400984	Real estate holdings	TN	N/A	C			
(3) Covenant Medical Management Inc 280 Ft Sanders West Blvd Suite 205 Knoxville, TN 37922 62-1282917	Physician practice management	TN	N/A	C			
(4) Knoxville Heart Group 1819 Clinch Avenue Suite 108 Knoxville, TN 37916 27-1528941	Cardiology medical practice	TN	N/A	C			
(5) Morristown-Hamblen Health Services Inc 908 W 4th North St Morristown, TN 37814 62-1588521	Inactive - dissolved 2/5/2011	TN	N/A	C			

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)**Note.** Complete line 1 if any entity is listed in Parts II, III or IV**1** During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

- a** Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity
- b** Gift, grant, or capital contribution to related organization(s)
- c** Gift, grant, or capital contribution from related organization(s)
- d** Loans or loan guarantees to or for related organization(s)
- e** Loans or loan guarantees by related organization(s)
- f** Sale of assets to related organization(s)
- g** Purchase of assets from related organization(s)
- h** Exchange of assets with related organization(s)
- i** Lease of facilities, equipment, or other assets to related organization(s)
- j** Lease of facilities, equipment, or other assets from related organization(s)
- k** Performance of services or membership or fundraising solicitations for related organization(s)
- l** Performance of services or membership or fundraising solicitations by related organization(s)
- m** Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)
- n** Sharing of paid employees with related organization(s)
- o** Reimbursement paid to related organization(s) for expenses
- p** Reimbursement paid by related organization(s) for expenses
- q** Other transfer of cash or property to related organization(s)
- r** Other transfer of cash or property from related organization(s)

	Yes	No
1a	Yes	
1b	Yes	
1c	Yes	
1d		No
1e		No
1f	Yes	
1g		No
1h		No
1i	Yes	
1j	Yes	
1k	Yes	
1l	Yes	
1m		No
1n	Yes	
1o	Yes	
1p	Yes	
1q	Yes	
1r	Yes	

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) See Additional Data Table			
(2)			
(3)			
(4)			
(5)			
(6)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation

Software ID:
Software Version:
EIN: 62-1646734
Name: Covenant Health

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary Activity	(c) Legal Domicile (State or Foreign Country)	(d) Exempt Code section	(e) Public charity status (if 501(c) (3))	(f) Direct Controlling Entity	g Section 512 (b)(13) controlled organization
Fort Sanders Regional Medical Center 1901 W Clinch Avenue Knoxville, TN 37916 62-0528340	Acute care hospital	TN	501(c) (3)	Line 3	Covenant Health	No
Parkwest Medical Center 9352 Park West Boulevard Knoxville, TN 37923 58-1897274	Acute care hospital & behavioral services	TN	501(c) (3)	Line 3	Covenant Health	No
Methodist Medical Center 990 Oak Ridge Turnpike Oak Ridge, TN 37830 62-0636239	Acute care hospital	TN	501(c) (3)	Line 3	Covenant Health	No
LeConte Medical Center 742 Middle Creek Road Sevierville, TN 37862 62-1114867	Acute care hospital	TN	501(c) (3)	Line 3	Covenant Health	No
Roane County Medical Center dba Roane Medical Center 412 Devonia St Harriman, TN 37748 68-0673354	Acute care hospital	TN	501(c) (3)	Line 3	Covenant Health	No
Fort Loudoun Medical Center 550 Fort Loudoun Medical Ctr Dr Lenoir City, TN 37772 62-1373691	Acute care hospital	TN	501(c) (3)	Line 3	Covenant Health	No
Thompson Cancer Survival Center 1915 White Avenue Knoxville, TN 37916 62-1250943	Cancer treatment facility	TN	501(c) (3)	Line 3	Covenant Health	No
Thompson Oncology Group 1915 White Avenue Knoxville, TN 37916 62-1619239	Oncology services	TN	501(c) (3)	Line 3	Covenant Health	No
Fort Sanders Foundation 280 Fort Sanders West Blvd Ste 100 Knoxville, TN 37922 62-1748601	Fundraising and patient outreach	TN	501(c) (3)	Line 11a, I	Covenant Health	No
Covenant Homecare 3001 Lake Brook Blvd Ste 101 Knoxville, TN 37909 62-1623114	Home health services	TN	501(c) (3)	Line 9	Covenant Health	No
Fort Sanders Perinatal Center 501 19th St Ste 304 Knoxville, TN 37916 04-3760551	High risk obstetrical services	TN	501(c) (3)	Line 3	Covenant Health	Yes
Morristown-Hamblen Hospital Assoc dba M-H Healthcare System 908 W 4th North St Morristown, TN 37814 62-0545814	Acute care hospital	TN	501(c) (3)	Line 3	Covenant Health	No
Thompson Cancer Survival Center Foundation 1915 White Avenue Knoxville, TN 37916 58-2130450	Fundraising and patient outreach	TN	501(c) (3)	Line 11a, I	Thompson Cancer Survival Center	No
Morristown Regional Cancer Center LLC 908 W 4th North St Morristown, TN 37814 20-0916364	Cancer treatment facility	TN	501(c) (3)	Line 3	Morristown-Hamblen Hospital Association	No

Form 990, Schedule R, Part III - Identification of Related Organizations Taxable as a Partnership

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(1) Fort Sanders Regional Medical Center	A	3,352,748	Cash
(2) Fort Sanders Regional Medical Center	B	84,500	FMV
(3) Fort Sanders Regional Medical Center	F	2,372,606	FMV
(4) Fort Sanders Regional Medical Center	K	57,388,288	FMV
(5) Fort Sanders Regional Medical Center	N	5,331,336	FMV
(6) Fort Sanders Regional Medical Center	O	1,816,511	Cost
(7) Fort Sanders Regional Medical Center	P	38,529,656	Cost
(8) Fort Sanders Regional Medical Center	R	471,704,834	Cash
(9) Parkwest Medical Center	A	25,406,428	Cash
(10) Parkwest Medical Center	F	3,440,273	FMV
(11) Parkwest Medical Center	K	59,099,323	FMV
(12) Parkwest Medical Center	N	2,833,819	FMV
(13) Parkwest Medical Center	O	202,213	Cost
(14) Parkwest Medical Center	P	389,734,198	Cost
(15) Parkwest Medical Center	Q	13,731,020	Cash
(16) Parkwest Medical Center	R	515,073,917	Cash
(17) Methodist Medical Center	A	176,925	Cash
(18) Methodist Medical Center	F	1,487,359	FMV
(19) Methodist Medical Center	K	36,950,152	FMV
(20) Methodist Medical Center	N	2,183,607	FMV

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(21) Methodist Medical Center	O	294,243	Cost
(22) Methodist Medical Center	P	181,686,031	Cost
(23) Methodist Medical Center	R	230,484,155	Cash
(24) Morristown-Hamblen Hospital Association	K	4,500,002	FMV
(25) Morristown-Hamblen Hospital Association	N	367,560	FMV
(26) Morristown-Hamblen Hospital Association	P	83,156,427	Cost
(27) Morristown-Hamblen Hospital Association	R	77,966,662	Cash
(28) LeConte Medical Center	A	1,132,354	Cash
(29) LeConte Medical Center	F	497,599	FMV
(30) LeConte Medical Center	K	13,522,449	FMV
(31) LeConte Medical Center	N	1,321,671	FMV
(32) LeConte Medical Center	O	157,504	Cost
(33) LeConte Medical Center	P	113,304,989	Cost
(34) LeConte Medical Center	R	55,350,343	Cash
(35) Roane County Medical Center	K	1,150,000	FMV
(36) Roane County Medical Center	N	1,652,534	FMV
(37) Roane County Medical Center	O	2,259,207	Cost
(38) Roane County Medical Center	P	16,376,837	Cost
(39) Roane County Medical Center	Q	1,102,200	Cash
(40) Fort Loudoun Medical Center	A	244,278	Cash

