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FAX TRANSMISSION

GERIATRIC BEHAVIORAL HEALTH SERVICES
AT PROCTOR HOSPITAL

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To:	George Roate	**Date:**	August 4, 2011
Fax #:	**217-785-4111**	**Pages:**	41, including cover sheet
From:	Mark Hicks, LCSW		
Subject:	**Consolidated Financial Report**		

COMMENTS: Here it is. Thanks again!

Proctor Health Care Incorporated and Related Organizations

Consolidated Financial Report
December 31, 2010

Contents

McGladrey & Pullen, LLP
Certified Public Accountants

McGladrey

Independent Auditor's Report

To the Board of Trustees
Proctor Health Care Incorporated
Peoria, Illinois

We have audited the accompanying consolidated balance sheets of Proctor Health Care Incorporated and Related Organizations (collectively referred to as "Proctor") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Proctor Health Care Incorporated and Related Organizations' 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Proctor Health Care Incorporated and Related Organizations as of December 31, 2010 and 2009, and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Springfield, Illinois
April 21, 2011

Proctor Health Care Incorporated and Related Organizations

Consolidated Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,673,636	$ 2,030,827
Investments	19,671,959	18,379,997
Assets limited as to use	577,203	2,834,537
Receivables		
Patient accounts receivable, net of allowance for doubtful accounts of approximately $5,197,000 in 2010; $2,993,000 in 2009	17,600,149	17,215,288
Other receivables	1,342,975	784,196
Inventory	3,700,476	3,468,385
Prepaid expenses	992,830	846,289
Total current assets	48,359,228	45,559,519
Assets limited or restricted as to use:		
Assets held by trustee under indenture agreements	9,966,289	9,052,011
Less amount required to meet current obligations	577,203	2,834,537
	9,389,086	6,217,474
Property and equipment, net	54,684,901	58,049,809
Beneficial interest in perpetual trust	6,304,747	5,923,261
Other assets	844,863	896,956
Total assets	$ 119,582,825	$ 116,647,019
Liabilities and Net Assets		
Current Liabilities:		
Short-term note payable	$ 1,000,000	$ 1,000,000
Current portion of capital lease obligations	304,480	285,870
Current portion of long-term debt	2,325,000	2,255,000
Accounts payable and accrued expenses	14,011,481	12,726,308
Estimated third-party payor settlements	5,894,463	5,324,412
Total current liabilities	23,535,424	21,591,590
Capital lease obligations, net of current portion	361,044	643,490
Long-term debt, net of current portion	35,543,201	36,522,001
Retirement plan benefit obligation	14,898,765	11,657,062
Other long-term liabilities	8,224	13,185
Total liabilities	74,346,658	70,427,328
Commitments and Contingencies (Notes 3, 6, 7, 8, 9, 10 and 11)		
Net Assets:		
Unrestricted	37,834,097	39,324,241
Temporarily restricted	1,097,323	972,189
Permanently restricted	6,304,747	5,923,261
Total net assets	45,236,167	46,219,691
Total liabilities and net assets	$ 119,582,825	$ 116,647,019

See Notes to Consolidated Financial Statements.

Proctor Health Care Incorporated and Related Organizations

Consolidated Statements of Operations
Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenue:		
Net patient service revenue	$ 118,088,377	$ 107,249,953
Other operating revenue	5,046,496	8,064,116
Net assets released from restrictions	1,609,918	1,305,553
	124,744,791	116,619,622
Operating expenses:		
Patient care, support, and administrative	109,103,862	106,980,098
Interest and amortization of deferred financing costs	1,906,933	1,802,947
Net pension cost (benefit)	(277,286)	(536,950)
Provision for depreciation	6,391,634	6,122,868
Provision for doubtful accounts	5,844,270	4,378,369
	122,969,403	118,747,332
Income (loss) from operations	1,775,388	(2,127,710)
Nonoperating gains (losses):		
Gifts and bequests	205,831	360,079
Investment income (loss), net	1,689,636	2,874,608
Medical office building operations, net	(879,837)	(953,524)
Fundraising, development, and health care support	(174,937)	(422,907)
Other, net	(206,108)	(163,658)
	634,585	1,694,598
Excess (deficiency) of revenues and gains over expenses and losses	2,409,973	(433,112)
Other changes in unrestricted net assets:		
Pension related changes other than net periodic pension cost	(3,900,117)	2,891,478
Increase (decrease) in unrestricted net assets	$ (1,490,144)	$ 2,458,366

See Notes to Consolidated Financial Statements.

Proctor Health Care Incorporated and Related Organizations

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2010 and 2009

	2010	2009
Unrestricted net assets:		
Excess (deficiency) of revenues and gains over expenses and losses	$ 2,409,973	$ (433,112)
Pension related changes other than net periodic pension cost	(3,900,117)	2,891,478
Increase (decrease) in unrestricted net assets	(1,490,144)	2,458,366
Temporarily restricted net assets:		
Contributions	1,735,052	1,406,727
Net assets released from restrictions	(1,609,918)	(1,305,553)
Increase in temporarily restricted net assets	125,134	101,174
Permanently restricted net assets:		
Change in value of beneficial interest in perpetual trust	381,486	533,828
Increase in permanently restricted net assets	381,486	533,828
Increase (decrease) in net assets	(983,524)	3,093,368
Net assets:		
Beginning of year	46,219,691	43,126,323
End of year	$ 45,236,167	$ 46,219,691

See Notes to Consolidated Financial Statements.

