

CONTINUING DISCLOSURE ANNUAL REPORT

**Covenant Health Systems Obligated Group
Year Ended December 31, 2010
After Audit**

Name, Address and Telephone Number of Obligated Person:

Covenant Health Systems Obligated Group
c/o Covenant Health Systems, Inc.
100 Ames Pond Drive, Suite 102
Tewksbury, MA 01876
978-654-6363
Contact person: John M. Ahle, Chief Financial Officer/Treasurer

Bonds to Which Report Relates:

\$50,565,000 Original issued amount
Massachusetts Health and Educational Facility Authority
Healthcare System Revenue Bonds,
Covenant Health System Obligated Group Issue,
Series 2002

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|-----------------|------------------|
| 07/01/2012 | 57586CL86 |
| 07/01/2012 | 57586CL94 |
| 07/01/2012 | 57586CM28 |
| 07/01/2017 | 57586CL52 |
| 07/01/2022 | 57586CL60 |
| 07/01/2031 | 57586CL78 |

\$36,135,000 Original issued amount
New Hampshire Health and Education Facility Authority
Healthcare System Revenue Bonds,
Covenant Health System Obligated Group Issue,
Series 2002

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|-----------------|------------------|
| 07/01/2017 | 664614VD8 |

\$21,400,000 Original issued amount
 New Hampshire Health and Education Facility Authority
 Healthcare System Revenue Bonds,
 Covenant Health System Obligated Group Issue,
 Series 2004

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|-----------------|------------------|
| 07/01/2014 | 644614JE0 |
| 07/01/2024 | 644614JQ3 |
| 07/01/2034 | 644614KA6 |

\$12,940,000 Original issued amount
 Massachusetts Health and Educational Facility Authority
 Healthcare System Revenue Bonds,
 Covenant Health System Obligated Group Issue,
 Series 2007A

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|-----------------|------------------|
| 07/01/2011 | 57586DAD5 |
| 07/01/2012 | 57586DAE3 |
| 07/01/2013 | 57586DAF0 |
| 07/01/2014 | 57586DAG8 |
| 07/01/2015 | 57586DAH6 |
| 07/01/2016 | 57586DAJ2 |
| 07/01/2017 | 57586DAK9 |
| 07/01/2018 | 57586DAL7 |
| 07/01/2022 | 57586DAQ6 |
| 07/01/2026 | 57586DAU7 |
| 07/01/2030 | 57586DAY9 |
| 07/01/2037 | 57586DBF9 |

\$11,890,000 Original issued amount
 Massachusetts Health and Educational Facility Authority
 Healthcare System Revenue Bonds,
 Covenant Health System Obligated Group Issue,
 Series 2007B

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|-----------------|------------------|
| 07/01/2011 | 57586DBK8 |
| 07/01/2012 | 57586DBL6 |
| 07/01/2013 | 57586DBM4 |
| 07/01/2014 | 57586DBN2 |
| 07/01/2015 | 57586DBP7 |
| 07/01/2016 | 57586DBQ5 |
| 07/01/2017 | 57586DBR3 |
| 07/01/2018 | 57586DBS1 |
| 07/01/2019 | 57586DBT9 |
| 07/01/2020 | 57586DBU6 |
| 07/01/2021 | 57586DBV4 |
| 07/01/2022 | 57586DBW2 |
| 07/01/2025 | 57586DBX0 |
| 07/01/2028 | 57586DBY8 |
| 07/01/2031 | 57586DBZ5 |

\$17,030,000 Original issued amount
 New Hampshire Health and Education Facility Authority
 Healthcare System Revenue Bonds,
 Covenant Health System Obligated Group Issue,
 Series 2007A

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|-----------------|------------------|
| 07/01/2011 | 644614TE9 |
| 07/01/2012 | 644614TF6 |
| 07/01/2013 | 644614TG4 |
| 07/01/2014 | 644614TH2 |
| 07/01/2015 | 644614TJ8 |
| 07/01/2016 | 644614TK5 |
| 07/01/2017 | 644614TL3 |
| 07/01/2020 | 644614TP4 |
| 07/01/2024 | 644614TT6 |
| 07/01/2027 | 644614TW9 |
| 07/01/2031 | 644614UA5 |
| 07/01/2037 | 644614UG2 |

\$36,650,000 Original issued amount
New Hampshire Health and Education Facility Authority
Healthcare System Revenue Bonds,
Covenant Health System Obligated Group Issue,
Series 2007B

| <u>MATURITY</u> | <u>CUSIP NO.</u> |
|-----------------|------------------|
| 07/01/2011 | 644614UL1 |
| 07/01/2012 | 644614UM9 |
| 07/01/2013 | 644614UN7 |
| 07/01/2014 | 644614UP2 |
| 07/01/2015 | 644614UQ0 |
| 07/01/2016 | 644614UR8 |
| 07/01/2017 | 644614US6 |
| 07/01/2018 | 644614UT4 |
| 07/01/2019 | 644614UU1 |
| 07/01/2020 | 644614UV9 |
| 07/01/2021 | 644614UW7 |
| 07/01/2022 | 644614UX5 |
| 07/01/2023 | 644614UT3 |
| 07/01/2024 | 644614UZ0 |
| 07/01/2025 | 644614VA4 |
| 07/01/2028 | 644614VB2 |
| 07/01/2031 | 644614VC0 |

Period to Which Report Relates:

Year ended December 31, 2010 After Audit

This Continuing Disclosure Report (this "Report") is provided on behalf of the Covenant Health Systems Obligated Group (the "Obligated Group") by Covenant Health Systems, Inc. ("CHS"), as Obligated Group Agent. The Obligated Group consists of CHS and the organizations listed on **Exhibit A** attached hereto. The Obligated Group does not include all of the organizations controlled by CHS. CHS has excluded from the Obligated Group certain of its sponsored controlled organizations based upon regulatory and tax-exempt financing requirements in the jurisdictions in which they operate. CHS also has excluded from the Obligated Group certain controlled organizations that are sponsored by other religious congregations. The organizations that are directly or indirectly controlled by CHS (including those within the Obligated Group) are referred to as "Controlled Organizations," and CHS and all of its Controlled Organizations are referred to collectively as the "Consolidated Group." *The following description also contains reference to certain organizations that are not members of the Obligated Group; such organizations that are not members of the Obligated Group have no obligation with respect to the Bonds or under the Master Indenture and none of the assets or revenues of such organizations are available to make payments of principal or interest on the Bonds or the Notes.*

This Report is being filed with approved Nationally Recognized Municipal Securities Information Repositories ("Repositories") pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "Rule"), and is pursuant to the Continuing Disclosure Agreement pertaining to certain Bonds which were issued concurrently with the formation of the Obligated Group.