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(41) Fort Loudoun Medical Center	F	155,291	FMV
(42) Fort Loudoun Medical Center	K	6,219,000	FMV
(43) Fort Loudoun Medical Center	N	733,301	FMV
(44) Fort Loudoun Medical Center	P	35,875,480	Cost
(45) Fort Loudoun Medical Center	R	44,835,021	Cash
(46) Thompson Cancer Survival Center	K	6,334,326	FMV
(47) Thompson Cancer Survival Center	N	870,521	FMV
(48) Thompson Cancer Survival Center	O	200,610	Cost
(49) Thompson Cancer Survival Center	P	19,122,240	Cost
(50) Thompson Cancer Survival Center	Q	1,514,218	Cash
(51) Thompson Cancer Survival Center	R	37,877,700	Cash
(52) Thompson Oncology Group	K	715,814	FMV
(53) Thompson Oncology Group	P	63,813,948	Cost
(54) Thompson Oncology Group	R	46,186,916	Cash
(55) Covenant Homecare	I	54,950	FMV
(56) Covenant Homecare	K	3,204,656	FMV
(57) Covenant Homecare	J	131,880	FMV
(58) Covenant Homecare	N	100,182	FMV
(59) Covenant Homecare	P	24,531,955	Cost
(60) Covenant Homecare	R	25,334,805	Cash

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(61) Fort Sanders Perinatal Center	P	16,843,843	Cost
(62) Fort Sanders Perinatal Center	Q	204,405	Cash
(63) Fort Sanders Perinatal Center	R	19,863,540	Cash
(64) Surgery Endoscopy Ctr of Morristown	P	398,949	Cost
(65) Covenant Medical Management	K	457,454	FMV
(66) Covenant Medical Management	P	7,494,296	Cost
(67) Fortress Corporation	J	474,471	FMV
(68) Fortress Corporation	P	2,308,909	Cost
(69) Fort Sanders West OP Surgery Center	P	107,424	Cost
(70) Fort Sanders West Association	P	76,927	Cost
(71) Knoxville Heart Group	K	315,385	FMV
(72) Knoxville Heart Group	P	7,135,855	Cost
(73) Knoxville Heart Group	Q	144,741	Cash
(74) Knoxville Heart Group	R	4,407,436	Cash
(75) Fort Sanders Foundation	N	111,406	FMV

Additional Data

Software ID:
Software Version:
EIN: 62-1646734
Name: Covenant Health

Form 990, Special Condition Description:

Special Condition Description

Form 990, Part III - 4 Program Service Accomplishments (See the Instructions)

4d. Other program services

(Code	(Expenses \$	44,262,505	including grants of \$	608,694) (Revenue \$	56,038,808
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In addition to the services previously mentioned, support provided by Covenant Health to its member facilities takes on many other forms, some examples of which are * Executive leadership, strategic planning, and other planning both at the System and organizational level, * Financial, management and advisory services, * Third party reporting, * Integrity compliance program, * Real estate management, * Risk management, * Internal audit, * Asset and liability related treasury management functions, * Procurement, * Clinical quality improvement, * Marketing, and * External reporting Other services and activities conducted by Covenant Health directly benefit patients and members of the communities served by the Supported Organizations Some services are aimed at improving the operational efficiency of and the quality of care provided by the Supported Organizations, such as the service of providing sterile packs Covenant Health Sterile Solutions is the only operation of its kind in the Knoxville area and produces its own surgical sterile packs and distributes them to Supported Organizations The use of Sterile Packs helps reduce surgical pack supply costs, reduce inventory levels, and helps minimize waste in keeping with the organization's green initiatives Along with those achievements, sterile packs also help reduce setup time, leaving more time for treating patients and with fewer items to open, there is also a reduced risk of contamination Another recent service that has become centralized within Covenant Health and offered to the Supported Organization is Medical Transcription Medical Transcription is an allied health profession, which deals in the process of converting voice-recorded reports, as dictated by physicians or other healthcare professionals, into text format Other programs have community benefit as their main goal One example is Covenant Health Senior Services, which assists older adults who are 50 or better in their effort to lead healthier, more independent lives

Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)					(D) Reportable compensation from the organization (W- 2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099- MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee Or director	Institutional Trustee	Office	Key employee	Highest compensated employee			
Anthony L Spezia President & CEO	50 00	X		X			2,492,642	0	25,707
Dr Richard Brinner Director	1 00	X					0	0	0
Eddie Manis Director	1 00	X					0	0	0
Dr Mitchell Dickson Director	1 00	X					1,184	0	0
Pamela P Fansler Director	1 00	X					0	0	0
Homer Fisher Director	1 00	X					0	0	0
James Fitzsimmons Director	1 00	X					1,192	0	0
Dr William Hall Director	1 00	X					1,579	0	0
Wayne Heatherly Director	1 00	X					747	0	0
Jim Johnson Jr Director	1 00	X					1,184	0	0
Karla Lane Director	1 00	X					0	0	0
Dr Joseph Metcalf Director	1 00	X					0	0	0
Larry Mauldin Chairman	1 00	X					2,832	0	0
George Miller Director	1 00	X					0	0	0
Alvin Nance Director	1 00	X					1,235	0	0
Linda Ogle Director	1 00	X					0	0	0
Francis H Olmstead Jr Director	1 00	X					0	0	0
Mitchell Steenrod Director	1 00	X					1,184	0	0
Joseph E Sutter Director	1 00	X					1,273	0	0
Joe Ben Turner Director	1 00	X					1,192	0	0
David C Verble Director	1 00	X					1,251	0	0
Carl Storms Director	1 00	X					769	0	0
Richard Swanson Director	1 00	X					0	0	0
John T Geppi EVP/CFO	50 00		X				705,467	0	29,048
James D Vandersteeg EVP-Hospital Operations	50 00			X			654,315	0	29,015

Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)					(D) Reportable compensation from the organization (W- 2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099- MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee			
William M Ward SVP-Chief Information Officer	50 00			X			349,987	0	31,795
Lawrence C Kleinman EVP-Human Resources	50 00			X			315,369	0	30,487
Samuel R Buscetta EVP-Human Resources	50 00			X			311,832	0	15,848
Janice McKinley SVP-Quality, Safety, & Nursing Operations	50 00			X			222,557	6,644	17,080
Michael R Belbeck Jr President/CAO - Methodist Medical Center	50 00				X		413,309	0	33,952
Larry R Lassiter President/CAO - Parkwest Medical Center	50 00				X		403,047	0	30,381
Richard L Clark President/CAO - Morristown-Hamblen Hospital Assoc	50 00				X		340,642	0	29,731
Keith N Altshuler President/CAO - Fort Sanders Regional Medical Ctr	50 00				X		325,970	0	29,477
Gordon E Lintz President/CAO - Thompson Cancer Survival Ctr	50 00				X		281,919	0	18,657

COVENANT HEALTH

Audited Consolidated Financial Statements

Years Ended December 31, 2011 and 2010





PERSHING YOAKLEY & ASSOCIATES, P.C.
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Knoxville, TN 37919
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www.pyapc.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Covenant Health:

We have audited the accompanying consolidated balance sheets of Covenant Health (Covenant) as of December 31, 2011 and 2010 and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Covenant's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Covenant's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Covenant Health as of December 31, 2011 and 2010 and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Pershing YoaKley: Associates PC

Knoxville, Tennessee
April 9, 2012

COVENANT HEALTH

Audited Consolidated Financial Statements

Years Ended December 31, 2011 and 2010

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Audited Consolidated Financial Statements

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COVENANT HEALTH

Consolidated Balance Sheets
(Dollars in Thousands)

	<i>December 31,</i>	
	<i>2011</i>	<i>2010</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 30,549	\$ 28,541
Short-term investments	519	1,319
Assets limited as to use	24,604	23,603
Patient accounts receivable, less estimated allowances for uncollectible accounts of approximately \$53,400 in 2011 and \$57,300 in 2010	98,585	95,376
Other current assets	<u>44,123</u>	<u>42,069</u>
TOTAL CURRENT ASSETS	198,380	190,908
ASSETS LIMITED AS TO USE, less amounts required to meet current obligations	74,027	70,481
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization	642,070	634,859
OTHER ASSETS		
Long-term investments	904,751	820,767
Bond and note issuance costs, net of accumulated amortization of \$11,698 in 2011 and \$11,816 in 2010	14,997	21,168
Other assets	<u>13,844</u>	<u>13,699</u>
TOTAL OTHER ASSETS	933,592	855,634
\$ 1,848,069	\$ 1,751,882	