Proctor Health Care Incorporated and Related Organizations

Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	$ (983,524)	$ 3,093,368
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for depreciation, inclusive of depreciation of $573,791 in 2010 and $619,493 in 2009 reported with medical office building operations	6,965,425	6,742,361
Provision for doubtful accounts	5,844,270	4,378,369
Change in pension liability	3,241,703	(5,090,952)
Amortization of deferred financing costs	81,160	75,140
Write-off of bond costs	162,004	-
Payment of bond costs	(177,659)	-
Accretion of original issue discount	11,200	11,200
Change in value of beneficial interest in perpetual trust	(381,486)	(533,828)
Net gain on sale of property and equipment	(4,444)	(13,363)
Net realized and unrealized (gains) on investments	(1,312,660)	(2,429,615)
Changes in assets and liabilities:		
(Increase) decrease in:		
Patient accounts receivable	(6,229,131)	(6,415,444)
Other receivables	(558,779)	947,223
Inventory	(232,091)	280,255
Prepaid expenses	(146,541)	192,058
Other assets	(500)	-
Increase (decrease) in:		
Other long-term liabilities	(4,961)	(12,274)
Accounts payable and accrued expenses	1,285,173	(594,707)
Estimated third-party payor settlements	570,051	33,432
Net cash provided by operating activities	8,129,210	663,223
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(3,603,824)	(1,711,004)
Proceeds from sale of property and equipment	7,751	14,807
Proceeds from sales and maturities of investments	21,812,569	14,569,978
Purchase of investments	(22,606,149)	(14,659,997)
Increase in cash surrender value of life insurance	(12,912)	(13,852)
Net cash (used in) investing activities	(4,402,565)	(1,800,068)

(Continued)

Proctor Health Care Incorporated and Related Organizations

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Financing Activities:		
Principal payments and advance refunding of long-term debt	$ (16,420,000)	$ (2,155,000)
Principal payments on capital lease obligations	(263,836)	(40,160)
Proceeds from issuance of bonds	15,500,000	-
Payments on short-borrowings and line of credit	-	(2,000,000)
Proceeds from short-borrowings and line of credit	-	1,000,000
Net cash (used in) financing activities	(1,183,836)	(3,195,160)
Net change in cash and cash equivalents	2,542,809	(4,332,005)
Cash and cash equivalents:		
Beginning of year	2,030,827	6,362,632
End of year	$ 4,573,636	$ 2,030,827
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,816,907	$ 1,727,926
Non-cash financing activities:		
Equipment acquired under capital leases	$ -	$ 969,520

See Notes to Consolidated Financial Statements.

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 1. Description of Organization and Summary of Significant Accounting Policies

Organization and basis of consolidation: The accompanying consolidated financial statements include the accounts of Proctor Health Care Incorporated (Corporation), Proctor Hospital (Hospital), Proctor Health Care Foundation (Foundation), Belcrest Services, Ltd. (Belcrest), Proctor Health Systems (PHS), Professional Medical Associates (PMA), Health Plus, Inc., and Hult Health Educational Center (Hult) (collectively referred to herein as "Proctor" or "Proctor Health Care Incorporated and Related Organizations").

The Hospital is a not-for-profit acute care hospital which provides health care services through its inpatient and outpatient facilities located in and around Peoria, Illinois. The Foundation and Corporation are not-for-profit corporations whose primary purposes are to support and encourage health care related services by providing financial and management assistance to the Hospital. The Hospital is controlled by the Corporation and is the sole corporate member of the Foundation. Belcrest is a wholly-owned subsidiary of the Corporation, established as a for-profit corporation to provide health care related services. PHS is a wholly-owned subsidiary of the Corporation, established to provide physician practice management services on behalf of the Proctor health care delivery system. PMA was established to provide professional medical services and is controlled by the Corporation. Health Plus, Inc. is a managed care company, which contracts with providers and insurers of healthcare in the Central Illinois market. Health Plus, Inc. is a wholly-owned subsidiary of the Corporation. The Hospital is the sole corporate member of Hult, a community educational center located on the Hospital's campus.

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include contractual allowances for accounts receivable, allowance for doubtful accounts, liability resulting from the Corporation's defined benefit pension plan, and the professional and general liability insurance accrual.

Cash and cash equivalents: Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with maturities of three months or less at the date of purchase, whose use is not limited or restricted.

Patient receivables: Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Receivables due from medical office building tenants are carried at the original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts and by considering the patient's financial history, credit history, and current economic conditions. Interest is not charged on patient receivables. Patient receivables are written off as a bad debt when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Inventory: Inventory, consisting primarily of medical supplies and pharmaceuticals, is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Assets limited or restricted as to use: Assets limited or restricted as to use include assets held by a trustee under bond indenture agreements and assets restricted by donors. Amounts required to meet current liabilities related to the bonds, as disclosed in Note 6, have been reclassified as current assets in the accompanying consolidated balance sheets.

Excess (deficiency) of revenues and gains over expenses and losses: The consolidated statements of operations include excess (deficiency) of revenues and gains over expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Transactions incidental to the provision of health care services are reported as non-operating gains and losses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues and gains over expenses and losses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, pension related changes other than net periodic pension costs, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net patient service revenue: The Hospital, Belcrest, and PHS have agreements with third-party payors that provide for payments to the Hospital, Belcrest, and PHS at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. The impact to net patient service revenue of such items was an increase of $225,600 and $118,000 in 2010 and 2009, respectively.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets and are classified as trading. Investment income (including realized gains and losses on investments, unrealized gains and losses, interest, and dividends) is included in the excess (deficiency) of revenues and gains over expenses and losses in the accompanying consolidated statements of operations unless the income or loss is restricted by donors.

Temporarily restricted net assets: Temporarily restricted net assets represent those assets whose use has been limited by donors to a specific time period or purpose. Temporarily restricted net assets at December 31, 2010 and 2009, principally represent amounts restricted by donors for acquisition of equipment, performance of specific activities or are time restricted.

Permanently restricted net assets: Permanently restricted net assets consist of amounts held in perpetuity as designated by donors. The Hospital records its proportionate share of its beneficial interest in the perpetual trust based upon the fair value of the assets held in the trust. Income distributions received during the year from the trust are recorded as unrestricted contribution income as they are used for current operations annually.