THIS REPORT IS INTENDED SOLELY TO PROVIDE CERTAIN LIMITED FINANCIAL AND OPERATING DATA IN ACCORDANCE WITH UNDERTAKINGS OF CHS AND THE OBLIGATED GROUP UNDER THE RULE (THE "UNDERTAKING") AND DOES NOT CONSTITUTE A REISSUANCE OF ANY OFFICIAL STATEMENT RELATING TO THE BONDS OR A SUPPLEMENT OR AMENDMENT TO ANY SUCH OFFICIAL STATEMENT.

THIS REPORT CONTAINS CERTAIN FINANCIAL, OPERATING AND OTHER DATA AS OF DECEMBER 31, 2010. CHS AND THE OBLIGATED GROUP HAVE UNDERTAKEN NO RESPONSIBILITY TO UPDATE THIS REPORT SINCE THAT DATE AND DISCLAIM ANY OBLIGATION TO UPDATE THIS REPORT OR TO FILE ANY REPORTS OR OTHER INFORMATION WITH THE REPOSITORIES OR ANY OTHER PERSON EXCEPT AS SPECIFICALLY REQUIRED BY THE UNDERTAKING.

This Report may contain certain "forward-looking statements" which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. All statements other than statements of historical information provided herein may be forward-looking statements. Without limiting the foregoing, the words "believes," "estimates," "anticipates," "plans," "intends," "scheduled," "expects" and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, competition from other healthcare facilities, federal and state regulation of healthcare providers, and reimbursement policies of state and federal governments and managed care organizations. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof. CHS and the Obligated Group

undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

SUMMARY FINANCIAL INFORMATION

Summary Statement of Operations of Obligated Group

Attached hereto as **Exhibit B** is a Summary Statement of Operations of the Obligated Group for the years ended December 31, 2006, 2007, 2008, 2009 and 2010 which was derived by management from audited financial statements for the Consolidated Group for those years. All members of the Obligated Group have fiscal years ending December 31. **Youville Lifecare, Youville Hospital, Youville House, and Fanny Allen converted their fiscal years to December year ends during 2009 and have 15 months of data for 2009. Prior to 2009 these entities had September 30 year ends (and the following Summary Statement of Operations includes data for such entities for each year (2008 through 2006) for the twelve month period ending September 30 of such years). The combined operations of Youville Lifecare, Inc. and Youville Hospital and Rehabilitation Center, Inc. have been reclassified as discontinued and such their data has been reclassified as discontinued.** The data in the Summary Statement of Operations for the years ended December 31, 2010 and 2009 should be read in conjunction with the notes to the Consolidated Financial Statements of the Consolidated Group for those years, which are included with this report.

Management's Discussion of Recent Financial Performance of Obligated Group

Total revenue of the Obligated Group grew from \$201.6 million in 2006, to \$218.4 million in 2007, \$239.4 million in 2008, \$246.4 million in 2009 and \$248.1 million in 2010. This represents a growth in total revenue of 8.3% in 2007, 9.4% in 2008, 2.9% in 2009 and 0.7% in 2010. The growth in total revenue over these periods is primarily the result of increases in volume and higher reimbursement rates. Total expenses for the Obligated Group grew by 9.9% in 2007, 8.1% in 2008, 3.5% in 2009 and decreased by 1.1% in 2010. Expense increases are principally attributable to higher professional liability costs, increased pension and retirement costs, additional supply costs from higher utilization, wage increases granted to employees and inflation. The reduction in total expenses for 2010 decrease related to cost containment measures principally in supplies and other expenses. The provisions for bad debts increased by 27.9% in 2007, increased by 12.6% in 2008, decreased by 18.8% in 2009 and decreased by 2.6% in 2010. Management attributes the increase in 2007 to the institution of large deductibles and coinsurance provisions by commercial insurers in the Southern New Hampshire market. The 2008 increase is largely attributable to the related growth in revenues. The 2009 and 2010 decreases relates to an increase in Medicaid percentage of the overall payors and better realization of accounts receivable. The Obligated Group had income from operations of \$16.6 million in 2006, \$15.2 million in 2007, \$19.7 million in 2008, \$19.1 million in 2009 and \$23.3 million in 2010.

Non-operating gains (losses), net were \$0.5 million in 2006, \$1.9 million in 2007, \$(31.7) million in 2008 (2008 includes the effect of the adoption FASB 159), \$(0.6) million in 2009 and \$(6.7) million in 2010 which includes a \$8.1 million charitable pledge to the Felician Sister of North America in conjunction with the acquisition of St. Joseph's Healthcare Foundation. On January 1, 2007, Covenant Health Systems gained governance control over a unitized investment trust over which it had previously shared governance. This change in control caused members of the Obligated Group to adopt investment accounting rather than equity accounting for their investments in the unitized investment trust for 2007.

Effective January 1, 2008 CHS adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 ("SFAS 159") as replaced by Accounting Standards Codification 820 (FASB ASC 820) "Fair Value Measurements". This permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. CHS' adoption of SFAS 159 as replaced by ASC 820 is reflected within Non-Operating gains (losses), net of its statement of operations in 2008. Prior to adopting SFAS 159 as replaced by FASB ASC 820 unrealized appreciation on investment was excluded from the excess of revenue over expenses and only other that temporary impaired adjustments to the investments were reflected in Non-Operating gains (losses), net of the statements of operations. This election coupled with the worldwide decline of the fair value of debt and equity markets are the principal attributes driving the 2008 net Non-operating loss of \$31.7 million for the Obligated Group.

St. Joseph's Hospital of Nashua, NH has a frozen defined benefit plan which the unfunded status as of December 31, 2010 and 2009 of \$1.4 million and \$0.1 million, respectively. The net periodic pension expense for this plan was \$0.1 million and \$1.3 million during December 31, 2010 and 2009, respectively.