	<i>December 31,</i>	
	<i>2011</i>	<i>2010</i>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade accounts payable, accrued expenses and other liabilities	\$ 134,502	\$ 134,791
Accrued salaries, wages, compensated absences and amounts withheld	47,764	42,356
Estimated third-party payor settlements	12,048	11,875
Current portion of long-term debt and capital lease obligations	<u>20,633</u>	<u>20,425</u>
TOTAL CURRENT LIABILITIES	214,947	209,447
LONG-TERM DEBT AND CAPITAL LEASE		
OBLIGATIONS, less current portion	737,462	666,890
OTHER LONG-TERM LIABILITIES	<u>73,326</u>	<u>80,563</u>
TOTAL LIABILITIES	1,025,735	956,900
COMMITMENTS AND CONTINGENCIES - Notes I and M		
NET ASSETS		
Unrestricted	813,378	786,218
Temporarily restricted	<u>8,956</u>	<u>8,764</u>
TOTAL NET ASSETS	822,334	794,982
	\$ 1,848,069	\$ 1,751,882

COVENANT HEALTH

Consolidated Statements of Operations and Changes in Net Assets (Dollars in Thousands)

	<i>Year Ended December 31,</i>	
	<i>2011</i>	<i>2010</i>
Change in unrestricted net assets:		
Unrestricted revenue and support:		
Net patient service revenue	\$ 1,080,665	\$ 999,364
Other operating revenue	44,450	40,761
Net assets released from restrictions used for operations	<u>2,576</u>	<u>2,593</u>
	TOTAL REVENUE AND SUPPORT	1,127,691
	1,127,691	1,042,718
Expenses:		
Salaries and benefits	500,978	460,505
Supplies and other	535,073	491,730
Provision for depreciation and amortization	70,152	67,716
Interest	<u>19,015</u>	<u>16,987</u>
	TOTAL OPERATING EXPENSES	1,125,218
	1,125,218	1,036,938
	INCOME FROM OPERATIONS	2,473
	2,473	5,780
Non-operating gains:		
Investment income	43,223	21,898
Gain on early extinguishment of debt - Note F	<u>11,631</u>	<u>-</u>
	NON-OPERATING GAINS	54,854
	54,854	21,898
	EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES FROM CONTINUING OPERATIONS	57,327
	57,327	27,678
Additional recognized gain on sale of previously discontinued operations - Note N	<u>-</u>	24,923
	EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES BEFORE CHANGE IN ACCOUNTING PRINCIPLE	57,327
	57,327	52,601
Change in accounting principle - Note B	<u>-</u>	(4,434)
	EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	57,327
	57,327	48,167
	Change in net unrealized gains on investments	(32,965)
	(32,965)	23,207
Excess of assets acquired over liabilities assumed - Note M	<u>-</u>	37,726
Contributions of property	2,297	1,669
Net assets released from restrictions for capital additions	501	1,988
	INCREASE IN UNRESTRICTED NET ASSETS	27,160
	27,160	112,757

	<i>Year Ended December 31,</i>	
	<i>2011</i>	<i>2010</i>
Change in temporarily restricted net assets:		
Restricted gifts and bequests	3,265	2,939
Investment income and realized/unrealized net losses on investments	4	(35)
Net assets released from restrictions	(3,077)	(4,581)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	192	(1,677)
INCREASE IN NET ASSETS	27,352	111,080
NET ASSETS, BEGINNING OF YEAR	794,982	683,902
NET ASSETS, END OF YEAR	\$ 822,334	\$ 794,982

COVENANT HEALTH

Consolidated Statements of Cash Flows (Dollars in Thousands)

	<i>Year Ended December 31,</i>	
	<i>2011</i>	<i>2010</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 27,352	\$ 111,080
Adjustments to reconcile increase in net assets to net cash provided by operating activities from continuing operations		
Provision for depreciation and amortization	70,152	67,716
Net realized and unrealized (gains) losses on and assets limited as to use	7,375	(30,584)
Discount amortization on capital appreciation bonds	10,392	9,842
Property contributions	(2,297)	(1,669)
Gain on early extinguishment of debt	(11,631)	-
Change in accounting principle	-	4,434
Gain on sale of previously discontinued operations	-	(24,923)
Excess of assets acquired over liabilities assumed	-	(37,726)
Increase (decrease) in cash due to changes in:		
Net patient accounts receivable	(3,209)	4,414
Other current assets	(2,054)	278
Other assets	(2,182)	(1,806)
Trade accounts payable, accrued expenses and other liabilities	4,168	4,711
Accrued salaries, wages, compensated absences and amounts withheld	5,408	9,801
Estimated third-party payor settlements	173	(4,852)
Other long-term liabilities	(7,237)	(9,881)
Total adjustments	<u>69,058</u>	<u>(10,245)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS	<u>96,410</u>	<u>100,835</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(78,359)	(101,090)
Purchases of investments	(443,146)	(315,170)
Proceeds from redemption or maturities of investments	264,312	268,754
Decrease in assets limited as to use	83,727	41,001
Investment in unconsolidated affiliates	(1,397)	(1,594)
Distributions from unconsolidated affiliates	3,593	5,215
NET CASH USED IN INVESTING ACTIVITIES FROM CONTINUING OPERATIONS	<u>(171,270)</u>	<u>(102,884)</u>

	<i>Year Ended December 31,</i>	
	<i>2011</i>	<i>2010</i>
Proceeds from sale of previously discontinued operations	-	34,923
NET CASH USED IN INVESTING ACTIVITIES	(171,270)	(67,961)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	240,700	-
Redemption of debt	(139,200)	-
Payment of acquisition and financing costs	(2,124)	-
Repayment of debt and capital lease obligations	(22,508)	(20,132)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	76,868	(20,132)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,008	12,742
CASH AND CASH EQUIVALENTS, beginning of year	28,541	15,799
CASH AND CASH EQUIVALENTS, end of year	\$ 30,549	\$ 28,541
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 9,179	\$ 10,374
Cash paid for income taxes	\$ 120	\$ 85
Capital additions in accounts payable	\$ 1,950	\$ 6,407
Investments transferred to assets limited as to use	\$ 88,559	\$ -

COVENANT HEALTH

Notes to Consolidated Financial Statements (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE A--ORGANIZATION AND OPERATIONS

Covenant Health (Covenant) is a tax-exempt entity as described under Section 501(c)(3) of the Internal Revenue Code. The operations of Covenant and its subsidiaries consist predominantly of the delivery of healthcare and healthcare related services in East Tennessee. Covenant provides management services to, and is the sole member or majority shareholder of, numerous controlled or subsidiary entities, the most significant of which are:

Fort Sanders Regional Medical Center (FSRMC) operates a 541-bed acute care facility located in Knoxville, Tennessee.

Parkwest Medical Center (PMC) operates 462 acute care beds, consisting of a 307-bed acute care facility located in Knoxville, Tennessee, and a 155-bed inpatient behavior health facility located in Louisville, Tennessee and outpatient behavioral medicine facilities in various locations in East Tennessee.

Methodist Medical Center of Oak Ridge (MMC) operates a 301-bed acute care facility located in Oak Ridge, Tennessee, and sponsors *Methodist Medical Center Foundation* which was formed primarily to raise funds on behalf of MMC.

Morristown-Hamblen HealthCare System (MHHS), which was acquired by Covenant during 2010 (Note M), operates a 167-bed acute care hospital located in Morristown, Tennessee. MHHS owns an interest in joint ventures of an ambulatory surgery center and cancer treatment center. MHHS is the sole member of *Morristown-Hamblen Health Foundation* whose purpose is primarily to raise funds on behalf of MHHS.

LeConte Medical Center (LMC) operates a 133-bed acute care and extended care facility located in Sevierville, Tennessee.

Roane Medical Center (RMC) leases and operates a 105-bed acute care facility located in Harriman, Tennessee (See Note I).

Fort Loudoun Medical Center (FLMC) leases and operates a 50-bed acute care facility located in Lenoir City, Tennessee (see Note I).