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Donor-restricted gifts: Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. Unrestricted contributions are reported as non-operating gains. Contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. These contributions include the investment income received from the beneficial interest in the perpetual trust.

Long-term debt: Interest expense is recognized when it accrues on the related debt.

Interest earned on bond trustee investments in the bond sinking, revenue, and interest funds is utilized for debt service payments and is recorded as non-operating gains. Interest earned on project fund and debt service reserve fund investments is recorded as other operating revenue.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset primarily computed using the straight-line method as follows:

	Years
Land improvements	5 - 20
Buildings	10 - 40
Equipment	5 - 20

Deferred financing costs: Deferred financing costs, which are included in "other assets" in the accompanying consolidated balance sheets, are amortized over the period the obligations are outstanding using the straight-line method which approximates the effective interest method.

Tax status: The Corporation, Hospital, Foundation, PHS, CHN, and Hult, are not-for-profit corporations as defined in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income under Section 501(a) of the Code. Belcrest and Health Plus, Inc. are for-profit corporations subject to federal and state income taxes. No provision for income taxes is reflected in the accompanying consolidated financial statements, as Belcrest and Health Plus, Inc. have incurred cumulative net operating losses for both financial reporting and federal income tax purposes and PMA is currently inactive through December 31, 2010. Deferred tax assets arising from net operating loss carryforwards have been offset in their entirety by a valuation allowance of the same amount at both December 31, 2010 and 2009.

The guidance for accounting for uncertainty in income taxes prescribes a more-likely-than-not recognition threshold and measurement attribute for financial statement recognition of a tax position taken or expected to be taken. Amounts requiring recognition under the guidance are reflected as a liability for uncertain tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no uncertain tax benefits identified or recorded as a liability as of December 31, 2010 and 2009.

The Organization is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for years before 2007.

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Charity care: The Hospital provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policies aggregated to approximately $3,788,000 and $2,611,000 in 2010 and 2009, respectively.

Conditional asset retirement obligations: Proctor Health Care Incorporated and Related Organizations recognize a liability for the fair value of any unconditional asset retirement obligation if the fair value of the liability can be estimated. An obligation is unconditional if there is a legal obligation to perform the retirement. Substantially all of the impact of adopting this guidance relates to the estimated cost to remove asbestos from the Hospital. Proctor Health Care Incorporated and Related Organizations have not recorded any assets, liabilities or changes in net assets as a result of the adoption of this guidance.

Asset impairment and project abandonments: Annually, Proctor evaluates assets on its books to determine if there are any asset impairments. During the years ended December 31, 2010 and 2009, there were no asset impairments recognized.

Endowments of Not-for-Profit Organizations: Proctor accounts for its endowments in accordance with the guidance for the net assets classification for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission (ULC, formerly known as the National Conference of Commissioners on Uniform State Laws) that serves as a guideline for states to use in enacting legislation. The guidance also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. Proctor receives investment income from its' beneficial interest in perpetual trust. The board has designated the investment income of that trust to be spent on current operations.

Grant revenue: Grant revenue is recognized as earned when the related eligible expenditures are incurred. Grant revenue of $1,153,087 and $844,058 was recognized for the years ended December 31, 2010 and 2009, respectively.

Pension and postretirement plans: The guidance for accounting for defined pension and other postretirement plans requires Proctor to recognize the funded status of its pension plan in the statement of financial position, with a corresponding change to net assets. The funded status is the difference between the fair value of plan assets and benefit obligations.

Reclassifications: Certain balances on the consolidated financial statements for the year ended December 31, 2009 have been reclassified with no effect on revenues, expenses or net assets, to be consistent with the classifications adopted for the year ended December 31, 2010.

Adoption of accounting pronouncements: In April 2009, the FASB issued accounting guidance which expanded disclosures and required that major categories for debt and equity securities in the fair value hierarchy table be determined on the basis of the nature and risks of the investments. Proctor adopted this guidance for the year ended December 31, 2010. As this guidance was only disclosure-related, the adoption of this guidance did not have a material impact on the Proctor's financial position, results of operations, and cash flows.

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires disclosure of significant transfers in and out of Levels 1 and 2 and the reasons for the transfers. In addition, the guidance requires the reconciliation of the activity in Level 3 fair value measurements to be presented on a gross basis. Finally, the guidance clarifies existing guidance on the level of disaggregation for which fair value measurements are reported, including the disclosure of inputs and valuation techniques used in arriving at the reported fair values. The guidance becomes effective for annual reporting periods beginning after December 15, 2009, except for the expanded disclosures on the activity in Level 3 fair value measurements, which becomes effective for annual reporting periods beginning after December 15, 2010. The adoption of this guidance did not have a material impact on the Proctor's financial position, results of operations, and cash flows.

Recently issued accounting guidance: In August 2010, the FASB issued guidance for health care entities for measuring charity care for disclosures, which requires that the measurement of charity care for disclosure purposes be based on the direct and indirect costs of providing charity care, as well as disclosing the method(s) used to identify and determine such costs. The update is effective for fiscal years beginning after December 15, 2010, and should be applied retrospectively to all prior periods presented. Proctor has not completed its analysis of the effects of this standard and has not determined if it will have a material effect on the financial statements.

Also, in August 2010, the FASB issued guidance for health care entities for the presentation of insurance claims and related insurance recoveries, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The amendment also states that the amount of the claim liability should be determined without consideration of insurance recoveries. The update is effective for interim or annual financial periods beginning after December 15, 2010. Proctor has not completed its analysis of the effects of this standard and has not determined if it will have a material effect on its combined financial statements.

Note 2. Net Patient Service Revenue

The Hospital, Belcrest, and PHS have agreements with third-party payors that provide for payments at amounts different from their established rates. A summary of the payment arrangements with significant third-party payors follows:

Medicare: Inpatient acute care, outpatient, home health, and skilled services rendered to Medicare program beneficiaries are paid at prospectively determined rates. The prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. These rates are not subject to retroactive adjustment. The Hospital's classification of patients under the Medicare prospective payment system and the appropriateness of the patients' admission are subject to validation reviews.