Operating performance declined in 2007, improved during 2008, declined in 2009 and improved during 2010. St. Joseph Hospital (together with SurgiCenter and Souhegan on a consolidated basis) improved to an operating gain of \$16.5 million in 2006, declined to \$12.7 million in 2007, improved to \$18.3 million in 2008, improved to \$18.5 million in 2009 and improved to \$21.4 million in 2010. The increase in 2006 is due to inpatient and outpatient volume increase and moderation in the growth of expenses. The 2007 decline is due to the loss of surgical volumes caused by vacancies in the hospitals surgical medical staff. The 2008 improvement was driven by higher inpatient admissions and outpatient encounter as a result of additional physician recruitment. The 2009 improvement was driven by increased revenues and lower bad debt offset by higher wages and benefits. The 2010 improvement was driven by higher total revenues and lower operating expenses as a percentage of revenues during 2010. MI Nursing had an operating loss of \$0.5 million in 2006, and operating gains of \$1.3 million in 2007, \$1.6 million in 2008, \$0.9 million in 2009 and \$2.0 million in 2010. The variability in its operating performance is largely driven by fluctuations in its self-pay and Medicare resident days as well as changes in the Massachusetts Medicaid program and the full implementation of a rehabilitation unit in 2010. During 2006 MI Nursing was temporarily closed due to flood damage resulting in an operating loss. The facility returned to operation in 2007. Maristhill had an operating loss of \$0.2 million in 2006, and operating gains of \$0.3 million in 2007, \$0.5 million in 2008, \$0.4 million in 2009 and \$0.3 million in 2010. Like MI Nursing, the variability of Maristhill's operating performance is largely driven by fluctuations in its self-pay and Medicare resident days and changes in the Massachusetts Medicaid program. St. Mary had an operating loss of \$0.2 million in 2006, operating gains of \$0.1 million in 2007 and \$0.2 million in 2008, operating losses of \$0.1 million in both 2009 and 2010. St. Mary's performance is driven by fluctuations in its private pay and Medicare census. Youville Place a 92 unit assisted living facility in Lexington, Massachusetts was added to the obligated group in 2008 and broke even from operations for 2008 and had an operating gains of \$0.1 million in both 2009 and 2010.

During 2009, management concluded that the operations of Fanny Allen were that of a foundation and has included its results in Non-operating gains (losses), net portion of the statement of operations. The 2006 through 2008 results of Fanny Allen presented have been restated for comparison purposes to be included in Non-operations gains (losses), net. Fanny

Allen received an unrestricted contribution of a building of \$1.6 million recorded as an increase to unrestricted net assets in 2008 which was not included in the excess (deficiency) of revenue over expenses.

The operating margin of the Obligated Group (income or loss from operations divided by total revenue) was 8.3% in 2006, 7.0% in 2007, 8.2% in 2008, 7.7% in 2009 and 9.4% in 2010. The excess margin (excess or deficiency of revenue over expenses before gain or loss from discontinued operations and extinguishment of debt divided by total revenue) was 8.5% in 2006, 7.8% in 2007, (5.0%) in 2008, 7.5% in 2009 and 6.7% in 2010. Days' cash on hand (unrestricted) (calculated using a standard industry method rather than the method prescribed by the Master Indenture, as noted below) was 267.3 in 2006, 270.1 in 2007, 235.6 in 2008, 240.2 in 2009 and 284.4 in 2010. Debt service coverage excluding gain or loss from extinguishment of debt (also calculated using a standard industry method rather than the method prescribed by the Master Indenture, as noted below) was 6.1 in 2006, 6.0 in 2007, 4.2 in 2008, 3.2 in 2009 and 3.0 in 2010. The declines of excess margin, days' cash on hand and debt service coverage ratio for 2008 over prior years were principally driven by the worldwide decline of the fair value of debt and equity markets. Debt to capitalization ratio was 40.8% in 2006, 44.5% in 2007, 47.7% in 2008, 43.5% in 2009 and 41.1% in 2010. In October of 2007, the Obligated Group issued \$78.5 million in tax exempt debt, of that amount, \$42.9 million was used to advance refund a portion of the Obligated Groups outstanding 2002 tax exempt debt, and \$11.5 million was used the acquisition of the building at Youville Place in 2008. The remainder was for projects at St. Joseph Hospital, debt service reserves and issuance costs. Debt service as a percentage of revenue was 2.7% in 2006, 2.5% in 2007, 3.3% in 2008, 3.3% in 2009 and 3.2% in 2010.

Under generally accepted accounting principles, the Obligated Group is required to recognize an equity loss on investment in St. Joseph Hospital Corporate Services, Inc. ("SJHCS") and D.H. Family Medicine Nashua, Inc. ("DHFM") even though SJHCS and DHFM are not members of the Obligated Group. Such loss appears as a non-operating loss on the Obligated Group's Statement of Operations. SJHCS is a for-profit, wholly owned subsidiary of St. Joseph Hospital that operates several physician practices, an ambulance company and a medical equipment company in New Hampshire. DHFM is non profit wholly owned subsidiary of St. Joseph Hospital that operates a physician practice. Under the terms of the Master Indenture, all financial ratios are calculated and other accounting computations are performed solely with respect to members of the Obligated Group (and excluding items relating to any person that is not a member of the Obligated Group). In particular, any gain or loss on investment in any entity that is controlled by a member of the Obligated Group but is not itself a member of the Obligated Group, such as the loss on investment in SJHCS and DHFM, is excluded from such calculations under the Master Indenture. In calculating the financial ratios set out in this Disclosure, CHS has included the loss on investment in SJHCS and DHFM. Since the loss on investment in SJHCS and DHFM would be excluded under a calculation made in accordance with the terms of the Master Indenture, ratios set forth in this Disclosure are generally more conservative than the ratios would be if calculated in accordance with the terms of the Master Indenture.

Youville Hospital and Youville Lifecare

On November 15, 2009, Youville Hospital and Youville Lifecare sold their property, plant, equipment and inventories to Spaulding Hospital-Cambridge, Inc., an affiliate of Partners Health Care System, Inc. Youville Hospital and Youville Lifecare retained their cash, accounts receivable and investments. The gross proceeds of the sale were \$27 million. As a result of the

sale, the operations for Youville Hospital and Youville Lifecare are now classified as discontinued within the financial statements.

Youville Hospital and Youville Lifecare changed their fiscal year end from September 30 to December 31 during 2009. As such, the financial activity reported herein for the 2009 year is for the 15 month period from October 1, 2008 through December 31, 2009.

At the time of the sale, Youville Hospital and Youville Lifecare had approximately \$31.5 million of long term debt in connection with Bonds allocated to them as part of the Obligated Group. Consistent with the rules promulgated by the Internal Revenue Service governing "changes-in-use" of bond-financed facilities, CHS decided to implement the "alternate qualifying use of proceeds" remedial action under the Internal Revenue Code of 1986, as amended, and will apply and allocate all of the proceeds of the sale to the financing of other qualified projects at facilities owned and operated by CHS or its affiliates within two years after the sale. All projects related to the "alternate qualifying use of proceeds" are complete or scheduled to be complete on or before November 2011.

The debt, associated cash, debt service reserve funds and unamortized bond issuance costs were transferred from the balance sheet of Youville Hospital and Youville Lifecare during 2009 to CHS.

The proceeds of the sale are being loaned by CHS to Youville House and St. Joseph Hospital (both of whom are members of the Obligated Group), and St. Mary Health System in Lewiston, ME and St. Andre Nursing Home in Biddeford, ME (both of whom are members of the Consolidated Group but not members of the Obligated Group), to finance qualified projects undertaken by them. CHS received a promissory note from each such borrower in a principal amount equal to the principal amount of the loan, and the loans to St. Mary Health System and St. Andre Nursing Home will be secured by a pledge of investments held by them in Providentia Prima (an investment trust operated by CHS) in an amount at least equal to the principal amount of the loan (which pledge will be for the benefit of CHS and not to secure the Bonds).