The Thompson Cancer Survival Center (TCSC) and Subsidiary is located in Knoxville, Tennessee, and operates specialty cancer treatment facilities and oncology physician practices.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (*Dollars in Thousands*)

Years Ended December 31, 2011 and 2010

NOTE A--ORGANIZATION AND OPERATIONS - Continued

The Thompson Cancer Survival Center Foundation (TCSCF) has been established to support TCSC's operations.

Covenant Medical Management (CMM) is a for-profit entity whose major operations include ownership of physician practices in East Tennessee and the provision of physician management and support services. CMM also has an ownership in three surgery center joint ventures.

Fortress Corporation (Fortress) is a for-profit entity located in Knoxville, Tennessee, whose operations include a daycare center, health and fitness facility and real estate services. Fortress also holds an interest in a long-term care facility and has an ownership in other joint ventures and partnerships.

Covenant HomeCare (CHC) is a not-for-profit entity which provides home health and hospice services in East Tennessee.

Fort Sanders Foundation (FSF) is a not-for-profit foundation formed to coordinate the fundraising and development activities of Covenant.

Covenant, FSRMC, PMC, MMC, FLMC, LMC, TCSC and CHC collectively comprise the Covenant Obligated Group (see Note F).

Covenant (or its subsidiaries) is a partner in numerous partnerships or joint ventures which are accounted for under the equity method of accounting. Covenant's ownership in the equity of these entities is included as part of Other Assets and Covenant's equity in the income of these entities totaled \$2,660 and \$2,568 for the years ended December 31, 2011 and 2010, respectively, and is included in Other Operating Revenue in the accompanying consolidated financial statements. Certain partners in these joint ventures are physicians that practice at Covenant facilities.

The following is combined, condensed, unaudited financial information related to these entities as of and for the years ended December 31, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Total assets	\$ 37,914	\$ 36,380
Partner's capital/equity	14,322	14,618
Net income	4,814	6,878

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE A--ORGANIZATION AND OPERATIONS - Continued

Additionally, certain of Covenant's subsidiaries are obligated on all or a portion of the outstanding debt of several of these joint ventures totaling approximately \$3,700 at December 31, 2011. Management believes it is unlikely Covenant or its subsidiaries will be required to fund any guarantees.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Covenant and its subsidiaries after elimination of all significant intercompany accounts and transactions.

Use of Estimates: The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents includes cash on-hand and in bank deposit accounts, as well as investments with original terms to maturity of less than ninety days, except amounts designated as assets limited as to use or amounts included in investment portfolios. Covenant has cash deposits significantly in excess of Federal Deposit Insurance Corporation limits at December 31, 2011. Management believes that credit risk related to these deposits is minimal.

Investments and Assets Limited as to Use: All debt securities and marketable equity securities with readily determinable fair values are valued at fair value based on quoted market prices of identical or similar securities as of the date of the Consolidated Balance Sheets. Investments in collective trust funds are also valued at estimated fair value as determined by the fund manager, based on quoted market prices of the underlying investments which have readily determinable market values. Investments in alternative investments do not have a readily determinable fair value and are stated at cost or estimated fair value if determined to be other than temporarily impaired.

Investment portfolios are classified as current or long-term assets dependent upon the objectives of the portfolio relative to current operations. Assets limited as to use are primarily those held by bond trustees and consist generally of bond proceeds designated for capital projects as well as amounts designated for debt service as required by bond indentures. Amounts required to meet current liabilities are shown as current assets in the Consolidated Balance Sheets.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment income, including realized gains or losses and any other-than-temporary unrealized losses, is reported as non-operating gains in the Consolidated Statements of Operations and Changes in Net Assets. Realized gains and losses are computed using the specific-identification method of cost determination. The change in unrealized gains and losses for other-than-trading securities is excluded from "Excess of Revenue, Gains and Support Over Expenses and Losses from Continuing Operations" except for any other-than-temporary impairment losses.

Inventories: Inventories of medical supplies are stated at the lower of cost (average cost method) or market and are reported as Other Current Assets in the Consolidated Balance Sheets.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost or, if donated, at fair market value on the date of gift. Depreciation is provided over the estimated useful lives of the related assets principally under the straight-line method. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life. Such amortization is included in the provision for depreciation and amortization in the consolidated financial statements.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets. Costs of maintenance and repairs are expensed as incurred. Covenant periodically reviews property for indicators of potential impairment. If this review indicates that the carrying amount of these assets may not be recoverable, Covenant estimates the future cash flows expected to result from the operations of the asset and its eventual disposition. If the sum of these future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, a write-down to estimated fair value is recorded.

Goodwill: Goodwill, included in Other Assets in the Consolidated Balance Sheets, represents the difference between the costs of net tangible assets and separately identifiable assets acquired and estimated fair value, at purchase date, and prior to 2010 was amortized under the straight-line method over various estimated useful lives. In 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2010-07, *Not-For-Profit Entities*, which eliminates the amortization of goodwill and requires a transitional and an annual impairment test. Management evaluated the remaining net book value of goodwill as of January 1, 2010 and determined that \$4,434 of goodwill was impaired based on analysis of future operations of the respective reporting units. This transitional impairment loss has been reported as a change in accounting principle in the Consolidated Statement of Operations and Changes in Net Assets for 2010. There are no remaining amounts of goodwill at December 31, 2011 and 2010.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Bond and Note Issuance Costs: Bond and note issuance costs are amortized over the terms of the related debt issues under the straight-line method.

Temporarily Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. The majority of temporarily restricted net assets are restricted to programs of specific Covenant entities.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are reported on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or additional information is obtained.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third-party payment programs. Operations for 2011 and 2010 include an estimated provision for bad debts of approximately \$76,800 and \$67,000, respectively, included in Supplies and Other in the Consolidated Statements of Operations and Changes in Net Assets. The allowance for uncollectible accounts is estimated based upon the age of the patient accounts receivable, prior experience and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectability of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. Covenant's policy does not require collateral or other security for patient accounts receivable and Covenant routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Uncompensated Care: Covenant provides care without charge to patients who meet certain criteria under its charity care policy. Because Covenant does not pursue collection of amounts determined to qualify as charity care, or other standardized discounts, they are not reported as net patient revenue. Charges foregone, based on established rates, totaled approximately \$98,700 and \$89,000 in 2011 and 2010, respectively, including standardized discounts for certain uninsured patients. The estimated direct and indirect cost of providing these services totaled approximately \$27,500 and \$24,900 for the years ended December 31, 2011 and 2010, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition to the charity care services described above, Covenant provides a number of other services to benefit the indigent for which little or no payment is received. Medicare, TennCare and certain other programs do not cover the full cost of providing care to beneficiaries of those programs. Covenant also provides services to the community at large for which it receives little or no payment.

Estimated Malpractice Costs: The provision for estimated medical malpractice claims includes estimates of the ultimate costs for reported claims and includes an estimate for claims incurred but not reported (See Note I).

Income Taxes: Covenant and certain of its subsidiaries or controlled entities are exempt from income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes on qualifying activities has been made for these entities in the accompanying consolidated financial statements. However, certain entities and operations are subject to income taxes which are accounted for in accordance with FASB Accounting Standards Codification (ASC) 740, *Income Taxes* (See Note G).

Excess of Revenue, Gains and Support Over Expenses and Losses from Continuing Operations: The Consolidated Statements of Operations and Changes in Net Assets includes the caption "Excess of Revenue, Gains and Support Over Expenses and Losses from Continuing Operations." Consistent with industry practice, changes in unrestricted net assets which are excluded from this caption include, but are not limited to, unrealized gains and losses (except losses which are determined to be other-than-temporary and on trading securities) and capital contributions. The excess of assets acquired over liabilities assumed related to hospital acquisitions are also excluded from "Excess of Revenue, Gains and Support Over Expenses and Losses from Continuing Operations."

Fair Value of Financial Instruments: The fair value of Covenant's financial instruments, other than certain investments which are discussed in Note D and long-term debt discussed in Note F, approximates their carrying value due to the nature and terms of these assets and liabilities. Patient accounts receivable; other assets; accounts payable, accrued expenses and other liabilities; accrued salaries, wages, compensated absences and other amounts withheld have short maturities or will otherwise be settled within a short period of time. The fair value of financial instruments reported as part of other long-term liabilities is not estimable, due to the unpredictable timing of the payments and the nature of the estimates involved (primarily estimated professional and worker's compensation liabilities and deferred revenue from a provider agreement discussed in Note N.)