Certain services provided to Medicare beneficiaries are reimbursed at tentative reimbursement rates with final settlement determined after submission of annual reimbursement reports and audits thereof by the Medicare fiscal intermediary. The Medicare fiscal intermediary has audited Medicare reimbursement reports through 2007.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates-per-discharge. Outpatient and home health services rendered to Medicaid program beneficiaries are reimbursed based upon fee schedules or per-visit rates. Medicaid payment methodologies and rates are subject to modification based on the amount of funding available to the State of Illinois Medicaid program.

Note 2. Net Patient Service Revenue (Continued)

The Federal Centers for Medicare and Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program). Under the Program, the Hospital receives additional Medicaid reimbursement from the State and pays a related assessment.

During December 2008, CMS renewed the program for an additional five years. Under the Program, the Hospital receives additional Medicaid reimbursement from the State and pays a related assessment. For the years ended December 31, 2010 and 2009, the Hospital recognized total reimbursement revenue related to this Program of approximately $1,738,000 annually and incurred assessments of approximately $2,675,000 and $2,677,000, respectively. The net payments of $937,000 in 2010 and $939,000 in 2009, are reported as a charge to "patient care, support, and administrative expenses" in the consolidated statements of operations.

Illinois Blue Cross: The Hospital participates in three Blue Cross contracts: an indemnity plan, a preferred provider plan, and an HMO plan. The indemnity plan is reimbursed based on charges for inpatient and outpatient services. Inpatient reimbursement is subject to a settlement based on the hospital's cost per day. Blue Cross has audited reimbursement reports for the indemnity plan through 2009. Payments for the preferred provider plan and HMO plan are based on a per diem for inpatient services and a percent of covered charges for outpatient services.

Other: The Hospital, Belcrest, and PHS have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital, Belcrest, and PHS under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per-diem rates.

The mix of net patient service revenue for the years ended December 31, 2010 and 2009, is as follows:

	Net Patient Service Revenue	
	2010	2009
Medicare	39%	37%
Medicaid	2%	3%
Blue Cross	19%	18%
Other	40%	42%
	100%	100%

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 3. Property and Equipment

A summary of property and equipment at December 31, 2010 and 2009 follows:

	2010	2009
Land	$ 9,022,852	$ 9,022,852
Land improvements	6,776,019	6,387,989
Buildings	75,326,107	74,548,285
Leasehold improvements	429,739	429,739
Equipment	77,587,467	74,661,186
	169,142,184	165,050,051
Less accumulated depreciation	114,681,818	107,743,471
	54,460,366	57,306,580
Construction in progress	224,535	743,229
	$ 54,684,901	$ 58,049,809

Construction in progress relates to various projects that were ongoing in the Hospital at December 31, 2010. The Hospital is implementing an IT project to replace their current system with a new system. This project is estimated to cost approximately $7.5 million. During 2010, the Hospital was committed under contract for the purchase and lease of electronic health records system (EHRS) of approximately $4,326,000. The purchase of the EHRS software and equipment which will be funded with Hospital revenue bonds is $3,317,633. See Note 11 for further discussion on the EHRS project and lease contract. The projects in progress at December 31, 2010 are expected to be completed during 2011.

A summary of the provision for depreciation for the years ended December 31, 2010 and 2009 follows:

	2010	2009
Proctor Hospital	$ 6,130,520	$ 5,883,722
Proctor Health Care Foundation (included with medical office building operations net losses)	573,791	619,493
Belcrest Services	117,036	123,711
Proctor Health Systems	49,289	77,215
Other	94,789	38,220
	$ 6,965,425	$ 6,742,361

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 4. Investments

A summary of the investments and assets limited or restricted as to use at December 31, 2010 and 2009 follows:

	2010	2009
Investments:		
Cash and cash equivalents, consisting primarily of money market funds	$ 1,076,820	$ 1,111,253
Corporate stock	2,721,955	4,252,025
Foreign equities	583,671	954,550
Mutual funds	11,291,009	8,373,968
Corporate bonds	945,012	929,653
International bonds	103,191	73,946
Government and agency bonds	1,253,702	984,785
Mortgage & asset backed securities	1,548,316	1,647,562
Accrued interest	48,283	52,155
	19,571,959	18,379,997
Assets held by trustee under bond indenture agreements:		
Short-term investments consisting primarily of money market funds	9,966,289	9,052,011
	$ 29,538,248	$ 27,432,008

The composition of investment income on Proctor Health Care Incorporated and Related Organizations' investment portfolio for the years ended December 31, 2010 and 2009 follows:

	2010	2009
Interest and dividend income, net of fees and expenses	$ 390,144	$ 479,831
Net realized gain (loss) on sale of investments	436,981	357,490
Changes in net unrealized gains (losses)	875,679	2,072,125
	$ 1,702,804	$ 2,909,446

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2010 and 2009 as follows:

	2010	2009
Nonoperating gains (losses) - investment income (losses), net	$ 1,689,636	$ 2,874,608
Interest and dividend income included in other operating revenue	13,168	34,838
	$ 1,702,804	$ 2,909,446

Note 5. Line-of-Credit and Short-Term Note Payable

The Hospital has a secured line-of-credit with JPMorgan Chase Bank, NA (JPMorgan), expiring on May 31, 2011. The line-of-credit offers the Hospital a maximum of $2,500,000 with a variable interest rate (an effective rate of 3.25% at December 31, 2010) which is at the lender's prime rate. There was an outstanding balance of $1,000,000 on the line-of-credit at December 31, 2010 and 2009. The line-of-credit is collateralized by a lien on the Hospital's marketable securities and other assets.