In connection with the sale, CHS certified that the disposition of the Youville Hospital and Youville Lifecare assets, and the loans by CHS of the proceeds of the sale to above-named borrowers, are Permitted Dispositions under the terms of the Master Indenture. The Bonds formerly allocated to Youville Hospital and Youville Lifecare will continue to be obligations of CHS, secured by the notes issued by the Obligated Group under the Master Indenture.

Management's Discussion of Recent Financial Performance of the Consolidated Group

The Consolidated Group includes several organizations that are not members of the Obligated Group (such organizations that are members of the Consolidated Group but not members of the Obligated Group are referred to as "Non-Obligated Group Members"). The Non-Obligated Group Members have no obligation with respect to the Bonds or under the Master Indenture and none of the assets or revenues of the Non-Obligated Group Members are available for or pledged to support debt service on the Bonds or the Notes.

Total revenues of the Consolidated Group were \$418.9 in 2006, \$457.0 million in 2007, \$485.9 million in 2008, \$485.7 million in 2009 and \$547.8 million in 2010. \$43.0 million of the total revenue of the Consolidated Group for 2010 relates to the acquisition by CHS of St. Joseph Healthcare Foundation of Bangor, Maine in July 2010. This represents a growth in total revenues of 9.1% in 2007, 6.3% in 2008, 0.0% in 2009 and 12.8% in 2010 Total Expenses of the

Consolidated Group were \$409.4 million in 2006, \$445.8 million in 2007, \$476.3 million in 2008, \$485.6 million in 2009 and \$535.7 million in 2010. \$41.5 million of the total expenses of the Consolidated Group for 2010 relates to the acquisition by CHS of St. Joseph Healthcare Foundation of Bangor, Maine in July 2010. Expenses for the Consolidated Group were impacted by higher professional liability costs, retirement and pension costs as well as increased interest costs due to the termination of a fixed to variable interest rate swap by the Obligated Group. The Consolidated Group had operating gains of \$9.5 million in 2006, \$11.2 million in 2007, \$9.6 million in 2008, \$0.1 million in 2009 and \$12.1 million in 2010. The operating gain in 2010 was impacted positively by the \$1.3 million of operating gain generated by St. Joseph Healthcare Foundation for the 5-month period subsequent to its acquisition by CHS.

Total revenues of the Non-Obligated Group members were \$217.3 million in 2006, \$238.6 million in 2007, \$246.5 million in 2008, \$239.3 million in 2009 and \$299.7 million in 2010. This represents an increase of 9.8% in 2007, an increase of 3.3% in 2008, a decrease of 2.9% in 2009 and an increase of 25.2% in 2010. \$43.0 million of the total revenue of the Non-Obligated Group for 2010 relates to the acquisition of St. Joseph Healthcare Foundation of Bangor, Maine in July 2010. The Non-Obligated Group members had an operating loss of \$7.1 million in 2006, \$4.0 million in 2007, \$10.1 million in 2008, \$19.0 million in 2009 and \$11.2 million in 2010. The 2006 through 2010 operating losses of the Non-Obligated Group members are principally the result of the operating performance at SJHCS.

St. Mary's Health System, Inc. had operating gains of \$0.8 million in 2006, \$6.8 million in 2007, and \$3.6 million in 2008, an operating loss of \$1.0 million in 2009 and an operating gain of \$0.3 million in 2010. The operating gain in 2007 contains \$4.7 million in income attributable to settlements with third party payors for prior years. The increase in 2010 related to revenue growth and expense containment. There was a significant one-time item included in the 2009 and 2010 operating expenses at St. Mary's Health System, which was the engagement of a consultant to help with process improvements. The costs associated with the consultant totaled \$4.5 million and \$1.0 million for 2009 and 2010, respectively, and management estimates that St. Mary's Health System recouped \$2.7 million and \$8.1 million in revenue enhancements and expense reductions during 2009 and 2010, respectively. SJHCS had operating losses of \$8.1 million in 2006, \$9.2 million in 2007, \$11.8 million in 2008, \$16.6 million in 2009 and \$12.4 million in 2010. The expanding losses in 2006, 2007, 2008 and 2009 are primarily due to a decline at SJHCS' wholly owned ambulance company and the expansion of SJ Physician Services. The 2010 improvement was a result of reduced losses at the ambulance company, being \$4.7 million less than 2009. DHFM had operating losses of \$1.4 million in 2007, \$2.4 million in 2008, \$2.0 million in both 2009 and 2010.

St. Joseph's Hospital of Nashua, NH has a frozen defined benefit plan which the unfunded status as of December 31, 2010 and 2009 of \$1.4 million and \$0.1 million, respectively. The net periodic pension expense for this plan was \$0.1 million and \$1.3 million during December 31, 2010 and 2009, respectively. Additionally St. Joseph's Healthcare Foundation has a frozen defined benefit plan which the unfunded status as of December 31, 2010 is \$5.2 million. The net periodic pension expense for this plan was \$0.4 for the five months ended December 31, 2010.

In 2007, CHS gained control of Providentia Prima, a unitized investment trust in which it participated. Providentia Prima is currently consolidated into CHS' financial results. At December 31, 2007 there was a \$14.3 million minority interest held in Providentia Prima by a related party. The related party withdrew their investments from Providentia Prima during 2008 effectively closing out their minority interest. In 2007, CHS adopted the provisions of FASB 115 and FASB 124 as they relate to the other than temporary impairment of investments. As a result

of this adoption, \$3.6 million in unrealized investment losses were recorded as realized investment losses and are included in non-operating income of the Consolidated Group. Historically the operating results of Providentia Prima were recorded in within the operating portion of the income statement. In 2009, CHS determined that the net results of investments should be reported in the non-operating portion of the statement of operations. The 2010 disclosure reflect this classification and the 2008 through 2006 amounts have been reclassified for comparative purposes.

The adoption of SFAS 159 as replaced by FASB ASC 820 coupled with the decline of the fair value of debt and equity markets are the principal attributes driving the 2008 net non-operating losses of \$32.3 million for the Consolidated Group.

CHS has adopted financial ratio targets for a rolling three-year period for all of the members of the Consolidated Group. These targets are designed to maintain or improve the financial strength of each member of the Consolidated Group and are generally modeled on rating agency medians for "A" rated hospital or healthcare organizations. The financial ratio targets are approved by the CHS board of directors for each member of the Consolidated Group and are monitored on a monthly basis by the board of directors of such member of the Consolidated Group and by the board of directors of CHS. There can be no assurance, however, that such ratios will be attained or maintained.