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent Events: Covenant has evaluated all events or transactions that occurred after December 31, 2011 through April 9, 2012, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the December 31, 2011 consolidated financial statements.

New Accounting Pronouncements: In July 2011, the FASB issued ASU 2011-07, *Healthcare Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Healthcare Entities*, which will require certain healthcare entities to reclassify the estimated provision for bad debts associated with providing patient care from an operating expense to a deduction from net patient service revenue in the Statement of Operations and Changes in Net Assets. Additionally, ASU 2011-07 requires enhanced disclosures about an entity's policies for recognizing revenue and assessing bad debts and qualitative and quantitative information about changes in the allowance for doubtful accounts. Covenant will be required to adopt ASU 2011-07 in 2012.

NOTE C--NET PATIENT SERVICE REVENUE/RECEIVABLES

Covenant has agreements with various third-party payors that provide for payments at amounts different from established rates. The difference between the rates charged and the estimated payments from third-party payors is recorded as a reduction of gross patient charges. Amounts recorded under certain of these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2012, although the amount of the change cannot be estimated. Net patient service revenue for the years ended December 31, 2011 and 2010 increased by approximately \$680 and \$2,700, respectively, as a result of changes in adjustments of prior years' estimates or final settlements of prior periods. A summary of the payment arrangements with significant third-party payors follows:

Medicare: Services are rendered to patients under contractual arrangements with the Medicare program or its designated agents. At December 31, 2011 and 2010, approximately 45% and 47%, respectively, of Covenant's net patient accounts receivable were due from the Medicare program. The Medicare program pays for inpatient and most outpatient service on a prospective basis based upon the patient's clinical diagnosis and medical procedures utilized. Covenant also receives additional payments from Medicare based on the provision of services to a disproportionate share of TennCare and other low income patients, as well as

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE C--NET PATIENT SERVICE REVENUE/RECEIVABLES - Continued

other pass-through payments. The Medicare program continues to reimburse certain other services based on a percentage of cost up to predetermined cost limits. Certain other revenue, primarily from physician practices, is reimbursed based upon rate schedules. The Recovery Audit Contractors (RAC) program was created by legislation to detect and correct improper payments under the Medicare and Medicaid programs. Management believes that any amounts payable related to audits through the RAC programs will not have a significant impact on the consolidated financial statements. However, due to the uncertainties involved, management's estimate could change in the future.

TennCare: The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through managed care organizations (MCOs) and Covenant has contracts with several of these MCOs. At December 31, 2011 and 2010, approximately 10% of Covenant's net patient accounts receivable were from the TennCare program. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diems. During 2011 and 2010, Covenant received additional distributions under the TennCare Essential Access program and other programs totaling approximately \$9,040 and \$4,540, respectively, designed to provide supplemental funding for services provided to TennCare patients. Future distributions under these programs are not guaranteed.

Other: Covenant has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. In addition, for uninsured patients, Covenant reduces charges from current rates based on average discounts provided to certain third-party payors.

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments consist of the following at December 31:

	<i>2011</i>	<i>2010</i>
<u>Short-Term Investment Portfolio</u>		
Cash and cash equivalents	\$ 26	\$ 797
U.S. Government and Agency securities, including mortgage-backed securities	97	86
Corporate debt	63	95
Stock mutual funds	333	341
	<hr/> 519	<hr/> 1,319

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (*Dollars in Thousands*)

Years Ended December 31, 2011 and 2010

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

	2011	2010
<u>Long-Term Investment Portfolio</u>		
Cash and cash equivalents	23,107	7,180
U.S. Government and Agency securities, including mortgage-backed securities	102,589	111,618
U.S. Government inflation indexed securities	79,359	70,985
Municipal bonds	57,363	21,906
Corporate debt	339,901	299,087
Stock mutual funds	182,465	128,495
International equity securities	17,526	19,619
Collective trust funds	30,493	89,511
Alternative investments (cost)	71,948	72,366
	904,751	820,767
<u>Assets Limited as to Use</u>		
Cash, cash equivalents and commercial paper	21,830	29,864
U.S. Government and Agency securities, including mortgage-backed securities	64,647	23,378
Municipal bonds	-	6,938
Corporate debt	4,131	26,023
Other	8,023	7,881
	98,631	94,084
TOTAL INVESTMENTS AND ASSETS LIMITED AS TO USE	\$ 1,003,901	\$ 916,170

Collective trust funds and the alternative investments include ownership in various funds that are structured as limited liability companies, limited partnerships or offshore limited partnerships. The funds have a wide range of investment strategies with various levels of risk.

Certain investments are managed by a company, an officer of which is a member of Covenant's Board of Directors.

Unrestricted investment income, gains and losses on assets limited as to use, cash equivalents and investments consists of the following for the years ended December 31, 2011 and 2010:

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued **(Dollars in Thousands)**

Years Ended December 31, 2011 and 2010

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

	2011	2010
Investment Income:		
Interest and dividends	\$ 19,303	\$ 15,772
Net realized gains on sales of securities at fair value	22,558	4,686
Net realized gain on sales of securities at cost	2,879	3,068
	<u>44,740</u>	<u>23,526</u>
Less: Investment expenses	<u>(1,517)</u>	<u>(1,628)</u>
Investment income reported as non-operating	\$ 43,223	\$ 21,898
Other changes in unrestricted net assets:		
Change in net unrealized gains/losses on investments		
Debt and equity securities	\$ (11,394)	\$ 16,754
Other investments	(21,571)	6,453
	<u>\$ (32,965)</u>	<u>\$ 23,207</u>

The age of gross unrealized losses on investments and assets limited as to use that are not considered other-than-temporarily impaired as of December 31, 2011 and 2010 are as follows:

	<i>Less Than 12 Months</i>		<i>Greater Than 12 Months</i>		<i>Total</i>	
	<i>Unrealized</i>		<i>Unrealized</i>		<i>Unrealized</i>	
	<i>Fair Value</i>	<i>Losses</i>	<i>Fair Value</i>	<i>Losses</i>	<i>Fair Value</i>	<i>Losses</i>
December 31, 2011						
U.S. Government and						
Agency securities	\$ 15,603	\$ (23)	\$ -	\$ -	\$ 15,603	\$ (23)
Municipal bonds	14,170	(32)	-	-	14,170	(32)
Corporate debt	63,068	(1,202)	7,218	(769)	70,286	(1,971)
Equity mutual funds	62,068	(10,927)	-	-	62,068	(10,927)
International equity securities	3,867	(988)	3,216	(1,433)	7,083	(2,421)
Alternative investments	5,474	(537)	3,050	(1,370)	8,524	(1,907)
	<u>\$ 164,250</u>	<u>\$ (13,709)</u>	<u>\$ 13,484</u>	<u>\$ (3,572)</u>	<u>\$ 177,734</u>	<u>\$ (17,281)</u>

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued **(Dollars in Thousands)**

Years Ended December 31, 2011 and 2010

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

	<i>Less Than 12 Months</i>		<i>Greater Than 12 Months</i>		<i>Total</i>	
	<i>Unrealized</i>		<i>Unrealized</i>		<i>Unrealized</i>	
	<i>Fair Value</i>	<i>Losses</i>	<i>Fair Value</i>	<i>Losses</i>	<i>Fair Value</i>	<i>Losses</i>
December 31, 2010						
U.S. Government and						
Agency securities	\$ 27,666	\$ (764)	\$ -	\$ -	\$ 27,666	\$ (764)
Municipal bonds	7,471	(63)	-	-	7,471	(63)
Corporate debt	7,532	(163)	4,955	(38)	12,487	(201)
International equity securities	3,975	(637)	2,331	(470)	6,306	(1,107)
Alternative investments	-	-	5,512	(2,018)	5,512	(2,018)
	\$ 46,644	\$ (1,627)	\$ 12,798	\$ (2,526)	\$ 59,442	\$ (4,153)

Management believes, based on their analysis, that investments listed above with unrealized losses at December 31, 2011 are not other-than-temporarily impaired. Such analysis includes industry outlooks and input from investment consultants. Due to uncertainties in the financial market, it is at least reasonably possible that management's estimate may change in 2012.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Land and land improvements	\$ 58,203	\$ 53,184
Buildings and leasehold improvements	683,866	615,194
Equipment	581,958	573,243
Equipment held under capital leases	5,467	5,580
	1,329,494	1,247,201
Less: allowances for depreciation and amortization	(731,424)	(694,053)
	598,070	553,148
Projects in progress - Note I	44,000	81,711
	\$ 642,070	\$ 634,859

During 2010, Covenant capitalized interest expense on construction projects totaling \$1,765, net of investment earnings on acquisition fund assets of \$912. No significant amount of interest expense was capitalized during 2011.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

During 2011 and 2010, Covenant wrote off approximately \$30,575 and \$59,200, respectively, in substantially fully depreciated fixed assets which were no longer in service.