Note 6. Long-Term Debt and Capital Lease Obligations

The Corporation, the Hospital and the Foundation, collectively known as the Obligated Group, entered into a Master Trust Indenture (MTI) dated July 15, 1987. The purpose of the MTI is to provide a mechanism for the efficient and economical issuance of notes by the members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The MTI requires individual members of the Obligated Group to make principal and interest payments on notes issued for their benefit. The Obligated Group pledged a security interest in their gross revenues as collateral on borrowings under the MTI. The Hospital's Series 2006A and Series 2006B Bonds all issued pursuant to the MTI and have been designated as tax exempt for federal income tax purposes. In accordance with the provisions of the Obligated Group's Bond Trust Indentures, Obligated Group members are required to make deposits into principal and interest sinking funds to cover debt service on outstanding obligations as they come due. Such deposits are held by a trustee and are reported within assets limited as to use or restricted in the accompanying consolidated balance sheets.

In May 2006, the Hospital issued $22,525,000 of Series A Revenue Refunding Bonds through the Illinois Health Facilities Authority. The proceeds of the bonds were used to advance refund the then-outstanding Revenue Bonds, Series 1991 and to pay certain expenses incurred in connection with the issuance of the Series 2006A. The Series 2006A Bonds bear interest at a fixed rate of 5.125%.

In May 2006, the Hospital issued $21,905,000 of Series B Variable Rate Demand Revenue Bonds, through the Illinois Health Facilities Authority. The proceeds of the bonds were used to advance refund the then-outstanding Adjustable Demand Revenue Bonds, Series 1996, to pay certain expenses incurred in connection with the issuance of the Series 2006B Bonds and to finance capital improvement projects for the Hospital. Interest was paid on the Series 2006B Bonds at a variable rate. The Series 2006B Bonds were also collateralized by a letter-of-credit issued by JPMorgan, pursuant to the terms of a Reimbursement Agreement. The letter-of-credit obtained from JPMorgan amounted to approximately $16,618,000 as of December 31, 2009. The letter-of-credit collateralized the outstanding balance of the Series 2006B bond issue and carried a fee of 2.25% of the unused letter of credit amount. The Series 2006B Bonds were paid off and the letter-of-credit was closed during December 2010 with the issuance of the Series 2010 Bond.

In December 2010, the Hospital issued $15,500,000 Revenue Bond, Series 2010, tax exempt bond through the Illinois Health Facilities Authority. The proceeds of the bonds were used to advance refund the outstanding Revenue Bonds, Series 2006B, to pay certain expenses incurred in connection with the issuance of the Series 2010 Bond and to finance capital improvements projects for the Hospital. Interest is paid on the Series 2010 Bond at a variable rate.

Note 6. Long-Term Debt and Capital Lease Obligations (Continued)

Total long-term debt consists of the following as of December 31, 2010 and 2009:

	2010	2009
Revenue Refunding Bonds, Series 2006A, 5.125%, dated May 1, 2006, due in varying amounts beginning January 2016 through January 1, 2025	$ 22,525,000	$ 22,525,000
Variable Rate Demand Revenue Bonds, Series 2006B, dated May 1, 2006, variable interest rate, 0.30% at December 16, 2010, 0.20% at December 31, 2009, paid off on December 16, 2010	-	16,420,000
Variable Rate Revenue Bond, Series 2010, dated December 1, 2010, due in varying amounts through January 2016, variable interest rate, 2.592% at December 31, 2010	15,500,000	-
	38,025,000	38,945,000
Less unamortized discount	156,799	167,999
Less current portion	2,325,000	2,255,000
Long-term portion	$ 35,543,201	$ 36,522,001

Pursuant to the terms of the MTI, the Obligated Group is required to maintain a prescribed amount of cash and comply with certain covenants including certain financial and debt service ratios.

Scheduled principal repayments on long-term debt obligations for the next five years and thereafter, assuming the letter of credit is renewed and not drawn upon, are as follows:

Year Ending December 31,	Amount
2011	$ 2,325,000
2012	3,100,000
2013	3,100,000
2014	3,100,000
2015	3,100,000
Thereafter	23,300,000
	$ 38,025,000

Proctor leases equipment under capitalized leases which expire through August 2013. The cost of the equipment is approximately $1,300,000 with accumulated depreciation as of December 31, 2010 of $700,100. The equipment and the related liability under the capital leases were recorded at the present value of the future payments due under the leases, as determined with interest rates which range from 4.8% to 8.4%.

Note 6. Long-Term Debt and Capital Lease Obligations (Continued)

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2011:

Year Ending December 31,		Amount
2011	$	334,210
2012		274,090
2013		101,634
Total minimum lease payments		709,934
Less the amount representing interest		(44,410)
Present value of net minimum lease payments	$	665,524

Note 7. Pension Plan

The Corporation sponsors a qualified noncontributory defined benefit pension plan (Plan) covering substantially all employees of the Hospital, Corporation, Belcrest and Proctor Health Systems. The benefits are based on years of service and the employee's compensation during the highest five consecutive years of the last 15 years of employment. The Corporation makes annual contributions to the Plan in an amount equal to the current service cost plus amortization of prior service cost over 30 years as determined by the Plan's consulting actuaries. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned to the future. Pension cost is determined using the projected unit credit method.

On August 19, 2008, the Board of Directors amended the Plan to freeze the participants' accrued benefits, effective December 31, 2008. No employees shall commence or re-commence participation in the Plan after December 31, 2009. Compensation for periods after December 2008 shall not be considered in the calculation of average compensation. Additionally, service completed after December 31, 2008 will be taken into account solely for purposes of determining vesting, early retirement benefit and any actueriel reduction. The Board of Directors voted to adopt the provisions of a defined contribution plan for all employees who meet the eligibility requirements, effective January 1, 2009, as described below.

Proctor has a defined contribution 401(k) plan covering all employees who have attained age twenty-one. Proctor is required to match 50% of a participant's pretax contributions up to a maximum of 6% of a participant's eligible compensation as defined by the plan for participants who have completed one year of service with at least 1,000 hours worked. In addition, Proctor is required to make a non-elective contribution of 3% of each participant's eligible compensation under the Safe Harbor provisions of the plan. On April 23, 2009, Proctor amended the plan to suspend the matching contribution indefinitely. Proctor's contribution expense under the plan totaled approximately $1,718,000 for the year ended December 31, 2010.