Covenant Health Systems acquisition of St. Joseph Healthcare Foundation and subsidiaries

On July 29, 2010 CHS and St. Joseph Healthcare Foundation closed the transaction under which the Foundation and its subsidiaries (the "Foundation") became members of the health system operated by CHS. The Foundation is located in Bangor, Maine and it and its subsidiaries operate a 115 bed acute care facility as well as other health related entities. CHS became the sole corporate member of the Foundation and recorded this transaction in conformity with the guidance from Financial Accounting Standards Board (FASB) 164 (Mergers and Acquisitions by a Not-for-Profit Organization (including amendments to Statement 142) as replaced by FASB ASC 958-805 "Not-for-profit entities - Business combinations". The results of this acquisition are a non-operating gain of \$35.4 million and a related \$8.1 million charitable pledge to the Felician Sister of North America recorded during the third quarter 2010. For the year following the acquisition date if additional information regarding the measurement of the assets or liabilities from this transaction as of July 29, 2010 comes available this gain may be adjusted. Neither St. Joseph Healthcare Foundation nor any of its subsidiaries is a member of the Obligated Group, and none of them have any obligation with respect to the Bonds or under the Master Indenture.

Covenant Health Systems Insurance, LTD ("CHSIL") (offshore insurance company)

Historically the operating results of CHSIL have been recorded within the consolidated operating portion of the income statement (insurance income and expense including actuarially determined amounts were offset by eliminating expense of the insured). Management has determined that the net result of the insurance operations should be reported in the consolidated non-operating portion of the income statement and the actuarially determined premium paid by the insured should remain as an operating expense. With concurrence of our auditors regarding this presentation change, the results for fiscal year 2006 through fiscal year 2008 were restated to reflect this accounting treatment.

Attached hereto as **Exhibit C** is a comparison of the financial performance of the Consolidated Group to the Obligated Group for the years ended December 31, 2006, 2007, 2008, 2009 and 2010 which was derived by management from audited financial statements for the Consolidated Group for those years.

HISTORICAL UTILIZATION OF SERVICES

The table attached hereto as **Exhibit D-1** summarizes the utilization of services at the Obligated Group's acute hospital (St. Joseph Hospital) and nursing homes (MI Nursing, Maristhill and St. Mary) for the years ended December 31, 2006, 2007, 2008, 2009 and 2010. The table attached hereto as **Exhibit D-2** summarizes the utilization of services at certain Non-Obligated Group Members for such periods.

THIRD PARTY PAYMENT

Obligated Group Payor Mix

The table attached hereto as **Exhibit E-1** summarizes the percentage of net patient service revenue of the Obligated Group's acute hospital (St. Joseph Hospital) and nursing homes (MI Nursing, Maristhill and St. Mary) by source of payment for the years ended December 31, 2006, 2007, 2008, 2009 and 2010. The table attached hereto as **Exhibit E-2** summarizes the percentage of net patient service revenue by source of payment for certain Non-Obligated Group Members and for all Consolidated Group nursing homes for such periods.

Management's Discussion of Recent Changes in Obligated Group Payor Mix

Payor mix and payment methodologies vary greatly among acute hospital, long term care hospital and nursing home members of the Obligated Group. At the Obligated Group's acute care hospital (St. Joseph Hospital), Medicare has continued to grow as a proportion of net patient revenue as the population continues to age and commercial and managed care for elderly patients become less available in the New Hampshire market. Management attributes these changes to shifts in the insurance marketplace in Southern New Hampshire.

Payor mix for the Obligated Group nursing homes has varied over the past five years. Management attributes the changes in payor mix to changes in the local economy and aging of the local population.

CALCULATION OF RATIOS

The Master Indenture of the Obligated Group requires the computation of certain ratios on an annual basis. Those ratios calculated as required by the Master Indenture and their required minimums are attached hereto as **Exhibit F**. As previously noted, under the terms of the Master Indenture all financial ratios are calculated and other accounting computations are performed solely with respect to members of the Obligated Group (and excluding items relating to any person that is not a member of the Obligated Group). In particular, any gain or loss on investment in any entity that is controlled by a member of the Obligated Group but is not itself a member of the Obligated Group, such as the loss on investment in SJHCS and DHFM, is excluded from such calculations under the Master Indenture.

Date: May 11 2011

COVENANT HEALTH SYSTEMS, INC.

By: 

John M. Ahle, Chief Financial Officer/Treasurer

Exhibit A

Members of the Obligated Group

The Obligated Group consists of CHS and the following organizations, each of which is directly or indirectly controlled by CHS:

- St. Joseph Hospital of Nashua, NH, Inc. ("St. Joseph Hospital");
- The Surgi Center at St. Joseph Hospital, Inc. ("SurgiCenter");
- Souhegan Nursing Association, Inc. ("Souhegan");
- MI Nursing/Restorative Center, Inc. ("MI Nursing");
- MI Adult Day Health Center, Inc. ("MI Adult Day Health");
- MI Management Inc. ("MI Management");
- MI Transportation, Inc. ("MI Transportation");
- Youville Lifecare, Inc. ("Youville Lifecare");*
- Youville Hospital and Rehabilitation Center, Inc. ("Youville Hospital");*
- The Youville House, Inc. ("Youville House");
- CHS of Waltham, Inc.
(d.b.a. Maristhill Nursing and Rehabilitation Center) ("Maristhill");
- CHS of Worcester, Inc. (d.b.a. St. Mary Health Care Center) ("St. Mary");
- Fanny Allen Holdings, Inc. and Fanny Allen Corporation ("Fanny Allen Corporation"); and
- Youville Place, Inc.

* Youville Lifecare and Hospital discontinued their operations in 2009. The remaining assets, liabilities & net assets continue to be reflected as part of the obligated group.

Covenant Health Systems Obligated Group

Summary Statement of Operations (in thousands)