NOTE F--LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations consist of the following at December 31, 2011 and 2010:

Description	Maturities (at December 2011)	Rates	Outstanding Balance	
			2011	2010
2011 Bonds	\$103,700 variable rate securities due through 2033	Variable	\$ 103,700	\$ -
2011 Note	\$100,000 variable rate revenue note due through 2016	Variable	100,000	-
	\$35,500 variable rate revenue note due through 2016 (refunding of 2006 Bonds)	Variable	35,500	-
2006 Bonds	\$46,245 capital appreciation bonds due through 2042, net of discount of \$257 in 2011 and \$266 in 2010	5.01% to 5.08%	59,157	56,261
	\$125,000 variable rate bank note, (variable rate demand bonds in 2010) final maturity in 2046, net of discount of \$436 in 2011 and \$576 in 2010	Variable	124,564	159,924
2002 Bonds	\$14,855 term bonds due through 2026 net of premium of \$346 and \$378 and discount of \$107 and \$116 in 2011 and 2010, respectively	5% to 5.5%	15,094	15,432
	\$82,617 capital appreciation bonds due through 2026	5.4% to 5.93%	137,376	129,871
	\$97,950 auction rate securities, final maturity in 2023 and 2033	Variable	97,950	220,550
1993 Bonds	\$78,125 serially through 2015, net of premium of \$464 in 2011 and \$767 in 2010	5.25% to 6.25%	78,589	95,797
Notes Payable	Maturing through 2018	3.75% to 6.4%	5,390	7,892
Capitalized lease obligations	Maturing through 2014	4.47% to 6.00%	775	1,588
			758,095	687,315
Less: Current portion of long-term debt and capital lease obligations			(20,633)	(20,425)
			\$ 737,462	\$ 666,890

During 2011, Covenant issued \$103,700 of Hospital Revenue Refunding Bonds, Series 2011 (the 2011 Bonds) through The Health, Educational and Housing Facility Board of the County of Knox, Tennessee. The 2011 Bonds bear interest at a variable rate, initially adjusted weekly, as determined by the remarketing agent. The average weekly rate was approximately 0.2% during

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE F--LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS - Continued

2011, exclusive of remarketing fees. Mandatory sinking fund redemptions are due annually on January 1 at varying amounts ranging from \$640 to \$14,830 through 2033. The 2011 Bonds are secured by an interest in the gross receipts of certain members of Covenant (the Obligated Group).

The 2011 Bonds are subject to tender for purchase on any business day and are secured by irrevocable direct pay letters of credit which permit an amount to be drawn equal to the outstanding principal plus 52 days of interest. The credit facilities expire on March 24, 2014, unless extended.

The proceeds of the 2011 Bonds were used to acquire \$122,000 of the outstanding auction rate securities under Covenant's 2002 Hospital Revenue Refunding and Improvement Bonds (the 2002 Bonds). The tender price was 85% of the principal amount which totaled \$103,700 and Covenant recognized a gain on early extinguishment of the 2002 Bonds of approximately \$12,886 which is net of unamortized insurance premium and other bond issuance costs.

Additionally, during 2011 Covenant issued a revenue note in the amount of \$135,500 through a lender with The Health, Educational and Housing Facility Board of the County of Knox, Tennessee (the 2011 Note). The 2011 Note bears interest, payable monthly, at the seven-day high grade market index of tax-exempt variable rate demand obligations as published by the Securities Industry & Financial Markets Association (the SIFMA Index Rate) plus a margin (currently 0.7%) based on the loan rating assigned by rating agencies. The average variable rate, including the margin, was approximately 0.8% during 2011. The 2011 Note is due on September 16, 2016 and is secured by an interest in the gross receipts of certain members of Covenant (the Obligated Group).

The proceeds of the 2011 Note were used to refund a portion of Covenant's 2006 Hospital Revenue Refunding and Improvement Bond (the 2006 Bonds) totaling \$35,500 and to provide financing for facility and equipment improvements. Covenant recognized a loss on early extinguishment of the 2006 Bonds of approximately \$1,255 which includes unamortized insurance premiums and other bond issuance costs.

During 2006, Covenant issued \$206,745 of Hospital Revenue Refunding and Improvement Bonds (the 2006 Bonds) through The Health, Educational and Housing Facility Board of the County of Knox, Tennessee. The 2006 Bonds consisted of \$46,245 of uninsured capital appreciation bonds maturing through January 2042 and \$160,500 of insured auction rate securities with a final maturity date of January 1, 2046. A portion of the proceeds from these bonds were used to refund portions of certain maturities of Covenant's 2002 Bonds and were

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued ***(Dollars in Thousands)***

Years Ended December 31, 2011 and 2010

NOTE F--LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS - Continued

deposited into an irrevocable escrow fund in amounts sufficient to pay all applicable principal maturities refunded. The principal amounts outstanding on the advanced refunded 2002 Bonds total \$18,075 at December 31, 2011.

Management believes that the escrow fund deposit relieves Covenant's responsibility as primary obligor on that portion of the 2002 Bonds and, accordingly, those obligations were derecognized in the Consolidated Balance Sheets. Activity in the irrevocable escrow account is restricted to transactions approved by the Trustee. The remaining portion of the 2006 Bonds proceeds were deposited into an acquisition fund for capital improvements of Covenant or used to pay issuance costs.

During 2008, the 2006 auction rate securities were converted to a variable rate determined daily by the remarketing agent based upon comparable tax-exempt obligations. The average daily interest rate during 2011 and 2010 was approximately 0.4% each year. On September 15, 2011, \$125,000 of these variable rate securities were converted to a bank-held variable interest rate note with a lender. The bank-held bonds bear interest at a variable rate equal to 75% of the one-month LIBOR plus an additional margin (currently 0.6%) based on Covenant's credit rating. The rate may also increase if the Federal Corporate Tax rate decreases. The average variable interest rate after the conversion was 0.8%, including the margin, during 2011. The bank-held bonds interest rate period ends on September 16, 2016 at which point the bonds will be converted to another interest rate mode. The principal and interest payments are guaranteed by insurance policies.

With respect to the 2006 capital appreciation bonds, the maturity amount is \$222,465. Covenant is accreting the difference between the principal amount and the maturity amount as interest expense over the term of the bonds using the bonds outstanding method. The capital appreciation bonds are subject to early redemption on or after January 1, 2017 at a redemption price equal to their compound accreted value as of the redemption date without premium. These 2006 capital appreciation bonds are secured by an interest in the gross receipts of the Obligated Group.

The 2006 Bonds are subject to extraordinary and early redemption. The 2006 Bonds are callable for redemption prior to maturity in the event of damage to or destruction of projects funded, as defined in the agreement. Covenant has requirements to make principal debt service payments on the outstanding 2006 Bonds ranging from \$3,500 in 2026 to \$28,755 in 2042.

During 2002, Covenant issued \$374,957 of Hospital Revenue Refunding and Improvement Bonds (the 2002 Bonds) through The Health, Educational and Housing Facility Board of the

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE F--LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS - Continued

County of Knox, Tennessee. The 2002 Bonds consisted of three issues of current interest bonds (both insured and uninsured) totaling \$62,640, maturing through 2026; \$82,617 of insured capital appreciation bonds maturing through January 1, 2026; and \$229,700 of insured auction rate securities with final maturity dates of January 1, 2023 and 2033.