Note 7. Pension Plan (Continued)

The table below sets forth the Defined Benefit Plan's funded status, amounts recognized in the accompanying consolidated financial statements and assumptions at December 31:

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 51,306,771	$ 49,641,462
Interest cost	3,257,384	3,158,558
Actuarial loss	4,631,095	363,758
Benefits paid	(2,046,349)	(1,857,007)
Benefit obligation at end of year	57,148,901	51,306,771
Change in plan assets:		
Fair value of plan assets at beginning of year	39,649,709	32,893,448
Actual return on plan assets	4,265,648	6,950,744
Employer contributions	381,128	1,662,524
Benefits paid	(2,046,349)	(1,857,007)
Fair value of plan assets at end of year	42,250,136	39,649,709
Funded status at year end, recognized on the balance sheets	$ (14,898,765)	$ (11,657,062)
Amounts not yet recognized in net periodic pension costs	$ 18,852,040	$ 14,951,923
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Accumulated benefit obligation	$ 57,148,901	$ 51,306,771
Components of net periodic benefit cost:		
Interest cost	$ 3,257,384	$ 3,158,558
Expected return on plan assets	(3,843,799)	(3,765,503)
Amortization of net loss	309,129	69,995
Net periodic benefit costs	$ (277,286)	$ (536,950)

The estimated net loss for the defined benefit pension plan that will be amortized into net periodic benefit cost for the year ending December 31, 2011, is $845,298.

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 7. Pension Plan (Continued)

	2010	2009
Weighted average assumptions used to determine benefit obligations:		
Discount rate	5.75%	6.50%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	6.50%	6.50%
Expected return on plan assets	8.50%	9.00%
Rate of compensation increase	N/A	3.00%

The Corporation's Finance Committee oversees the investment policy of the Pension Fund. In establishing the investment policy for the Pension Fund, the Committee takes into consideration the long-term nature of the asset pool as well as the participant's needs and assesses the risk and returns characteristics of the various asset classes available to institutional investors and utilizes the guidance of outside investment consultants. The Committee establishes the target asset allocation and permissible ranges of eligible investment asset classes which are subject to change. The performance objective of the Pension Fund's investment assets is to exceed, after investment management fees, the actuarial assumed rate of return and a customized blended benchmark. The benchmark will consist of a weighted-average of market indices that represent a passive implementation of the investment policy targets.

The Proctor Health Care, Inc. Pension Plan weighted-average asset allocation at December 31, 2010 and 2009 is as follows:

	Target Allocation	2010	2009
Cash and cash equivalents	-	2%	1%
Foreign equities - mutual funds and common stocks	15%	20%	20%
Domestic equities - mutual funds and common stocks	55%	50%	49%
Mutual funds - fixed income	15%	12%	13%
Mutual fund - stable value fund	15%	16%	17%
	100%	100%	100%

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 7. Pension Plan (Continued)

The following table sets forth by level, within the fair value hierarchy, (see Note 13 for information on the fair value hierarchy), the Plan's assets at fair value as of December 31, 2010:

	Assets at Fair Value as of December 31, 2010			
	Total	Level 1	Level 2	Level 3
Common stock:				
Healthcare	$ 1,574,242	$ 1,574,242	$ -	$ -
Financial services	1,902,216	1,902,216	-	-
Consumer discretionary	1,480,214	1,480,214	-	-
Consumer staples	1,322,814	1,322,814	-	-
Materials	459,232	459,232	-	-
Energy	649,924	649,924	-	-
Information technology	1,315,549	1,315,549	-	-
Industrials	1,551,071	1,551,071	-	-
Foreign equities:				
Healthcare	255,696	255,696	-	-
Financial services	1,732	1,732	-	-
Consumer staples	654,754	654,754	-	-
Energy	302,688	302,688	-	-
Information technology	488,526	488,526	-	-
Industrials	346,772	346,772	-	-
Mutual funds:				
Small cap funds	6,640,471	6,640,471	-	-
Large cap funds	3,993,133	3,993,133	-	-
International funds	6,556,061	6,556,061	-	-
Fixed income	5,023,126	5,023,126	-	-
Collective Trust funds:				
Wells Fargo Stable Return Fund	6,882,777	-	6,882,777	-
	41,400,998	$ 34,518,221	$ 6,882,777	$ -
Accrued interest	806,075			
Cash and cash equivalents	43,063			
Total fair value of plan assets	$ 42,250,136			

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 7. Pension Plan (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2009:

	Assets at Fair Value as of December 31, 2009			
	Total	Level 1	Level 2	Level 3
Common stock:				
Healthcare	$ 1,596,266	$ 1,596,266	$ -	$ -
Financial services	1,824,962	1,824,962	-	-
Consumer discretionary	932,835	932,835	-	-
Consumer staples	1,009,537	1,009,537	-	-
Materials	121,805	121,805	-	-
Energy	611,003	611,003	-	-
Information technology	1,840,235	1,840,235	-	-
Industrials	1,240,911	1,240,911	-	-
Foreign equities:				
Healthcare	263,008	263,008	-	-
Financial services	46,623	46,623	-	-
Consumer staples	526,890	526,890	-	-
Energy	578,838	578,838	-	-
Information technology	111,153	111,153	-	-
Industrials	291,165	291,165	-	-
Mutual funds:				
Small cap funds	6,754,698	6,754,698	-	-
Large cap funds	3,470,762	3,470,762	-	-
International funds	5,992,494	5,992,494	-	-
Fixed income	5,354,526	5,354,526	-	-
Collective Trust funds:				
Wells Fargo Stable Return Fund	6,691,631	-	6,691,631	-
	39,259,342	$ 32,567,711	$ 6,691,631	$ -
Accrued interest	49,639			
Cash and cash equivalents	340,728			
Total fair value of plan assets	$ 39,649,709			

Contributions: The Hospital expects to contribute $1,290,000 to its pension plan during the year ending December 31, 2011.