Exhibit B

| | Year ended December 31, @ | | | | |
|--|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| Revenue | | | | | |
| Net patient service revenue | \$194,993 | \$211,432 | \$232,093 | \$238,000 | \$238,366 |
| Other | \$6,406 | \$6,727 | \$7,119 | \$8,177 | \$9,532 |
| Net assets released from restrictions | \$163 | \$223 | \$224 | \$248 | \$250 |
| Total Revenue | \$ 201,562 | \$ 218,382 | \$ 239,436 | \$ 246,425 | \$ 248,148 |
| Expenses | | | | | |
| Salaries and wages | \$78,585 | \$88,575 | \$96,060 | \$99,934 | \$99,781 |
| Employee benefits | \$19,019 | \$19,840 | \$19,839 | \$21,910 | \$20,086 |
| Supplies and other expenses | \$62,388 | \$67,437 | \$73,807 | \$77,762 | \$77,851 |
| Interest expense | \$4,609 | \$4,252 | \$5,511 | \$5,822 | \$5,878 |
| Provision for bad debts | \$8,624 | \$11,026 | \$12,417 | \$10,089 | \$9,933 |
| Depreciation and amortization | \$11,696 | \$12,064 | \$12,078 | \$11,822 | \$11,343 |
| Total Expenses | \$ 184,921 | \$ 203,194 | \$ 219,712 | \$ 227,339 | \$ 224,872 |
| Income (loss) from operations * | \$ 16,641 | \$ 15,188 | \$ 19,724 | \$ 19,086 | \$ 23,276 |
| Non-operating gains (losses), net * & ASC 820 | \$542 | \$1,875 | (\$31,676) | (\$587) | (\$6,727) |
| Excess (deficiency) of revenue over expenses, before gain (loss) from discontinued operations and extinguishment of debt | \$ 17,183 | \$ 17,063 | \$ (11,952) | \$ 18,499 | \$ 16,549 |
| Gain (loss) from discontinued operations*** | \$40 | (\$370) | (\$2,271) | \$7,199 | \$0 |
| Gain (loss) from extinguishment of debt | \$0 | \$0 | \$0 | \$0 | \$0 |
| Excess (deficiency) of revenue over expenses ** | \$ 17,223 | \$ 16,693 | \$ (14,223) | \$ 25,698 | \$ 16,549 |

@ Certain reclassifications have been made to the 2006, 2007, 2008 & 2009 presentations in order to conform to the current presentation.

* Includes equity loss on investment in St. Joseph Hospital Corporate Services, Inc. and St. Joseph Hospital DH Family Medicine which are not members of the Obligated Group.

** 2008 and 2007 excludes loss on advance refunding of \$631 and \$5,039, respectively.

*** Youville Lifecare sold its equipment and inventory during the fourth quarter 2009.

ASC 820 - During the fiscal year 2008 Covenant Health Systems adopted Fash 159 "The Fair Value Option for Financial Assets and Financial Liabilities" as replaced by Accounting Standards Codification topic 820 "Fair Value Measurements". The effect of this adoption is reflected in the 2008, 2009 and 2010 financial statements in Nonoperating gains (losses).

See "Management Discussion of Recent Financial Performance of Obligated Group"

Key Statistics

Covenant Health Systems
Consolidated Group (in thousands) @

Obligated Group (in thousands) @

Exhibit C

Year ended December 31,

Year ended December 31,

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-----------|-----------|------------|------------|------------|-----------|-----------|------------|------------|-----------|
| Income Statement | | | | | | | | | | |
| Net Patient Service Revenue | \$401,059 | \$435,374 | \$470,880 | \$467,675 | \$527,229 | \$194,995 | \$211,432 | \$232,095 | \$238,000 | \$238,366 |
| Total Revenue | \$418,890 | \$456,960 | \$483,895 | \$483,657 | \$547,824 | \$201,562 | \$218,382 | \$239,436 | \$246,425 | \$248,148 |
| Total Expenses | \$409,420 | \$445,801 | \$476,275 | \$483,601 | \$535,738 | \$184,921 | \$203,194 | \$219,712 | \$227,339 | \$224,872 |
| Income (loss) from Operations | 9,470 | 11,159 | 9,620 | 56 | 12,086 | 16,641 | 15,188 | 19,724 | 19,086 | 23,276 |
| Nonoperating Gains (losses), net * & ASC 820 | \$11,635 | \$19,881 | (\$26,052) | \$23,648 | \$48,405 | \$542 | \$1,875 | (\$31,676) | (\$587) | (\$6,727) |
| Excess of Revenue over Expenses, before gain (loss) from discontinued operations and extinguishment of debt | 21,105 | 31,040 | (16,432) | 23,704 | 60,491 | 17,183 | 17,065 | (11,952) | 18,499 | 16,549 |
| (Deficiency) excess of Revenue over Expenses **** | 21,202 | 30,606 | (17,508) | 31,183 | 58,861 | 17,225 | 17,063 | (14,223) | 25,698 | 16,549 |
| Interest Expense | \$7,695 | \$6,978 | \$8,056 | \$8,283 | \$9,339 | \$4,609 | \$4,252 | \$5,511 | \$5,822 | \$5,878 |
| Depreciation and Amortization | \$20,305 | \$20,870 | \$20,981 | \$21,106 | \$22,601 | \$11,696 | \$12,064 | \$12,078 | \$11,822 | \$11,343 |
| Net unrealized (gain) loss on investments in Nonoperating ASC 820 | NA | NA | \$40,562 | (\$21,595) | (\$13,347) | NA | NA | \$27,793 | (\$10,849) | (\$9,471) |
| Debt Service | | | | | | | | | | |
| Net Available for Debt Service | \$49,105 | \$58,888 | \$33,167 | \$31,498 | \$43,494 | \$33,489 | \$33,379 | \$33,430 | \$25,294 | \$24,299 |
| Debt Service for the Period | 10,515 | 10,419 | 12,696 | 12,683 | 15,746 | 5,484 | 5,522 | 7,960 | 7,894 | 8,017 |
| Balance Sheet | | | | | | | | | | |
| Unrestricted Cash and Investments ***** | \$186,147 | \$219,901 | \$190,434 | \$216,851 | \$271,690 | \$126,874 | \$141,418 | \$133,665 | \$141,848 | \$166,402 |
| Total Assets | \$489,105 | \$586,716 | \$538,037 | \$573,008 | \$684,291 | \$310,752 | \$371,388 | \$345,552 | \$366,614 | \$395,062 |
| Short-Term Debt ** | \$3,441 | \$4,640 | \$4,400 | \$5,328 | \$8,150 | \$1,270 | \$2,449 | \$2,062 | \$2,139 | \$2,206 |
| Long - Term Debt | \$155,682 | \$192,960 | \$189,879 | \$189,820 | \$203,761 | \$107,711 | \$140,804 | \$139,258 | \$137,232 | \$134,973 |
| Unrestricted Net Assets | \$226,448 | \$255,056 | \$241,503 | \$264,433 | \$324,114 | \$158,360 | \$178,615 | \$154,655 | \$181,011 | \$196,479 |
| Profitability *** | | | | | | | | | | |
| Operating Margin (%) | 2.3% | 2.4% | 2.0% | 0.0% | 2.2% | 8.3% | 7.0% | 8.2% | 7.7% | 9.4% |
| Excess Margin (%) *** | 5.0% | 6.8% | -3.4% | 4.9% | 11.0% | 8.5% | 7.8% | -5.0% | 7.5% | 6.7% |
| Liquidity | | | | | | | | | | |
| Days' Cash on Hand***** | 174.6 | 188.9 | 153.1 | 170.4 | 193.3 | 267.3 | 270.1 | 235.6 | 240.2 | 284.4 |
| Leverage *** | | | | | | | | | | |
| Debt Service Coverage (x) *** | 4.7 | 5.7 | 4.2 | 2.5 | 2.8 | 6.1 | 6.0 | 4.2 | 3.2 | 3.0 |
| Debt to Capitalization (%) | 41.3% | 43.7% | 44.6% | 42.5% | 39.5% | 40.8% | 44.5% | 47.7% | 43.5% | 41.1% |
| Debt Service / Revenue (%) | 2.5% | 2.3% | 2.6% | 2.6% | 2.9% | 2.7% | 2.5% | 3.3% | 3.2% | 3.2% |

② Youville Lifecare & Hospital, CHSIL, Fanny Allen and two behavioral departments of St. Mary's Health Care are reflected in the discontinued or non-operating portions of the statement of operations and St. Joseph of Nashua, NH grossed up its prior year provider tax reimbursements to be consistent with the current presentation as such certain reclassifications have been made to the 2006, 2007, 2008 & 2009 presentations.