With respect to the remaining 2002 auction rate (variable rate) securities, Covenant may elect to convert these bonds to fixed rate debt at any interest payment date. The maximum bond interest rate for the 2002 auction rate securities is based on various published indices, not to exceed the maximum lawful rate and averaged approximately 0.3% and 0.5% for the years ended December 31, 2011 and 2010, respectively. In the event such conversion occurs, these bonds are subject to a mandatory tender to repurchase. Covenant refinanced a portion of these securities through the 2011 Bonds discussed earlier. With respect to the 2002 capital appreciation bonds, the maturity amount is \$224,430 and Covenant is accreting the difference between the principal amount and the maturity amount as interest expense over the term of the bonds using the bonds outstanding method. The remaining 2002 auction rate securities are secured by an interest in the gross receipts of certain members of Covenant (the Obligated Group).

Certain of the 2002 bond issues described above are subject to early redemption. Those bond issues which are subject to early redemption require a premium be paid depending upon the timing of such redemption. Additionally, Covenant has requirements to make principal debt service fund payments related to the outstanding term bonds. Such principal payments relating to the 2002 Bonds continue through 2026 and range from a minimum of \$535 in 2012 to a maximum of \$5,080 in 2026.

Under the terms of the various bond indentures, Covenant is subject to a number of affirmative and negative covenants, including restrictions on the incurrence of additional debt, the maintenance of specific financial ratios, and restrictions on the transfer of assets. In the event such covenants are not met, Covenant may be required to fund a debt service reserve fund, pledge assets as collateral or take other actions as required under the Master Trust Indenture. Management believes Covenant is in compliance with all such requirements at December 31, 2011.

The scheduled maturities and mandatory principal debt service payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discounts and premiums, are as follows:

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued ***(Dollars in Thousands)***

Years Ended December 31, 2011 and 2010

NOTE F--LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS - Continued

<i>Year Ending December 31,</i>	
2012	\$ 20,633
2013	21,107
2014	22,046
2015	22,948
2016	12,529
Thereafter	<u>658,822</u>
	758,085
Net premiums	<u>10</u>
	<u><u>\$ 758,095</u></u>

NOTE G--INCOME TAXES

Fortress and CMM (the For-Profit Subsidiaries) file a group consolidated federal, and separate company state income tax returns and account for income taxes under the provisions of FASB ASC 740, *Income Taxes*. As of December 31, 2011 and 2010, the For-Profit Subsidiaries have net operating loss carryforwards for federal income tax purposes of approximately \$27,800 and \$29,900, respectively, and for state purposes, approximately \$51,500 and \$49,300, respectively. These carryforward amounts relate to operating losses generated in prior years which expire through 2031. The remaining net operating loss carryforward may be offset against the future taxable income of each respective group or company.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of combined deferred taxes at December 31, 2011 and 2010 include deferred tax assets of approximately \$12,780 and \$13,380, respectively, related to net operating loss carryforwards. Other deferred tax assets total approximately \$3,800 and \$5,700 at December 31, 2011 and 2010, respectively, and relate to other temporary differences; primarily deferred salaries and book/tax differences in income from partnership investments.

Deferred tax liabilities of approximately \$159 and \$92 at December 31, 2011 and 2010, respectively, relate primarily to book/tax differences in depreciation and amortization. Valuation allowances have been established for all net deferred tax assets as of December 31, 2011 and 2010.

Covenant had no unrecognized tax benefits at December 31, 2011 and 2010. As such, no interest or penalties were recognized in the Consolidated Statements of Operations related to

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE G--INCOME TAXES - Continued

unrecognized tax benefits. At December 31, 2011, tax returns for 2008 through 2011 are subject to examination by the Internal Revenue Service. Covenant has no uncertain tax positions that would require financial statement recognition on disclosure under generally accepted accounting principles at December 31, 2011 or 2010.

NOTE H--RETIREMENT PLANS

Covenant sponsors defined contribution plans (401(k) and 403(b) plans) for substantially all full-time employees meeting specified age and service requirements. Under these plans, during 2011 and 2010, Covenant made a matching contribution of up to 6% of participants' eligible wages. Additionally, Covenant sponsors a non-qualified retirement plan for certain members of management to defer a portion of their income. During 2011 and 2010, Covenant made a discretionary contribution of 4.5% of compensation, as defined, to this plan. Expenses related to all retirement plans totaled approximately \$11,200 and \$10,700 in 2011 and 2010, respectively.

NOTE I--COMMITMENTS, CONTINGENCIES AND OTHER

Professional Liability Insurance: Covenant and subsidiaries maintain an insurance policy to protect from catastrophic medical malpractice or general liability exposure. This policy obligates Covenant for the first \$1,000 per occurrence for any claim (including claim expenses) made during the period per the Self-Insured Retention (SIR) policy. The total SIR obligation is \$14,000 annually. Beyond the SIR obligation, Covenant's policy of insurance provides a \$35,000 limit of insurance as protection for such insured liabilities. This limit of liability applies "per occurrence" and in the "annual aggregate" for any claims made during the policy period.

An estimated reserve for ultimate losses on claims reported and claims incurred but not reported is established (undiscounted) based upon an actuarial study and is included in accrued expenses or other long-term liabilities based on management's estimate of when such claims will be paid.

Covenant and its subsidiaries are named as defendants in various lawsuits and other actions claiming alleged damages. While the ultimate outcome of these proceedings is not presently determinable, it is the opinion of management that the claims will have no material adverse effect on the financial position or results of operations of Covenant.

Employee Benefits: Covenant is self-insured for worker's compensation claims and records estimated amounts for reported claims, as well as a reserve for claims incurred but not reported, based on an actuarial study. Management's estimate of the amount of claims that will be paid in any subsequent year is included in accrued expenses and the remaining liability is reported as

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE I--COMMITMENTS, CONTINGENCIES AND OTHER - Continued

other long-term liabilities. Covenant is required by the Tennessee Self-Insured Workers' Compensation Program to maintain an irrevocable \$10,270 Letter of Credit as collateral for workers' compensation claims.

Covenant maintains a self-funded healthcare plan to provide reimbursement for covered expenses incurred by eligible employees and covered dependents. Covenant has recorded an estimated reserve for unpaid claims and claims incurred but not yet reported at December 31, 2011 and 2010.

Projects in Progress: Certain subsidiaries of Covenant were engaged in construction, renovation and information technology projects at December 31, 2011. Projects on which commitments or contracts have been signed have an estimated cost to complete of approximately \$54,000 at December 31, 2011.

Physician Agreements: Covenant (or its subsidiaries) has entered into contractual relationships with physicians. These contracts include management services agreements, employment contracts, clinical scholar agreements and practice assistance agreements. These contracts have terms of varying lengths. Some contracts include certain base annual payments and may include additional incentives based on productivity levels.

Municipal Leases: FLMC leases its operating facility under a capital lease agreement with Loudon County, Tennessee (the County). This facility is included as a part of buildings and leasehold improvements. Under the terms of the agreement with the County, Covenant completed construction of a replacement facility for FLMC during 2004. Covenant acquired land and constructed the facility on behalf of the County and has transferred title to the County. However, FLMC is leasing the new facility from the County for twenty years (at a nominal annual amount) with two renewal options for five years each and has recognized this facility as an asset of Covenant. Additionally, Covenant committed to spend a minimum of \$20,000 during the FLMC lease term on capital additions, physician recruitment or other community benefits.