Note 7. Pension Plan (Continued)

Estimated future benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending December 31,	Amount
2011	$ 2,588,178
2012	2,896,011
2013	3,079,863
2014	3,235,006
2015	3,462,378
2016 - 2019	19,213,867

Note 8. Professional and General Liability

The Hospital, Belcrest, and PHS (the "Covered Organizations") have participated in the Illinois Provider Trust (Trust) since 1979. The Trust, which operates on a pooled-risk basis, provides professional and general liability coverage, risk management, claims management, and other related administrative services to member organizations. All coverage through December 31, 2001 was on an occurrence basis. Effective January 1, 2002, primary professional and general liability coverage is on the occurrence basis while excess coverage is on a claims-made basis. Effective January 1, 2005, all primary and general liability coverage is on a claims-made basis. Funding to the Trust is determined by annual actuarial valuations based on the member organizations' loss experience.

If the actual loss experience of the Trust exceeds the actuarially projected loss experience, additional contributions to the Trust would be required from the participating organizations. The Covered Organizations made no additional contributions for the years ended December 31, 2010 and 2009. The net contributions to the Trust by the Covered Organizations were approximately $1,708,000 and $1,972,000 for the years ended December 31, 2010 and 2009, respectively, and have been charged to operating expenses as management's best estimate of professional and general liability cost.

The Covered Organizations accrue the expenses of their shares of malpractice claim costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Covered Organizations' own claims experience. The Covered Organizations did not consider any accrual necessary for the years ended December 31, 2010 and 2009 related to reported claims. The Covered Organizations have recorded liabilities of approximately $1,148,000 and $1,150,000 for claims incurred but not reported (IBNR) related to claims occurring subsequent to January 1, 2005 which were not reported as of December 31, 2010 and 2009, respectively. These liabilities are included in "accounts payable and accrued expenses" on the consolidated balance sheets as of December 31, 2010 and 2009. The liability was discounted using a discount rate of 5%. The undiscounted liability as of December 31, 2010 and 2009 was approximately $1,399,000 and $1,398,000, respectively.

The Covered Organizations have secured professional and general liability insurance coverage for 2010. There are no assurances that the Covered Organizations will be able to renew existing policies or procure coverage on similar terms in the future as a result of current environmental factors affecting the insurance industry.

Note 9. Self-Funded Health Insurance

The Corporation is self-insured for health insurance claims. Estimates for claims payable, which include both reported and unreported claims, are recorded in accrued expense, at which time the related claim expense is also recorded. The Corporation has purchased stop-loss insurance coverage for claims in excess of $300,000 per individual. The expenses, net of employee premiums, associated with the self-insurance plan amounted to approximately $6,214,000 and $5,051,000 for the years ended December 31, 2010 and 2009, respectively.

Note 10. Concentration of Credit Risk

The Corporation and related organizations maintain cash accounts with financial institutions in amounts which, at times, may be in excess of the FDIC insured limit. The Corporation and related organizations have not experienced any losses in these accounts and believes it is not exposed to any significant risks.

The Hospital, Belcrest, and PHS grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors at December 31, 2010 and 2009 were as follows:

	2010	2009
Medicare	20%	24%
Medicaid	2%	3%
Blue Cross	10%	12%
Other	31%	32%
Self pay	37%	29%
	100%	100%

Note 11. Commitments and Contingencies

Operating leases: The Hospital has acquired the use of certain equipment under various operating lease arrangements. Lease expense under these agreements totaled approximately $2,511,000 and $2,500,000 for 2010 and 2009, respectively. Future minimum lease payments under noncancelable long-term operating leases at December 31, 2010 are as follows:

Year Ending December 31,	Amount
2011	$ 1,822,160
2012	1,175,026
2013	1,014,917
2014	798,200
2015	357,303
	$ 5,167,606

Note 11. Commitments and Contingencies (Continued)

Other lease: Proctor Hospital was committed under contract for the purchase and lease of the electronic health records system (EHRS) software and equipment in the amount of approximately $4,326,000, as described in Note 3. The portion of the equipment and software to be leased is $1,008,111. The lease is to begin on the date the equipment is fully installed. The start of the installation began in March 2011, and once the all of the equipment and software is installed, there will be 44 monthly payments of $94,581.

Litigation: Proctor Health Care Incorporated and Related Organizations are involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Proctor Health Care Incorporated and Related Organizations' future financial position or results of operations.

Medicare reimbursement: For the years ended December 31, 2010 and 2009, Proctor Health Care Incorporated and Related Organizations recognized approximately $42,800,000 and $36,000,000, respectively, of net patient service revenue from services provided to Medicare beneficiaries. Federal legislation has included provisions to reduce Medicare payments to health care providers as well as phase out cost-based reimbursement mechanisms. Changes in Medicare reimbursement as a result of the Centers for Medicare and Medicaid Services' implementation of the provisions of recent Medicare legislation may have an adverse effect on net patient service revenues.

Regulatory investigations: The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. Proctor Health Care Incorporated and Related Organizations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on Proctor Health Care Incorporated and Related Organizations' financial position or results of operations.

Heath care reform: As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over substantially the next decade. To date, this federal health care reform legislation has not materially affected Proctor's consolidated financial statements.

Note 12. Fair Values of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, other current assets, and accounts payable, approximates fair value based on the current maturity of these instruments. Proctor also has assets whose use is limited, investments and debt. The fair value of assets whose use is limited and investments is based upon quoted market rates or, if not available, estimated market rates. The fair value of Proctor's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to Proctor. The fair value of Proctor's long-term debt at December 31, 2010 and 2009 was approximately $34,290,000 and $35,190,000, respectively. Proctor also has a beneficial interest in a perpetual trust. The fair value of the interest is based upon the fair value of the debt and equity investments held by the trust as reported by the Trustee. Proctor owns a 25% interest in the trust.