* Includes equity loss on investment in St. Joseph Hospital Corporate Services, Inc. and St. Joseph Hospital DH Family Medicine which are not members of the Obligated Group. See "Management's Discussion of Recent Financial Performance of Obligated Group."

** Includes current portion of long term debt

*** Debt service coverage is calculated as excess of revenues over expenses plus interest, depreciation and net unrealized (gains) losses in nonoperating over debt service for the period. Calculated excluding gain (loss) from extinguishment of debt for both the Consolidated Group and Obligated Group in 2008 and 2007 consistent with the terms of the Master Indenture

**** Days' cash on hand is calculated as unrestricted cash and investments over operating expenses less depreciation dividend by the days in the period.

***** 2007 excludes \$14,638,980 minority interest which was withdrawn in 2008.

ASC 820 - During the fiscal year 2008 Covenant Health Systems adopted Fash 159 "The Fair Value Option for Financial Assets and Financial Liabilities" as replaced by Accounting Standards Codification topic 820 "Fair Value Measurements". The effect of this adoption is reflected in the 2008, 2009 and 2010 financial statements in Nonoperating gains (losses).

Covenant Health Systems Obligated Group
Key Hospital and Nursing Home Utilization Statistics

Exhibit D-1

| | Year ended December 31 ,* | | | | |
|--|---------------------------|---------|---------|---------|---------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| St. Joseph Hospital Of Nashua, NH | | | | | |
| Licensed Beds | 208 | 208 | 208 | 208 | 208 |
| Admissions | 5,059 | 5,104 | 5,461 | 5,797 | 5,845 |
| Patient Days | 30,140 | 31,052 | 32,207 | 32,999 | 32,875 |
| ALOS (days) | 6.0 | 6.1 | 5.9 | 5.7 | 5.6 |
| Outpatient Encounters | 205,407 | 206,438 | 216,282 | 210,755 | 204,082 |
| Average Daily Censes | 82.6 | 85.1 | 88.0 | 90.2 | 90.1 |
| FTEs | 977.3 | 1,100.1 | 1,039.3 | 1,112.7 | 1,054.8 |
| MI Nursing | | | | | |
| Licensed Beds | 250 | 250 | 250 | 231 | 231 |
| Patient Days | 51,526 | 80,408 | 84,964 | 81,280 | 81,462 |
| Average Daily Censes | 141.2 | 220.3 | 232.1 | 222.7 | 223.2 |
| Occupancy Rate | 56.5% | 88.1% | 92.9% | 96.4% | 96.6% |
| FTEs | 239.6 | 293.1 | 313.0 | 310.1 | 306.3 |
| Maristhill | | | | | |
| Licensed Beds | 123 | 123 | 123 | 123 | 123 |
| Patient Days | 43,397 | 42,376 | 42,715 | 42,501 | 42,618 |
| Average Daily Censes | 118.9 | 116.1 | 116.7 | 116.4 | 116.8 |
| Occupancy Rate | 96.7% | 94.4% | 94.9% | 94.7% | 94.9% |
| FTEs | 96.8 | 96.1 | 100.9 | 102.1 | 112.1 |
| St. Mary | | | | | |
| Licensed Beds | 124 | 124 | 124 | 124 | 124 |
| Patient Days | 40,571 | 41,802 | 42,692 | 40,938 | 38,043 |
| Average Daily Censes | 111.2 | 114.5 | 116.6 | 112.2 | 104.2 |
| Occupancy Rate | 89.6% | 92.4% | 94.1% | 90.5% | 84.1% |
| FTEs | 102.8 | 104.2 | 110.6 | 112.5 | 105.3 |

* Youville Lifecare & Hospital data is no longer presented since the entities operations are discontinued.

Covenant Health Systems Exhibit D - 2

Additional Data

Key Hospital and Nursing Home Utilization Statistics

Year ended December 31 ,

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|--|---------|---------|---------|---------|---------|
| ST. MARY'S REGIONAL MEDICAL CENTER ** # | | | | | |
| Licensed Beds | 233 | 233 | 233 | 233 | 233 |
| Admissions | 6,428 | 6,299 | 6,446 | 6,274 | 6,386 |
| Patient Days | 34,720 | 34,305 | 34,865 | 32,448 | 32,957 |
| ALOS (days) | 5.4 | 5.4 | 5.4 | 5.2 | 5.2 |
| Outpatient Encounters ^ | 191,871 | 194,716 | 198,941 | 221,628 | 293,610 |
| Average Daily Census | 95.1 | 94.0 | 95.3 | 88.7 | 90.3 |
| FTES # | 639.8 | 647.4 | 660.4 | 647.0 | 689.1 |
| ST. JOSEPH HOSPITAL OF BANGOR, ME ** @ | | | | | |
| Licensed Beds | NA | NA | NA | NA | 115 |
| Admissions | NA | NA | NA | NA | 1,654 |
| Patient Days | NA | NA | NA | NA | 7,068 |
| ALOS (days) | NA | NA | NA | NA | 4.3 |
| Outpatient Encounters | NA | NA | NA | NA | 101,100 |
| Average Daily Census | NA | NA | NA | NA | 46.2 |
| FTES | NA | NA | NA | NA | 739.0 |
| ST. ANDRE ** | | | | | |
| Licensed Beds | 96 | 96 | 96 | 96 | 96 |
| Patient Days | 33,665 | 32,273 | 32,603 | 33,161 | 31,733 |
| Average Daily Census | 92.2 | 88.4 | 89.1 | 90.9 | 86.9 |
| Occupancy Rate | 96.1% | 92.1% | 92.8% | 94.6% | 90.6% |
| FTES | 108.5 | 107.6 | 109.2 | 112.9 | 106.3 |
| d'YOUVILLE PAVILION ** | | | | | |
| Licensed Beds | 280 | 210 | 210 | 210 | 210 |
| Patient Days | 87,630 | 73,262 | 72,872 | 73,965 | 73,394 |
| Average Daily Census | 240.1 | 200.7 | 199.1 | 202.6 | 201.1 |
| Occupancy Rate | 85.7% | 95.6% | 94.8% | 96.5% | 95.8% |
| FTES | 347.8 | 291.6 | 293.3 | 287.6 | 292.7 |
| ST. JOSEPH MANOR ** | | | | | |
| Licensed Beds | 118 | 118 | 118 | 118 | 118 |
| Patient Days | 40,978 | 41,734 | 42,022 | 39,919 | 40,707 |
| Average Daily Census | 112.3 | 114.4 | 114.8 | 109.4 | 111.5 |
| Occupancy Rate | 95.1% | 96.9% | 97.3% | 92.7% | 94.5% |
| FTES | 154.2 | 157.7 | 163.2 | 148.8 | 145.4 |
| ST. MARY'S VILLA ** | | | | | |
| Licensed Beds | 112 | 112 | 112 | 112 | 112 |
| Patient Days | 37,340 | 39,379 | 38,979 | 38,965 | 39,102 |
| Average Daily Census | 102.3 | 107.9 | 106.5 | 106.8 | 107.1 |
| Occupancy Rate | 91.3% | 96.3% | 95.1% | 95.3% | 95.7% |
| FTES | 154.9 | 156.8 | 166.1 | 173.3 | 178.8 |