Covenant also entered into an agreement with the City of Harriman, Tennessee, to lease and purchase certain assets, and assume certain liabilities, of Roane Medical Center. Under the terms of the agreement, Covenant has committed to invest a minimum of \$50,000 in the acquisition, development, construction and equipping of a new hospital facility. The lease of the current facility will terminate 90 days after completion of the new facility. The new facility is expected to be completed in 2013.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE I--COMMITMENTS, CONTINGENCIES AND OTHER - Continued

Operating Leases: Covenant has entered into certain non-cancelable leases for office space and equipment which require payments through 2016. Total rental expense for all operating leases was approximately \$8,600 and \$8,300 for the years ended December 31, 2011 and 2010, respectively. The following is a schedule of future minimum lease payments under non-cancelable lease agreements with remaining terms of at least one year, net of subleases, for the years ending December 31:

2012	\$ 1,836
2013	1,708
2014	1,541
2015	708
2016	21
	<hr/>
	\$ 5,814

In addition, Covenant leases office space to physicians and others under various lease agreements with terms in excess of one year. Rental revenue recognized in each of the years 2011 and 2010 totaled approximately \$12,600 and \$10,700, respectively. The following is a schedule of future minimum lease payments to be received for the years ending December 31:

2012	\$ 9,488
2013	7,700
2014	7,296
2015	6,442
2016	5,439
Thereafter	<hr/> 31,068
	<hr/> \$ 67,433

Union Service Agreements: MMC participates in two separate union service agreements, the "RN Unit" agreement and the "Service and Technical Unit" agreement, which were signed in August 2011. The agreements are for a three-year period through October 2014. Both agreements provide a no strike and no lockout provision to protect both parties to the agreement.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE I--COMMITMENTS, CONTINGENCIES AND OTHER - Continued

requirements, reimbursement for patient services, Medicare fraud and abuse and under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

In March 2010, Congress adopted comprehensive health care insurance legislation, *Patient Care Protection and Affordable Care Act and Health Care and Educational Reconciliation Act*. The legislation, among other matters is designated to expand access to coverage to substantively all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE J--FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all financial instruments' carrying value approximates fair value due to the nature or term of the instruments, except as described below. The following methods and assumptions were used to estimate the fair value of these other financial instruments:

Investments in Alternative Investments: The fair value of investments in alternative investments is determined based on the fair value of the underlying assets as determined by the fund manager.

Long-Term Debt: The fair value of long-term debt is estimated based upon quotes from brokers for tax-exempt bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

Other Long-term Liabilities: Other long-term liabilities consist of reserves for professional and workers' compensation liabilities and deferred gains related to the sale of a subsidiary (See Note N). The fair value of other long-term liabilities is not estimable, due to the uncertainties in determining the future payment date of liability claims and the unique nature of the deferred gains.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE J--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of Covenant's significant financial instruments which have carrying values different from fair value is as follows at December 31, 2011 and 2010:

	2011		2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Investments in alternative investments	\$ 71,948	\$ 84,026	\$ 72,366	\$ 84,983
Long-term debt (excluding capital leases)	757,320	751,381	685,728	675,305

NOTE K--FAIR VALUE MEASUREMENT

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents assets reported at fair value as of December 31, 2011 and 2010 and their respective classification under the valuation hierarchy:

	Carrying Value	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value on a Recurring Basis at December 31, 2011				
Investments in debt and equity securities	\$ 856,497	\$ 200,324	\$ 656,173	\$ -
Investments in collective trust funds	30,493	-	30,493	-

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE K--FAIR VALUE MEASUREMENT - Continued

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	
Assets Measured at Fair Value on a Recurring Basis at December 31, 2010					
Investments in debt and equity securities					
Investments in debt and equity securities	\$ 716,452	\$ 148,455	\$ 567,997	\$ -	-
Investments in collective trust funds	89,511	-	89,511	-	-

There were no liabilities requiring fair value measurement disclosure at December 31, 2011 or 2010.

NOTE L--EXPENSES BY FUNCTIONAL CLASSIFICATION

Expenses based upon functional classification are as follows for the year ended December 31, 2011 and 2010:

	<i>2011</i>	<i>2010</i>
Healthcare services	\$ 897,039	\$ 813,719
Administrative and general	175,395	169,710
Other	52,784	53,509
	\$ 1,125,218	\$ 1,036,938

NOTE M--HOSPITAL ACQUISITION

Under terms of an agreement with Morristown-Hamblen Hospital Association, Covenant became the sole member of and acquired MHHS effective July 1, 2010. All corporate powers are exercised by or under the authority of, and the affairs of MHHS are managed under the direction of, the Covenant Board of Directors. The acquisition was undertaken to accomplish the shared vision of Covenant and MHHS to establish MHHS as a regional healthcare hub and to enhance the reputation of MHHS as the best place in its area for patients to receive care, physicians to practice medicine and employees to work. Covenant and MHHS expect to undertake and realize additional physician recruiting, improvements in clinical quality and patient satisfaction and capital investments. As a part of the agreement, Covenant committed to invest \$88,000 in capital and other projects, as defined, related to MHHS within seven years of the acquisition date.

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued ***(Dollars in Thousands)***

Years Ended December 31, 2011 and 2010

NOTE M--HOSPITAL ACQUISITION - Continued

A condensed summary of the assets acquired and liabilities assumed, at their estimated fair value based on an independent valuation, and the excess of such assets over liabilities as reported in Covenant's 2010 Consolidated Statement of Operations and Changes in Net Assets, is as follows at July 1, 2010:

Current assets	\$ 13,455
Property, plant and equipment	36,323
Other assets	<u>10,094</u>
Total Assets	59,872
Current liabilities	15,290
Notes payable and capital leases	<u>6,856</u>
Total Assets	22,146
Excess of Assets Acquired Over Liabilities Assumed	<u>\$ 37,726</u>

Operations of MHHS are included in the 2010 Consolidated Statement of Operations and Changes in Net Assets since the acquisition date and consist of the following:

Revenue and support	\$ 47,932
Deficit of revenue, gains and support over expenses and losses and decreases in net assets	(410)

Supplemental, unaudited pro-forma information for MHHS for the year ended December 31, 2010 is as follows:

Revenue and support	\$ 96,635
Deficit of revenue, gains and support over expenses and losses	(972)
Change in net assets	55

COVENANT HEALTH

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended December 31, 2011 and 2010

NOTE N--DISCONTINUED OPERATIONS AND RELATED DEFERRED GAIN

In 2008, Covenant sold all of the outstanding Class A common stock and Class C common stock of PHP Companies, Inc. (PHP), a for-profit organization that operated an insurance corporation, as well as a licensed health maintenance organization for commercial health insurance products and Medicare risk products, and managed a health maintenance organization under the State of Tennessee's TennCare program, to Humana, Inc. (Humana).

The purchase price was subject to adjustments based on final settlement of estimates included in the consolidated balance sheet of PHP at October 31, 2008, including those related to future claims payments and audits thereof by governmental authorities or their agents and other parties. During 2010, Covenant received \$34,923 as additional payment on these contingent settlements. Covenant recognized \$24,923 of this amount as additional gain on the sale of discontinued operations with the balance deferred in other current liabilities pending the result of additional claims audits. Additional sale proceeds as a result of future adjustments may also be received but management is not able to estimate the amount and timing of any additional settlement. Due to the uncertainties involved related to final settlements, it is at least reasonably possible that management's estimates related to amounts recognized and amounts deferred could change in the future.

In conjunction with the sale of PHP, Covenant entered into a seven-year Hospital System Participation Agreement (the Provider Agreement) with Humana. Under the terms of the Provider Agreement, Covenant has agreed to reimbursement rates for individuals covered by Humana's commercial and Medicare plans below rates received from similar insurance programs, and has limits on future rate increases from Humana. As such, Covenant deferred the portion of the sale proceeds estimated to be compensation for entering into the Provider Agreement. Covenant estimated this deferral to be \$71,000, which is being amortized as part of net patient service revenue over the term of the Provider Agreement. During 2011 and 2010, Covenant recognized net patient service revenue totaling \$13,388 and \$14,026, respectively, related to amortization of amounts deferred under this Provider Agreement.

Additionally, as part of the sale of PHP, Covenant entered into an Administrative Services Agreement (ASO) with Humana for third party health claims administration for Covenant employees under a self-insured health plan for a period of eight years beginning January 1, 2009. Under the terms of the ASO, Covenant agreed to pay a fixed rate for these services at a rate that was higher than the then current market rate. Covenant estimated the portion of the sale proceeds related to this agreement totaled \$6,100 which is being amortized and reported as a reduction of health plan administration expenses over the term of the ASO Agreement. During 2011 and 2010, Covenant recognized \$1,035 each year as a reduction of claims administration expense related to amortization of this ASO Agreement. No reduction of expenses related to the ASO was recognized during 2009 as the higher rates were not yet implemented.