** Not a member of the Obligated Group

^ - During 2010 provider based practices were shifted into the hospital accounting for an additional 71,982 encounters.

- During the fourth quarter 2010 formerly leased employees from an affiliate were shifted into the hospital.

@ - St. Joseph Hospital of Bangor, ME statistics are for the period August 1, 2010 to December 31, 2010.

Covenant Health Systems Obligated Group Exhibit E-1

Payor Mix

| Source of Net Revenue | Year ended December 31 ,* | | | | |
|----------------------------|---------------------------|--------------|--------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| St. Joseph Hospital | | | | | |
| Medicare | 39.6% | 40.5% | 44.0% | 42.0% | 42.7% |
| Medicaid | 3.5% | 3.3% | 2.4% | 3.9% | 4.2% |
| Commercial & Managed Care | 52.5% | 51.6% | 48.9% | 50.0% | 48.9% |
| Self Pay | <u>4.4%</u> | <u>4.6%</u> | <u>4.7%</u> | <u>4.1%</u> | <u>4.2%</u> |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Nursing Homes | | | | | |
| Medicare | 10.4% | 12.1% | 11.6% | 9.1% | 11.1% |
| Medicaid | 76.6% | 77.4% | 75.7% | 75.3% | 75.2% |
| Self Pay | <u>13.0%</u> | <u>10.5%</u> | <u>12.7%</u> | <u>15.6%</u> | <u>13.7%</u> |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

* Youville Lifecare & Hospital data is no longer presented since the entities operations are discontinued.

Covenant Health Systems Exhibit E - 2

Payor Mix

Additional Data

Year ended December 31 ,

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|--------------|--------------|--------------|--------------|--------------|
| St. MARY'S REGIONAL MEDICAL CENTER ** | | | | | |
| Medicare | 31.1% | 30.5% | 31.0% | 31.8% | 30.5% |
| Medicaid | 18.4% | 21.7% | 20.6% | 17.9% | 19.3% |
| Commercial & Managed Care | 46.8% | 45.5% | 45.8% | 43.4% | 46.7% |
| Self Pay | <u>3.7%</u> | <u>2.3%</u> | <u>2.6%</u> | <u>6.9%</u> | <u>3.5%</u> |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| ST. JOSEPH HOSPITAL OF BANGOR, ME ** @ | | | | | |
| Medicare | NA | NA | NA | NA | 49.5% |
| Medicaid | NA | NA | NA | NA | 12.6% |
| Commercial & Managed Care | NA | NA | NA | NA | 33.3% |
| Self Pay | <u>NA</u> | <u>NA</u> | <u>NA</u> | <u>NA</u> | <u>4.6%</u> |
| Total | NA | NA | NA | NA | 100.0% |
| Nursing Homes Consolidated Group *** | | | | | |
| Medicare | 13.5% | 12.8% | 13.1% | 11.1% | 11.2% |
| Medicaid | 72.9% | 75.3% | 74.2% | 74.2% | 74.2% |
| Self Pay | <u>13.6%</u> | <u>11.9%</u> | <u>12.7%</u> | <u>14.7%</u> | <u>14.6%</u> |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

** Not a member of the Obligated Group

*** Obligated Group Members as well as Other Covenant Health Systems nursing homes that are not members of the Obligated Group

@ - St. Joseph Hospital of Bangor, ME statistics are for the period August 1, 2010 to December 31, 2010.

Covenant Health Systems
Obligated Group
Calculation of Ratio Covenants
Pursuant to Covenant Health Systems Master Trust Indenture (in thousands)
Year Ended December 31 , 2010
After Audit

Exhibit F

Debt Service Coverage Ratio

Required Debt Service Coverage Ratio 1.20

| | |
|--|-----------------|
| Income Available for Debt Service: | |
| Excess of Revenue over Expenses | \$16,549 |
| Depreciation and Amortization | \$11,343 |
| Interest Expense | \$5,878 |
| Unrealized (Gain) Loss on Investments | (\$9,471) |
| St. Joseph Hospital Corporate Services and DH Family Medicine Deficiency of Revenue over Expenses | <u>\$13,892</u> |
| Income Available for Debt Service | \$38,191 |

| | |
|-----------------------------------|----------------|
| Annual Debt Service: | |
| Interest Expense | \$5,878 |
| Current portion of Long Term Debt | <u>\$2,206</u> |
| Annual Debt Service | \$8,084 |

Actual Debt Service Coverage Ratio 4.72

Liquidity:

Required Days Cash on Hand 30.0

| | |
|---|----------------|
| Adjusted Current Assets: | |
| Current Assets | \$129,156 |
| Current Portion of Assets whose use is Limited or Restricted | <u>\$3,101</u> |
| Adjusted Current Assets | \$126,055 |

| | |
|-------------------------------|----------------|
| Daily Cash Expenses: | |
| Total Operating Expenses | \$224,872 |
| Depreciation and Amortization | \$11,343 |
| Provision for Bad Debts | <u>\$9,933</u> |
| Daily Cash Expenses | \$203,596 |

Actual Days' Cash on Hand 226.0

As noted on page 9, a portion of the bond proceeds were redistributed to St. Mary's Health System & St. Andre Nursing Home to finance qualified projects. These amounts are secured by pledges of investments held by them in Providentia Prima in an amount equal or great than their portional share of the bond debt.