Note 13. Fair Value Measurements

The fair value standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the standard establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

<u>Level 1:</u> Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

<u>Level 2:</u> Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

<u>Level 3:</u> Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investments and Assets Whose Use is Limited (recurring):
Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid corporate and international bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, and certain corporate, asset backed and other securities.

The fair value of the beneficial interests in perpetual trust held by others is derived from the underlying fair value of the investments held in the trust. The value of those investments is determined in the same manner as investments described above.

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 13. Fair Value Measurements (Continued)

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	2010			
Assets:				
Corporate stock				
Healthcare	$ 380,600	$ 380,600	$ -	$ -
Financial services	495,691	495,691	-	-
Consumer discretionary	383,626	383,626	-	-
Consumer staples	374,298	374,298	-	-
Materials	131,716	131,716	-	-
Energy	237,246	237,246	-	-
Information technology	291,411	291,411	-	-
Industrials	427,367	427,367	-	-
Foreign equities				
Healthcare	81,047	81,047	-	-
Financial services	6,926	6,926	-	-
Consumer staples	207,089	207,089	-	-
Information technology	178,920	178,920	-	-
Industrials	109,689	109,689	-	-
Mutual funds				
Small cap funds	1,347,566	1,347,566	-	-
Large cap funds	2,831,075	2,831,075	-	-
International funds	5,013,925	5,013,925	-	-
Fixed income	2,098,443	2,098,443	-	-
Corporate bonds	945,012	576,496	368,516	-
International bonds	103,191	48,511	54,680	-
Government and agency bonds	1,263,702	-	1,263,702	-
Mortgage & asset backed securities	1,548,316	-	1,548,316	-
Beneficial interest in perpetual trust	6,304,747	-	6,304,747	-
	$ 24,751,603	$ 15,221,642	$ 9,529,961	$ -

Proctor Health Care Incorporated and Related Organizations

Notes to Consolidated Financial Statements

Note 13. Fair Value Measurements (Continued)

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	2009			
Assets:				
Corporate stock				
Healthcare	$ 703,414	$ 703,414	$ -	$ -
Financial services	913,137	913,137	-	-
Consumer discretionary	381,699	381,699	-	-
Consumer staples	458,972	458,972	-	-
Materials	23,834	23,834	-	-
Energy	306,822	306,822	-	-
Information technology	821,997	821,997	-	-
Industrials	642,150	642,150	-	-
Foreign equities				
Healthcare	159,834	159,834	-	-
Consumer staples	287,173	287,173	-	-
Energy	308,774	308,774	-	-
Information technology	95,411	95,411	-	-
Industrials	103,358	103,358	-	-
Mutual funds				
Small cap funds	1,144,968	1,144,968	-	-
Large cap funds	2,482,718	2,482,718	-	-
International funds	2,304,327	2,304,327	-	-
Fixed income	2,441,955	2,441,955	-	-
Corporate bonds	929,653	519,341	410,312	-
International bonds	73,946	36,924	37,022	-
Government and agency bonds	984,785	15,234	969,551	-
Mortgage & asset backed securities	1,647,662	-	1,647,662	-
Beneficial interest in perpetual trust	5,923,261	-	5,923,261	-
	$ 23,139,850	$ 14,152,042	$ 8,987,808	$ -

Note 14. Medical Office Building Operations

The results of the Foundation's medical office building operations for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Rental revenues:		
Physicians	$ 1,033,489	$ 910,200
Proctor Hospital	464,688	400,193
Proctor Health Systems	211,555	211,746
Belcrest	13,859	23,038
Other	40,266	42,548
	1,763,857	1,587,725
Expenses:		
Housekeeping and maintenance	801,877	785,297
Other occupancy expenses	577,924	501,482
Provision for depreciation	573,791	619,493
	1,953,592	1,906,272
Net (loss) from medical office building operations	(189,735)	(318,547)
Less rental revenue from Proctor-related entities	690,102	634,977
	$ (879,837)	$ (953,524)

The Foundation rents space primarily to physicians and to the Hospital in its medical office building under various operating lease agreements. Future minimum lease payments to be received from unrelated parties under non-cancelable long-term operating leases at December 31, 2010 are approximately as follows:

Year Ending December 31,	Amount
2011	$ 796,100
2012	567,400
2013	353,200
2014	207,800
	$ 1,924,500

Note 15. Functional Expenses

The Corporation provides comprehensive quality health care services to the residents of the Peoria, Illinois area. The operating expenses included in the consolidated statements of operations are primarily related to providing these health care related services. For the years ended December 31, 2010 and 2009, these expenses are as follows:

	2010	2009
Health care services	$111,072,482	$100,987,801
General and administrative	11,896,921	17,759,531
Fundraising - included in nonoperating gains and (losses)	174,937	422,907
	$123,144,340	$119,170,239

Note 16. Subsequent Events

Subsequent events have been evaluated through April 21, 2011, the date of the issuance of the financial statements. Through that date, there were no events requiring disclosure.

Note 15. Functional Expenses

The Corporation provides comprehensive quality health care services to the residents of the Peoria, Illinois area. The operating expenses included in the consolidated statements of operations are primarily related to providing these health care related services. For the years ended December 31, 2010 and 2009, these expenses are as follows:

	2010	2009
Health care services	$111,072,482	$100,987,801
General and administrative	11,896,921	17,759,531
Fundraising - included in nonoperating gains and (losses)	174,937	422,907
	$123,144,340	$119,170,239

Note 16. Subsequent Events

Subsequent events have been evaluated through April 21, 2011, the date of the issuance of the financial statements. Through that date, there were no events requiring disclosure.

McGladrey & Pullen, LLP
Certified Public Accountants

McGladrey

Independent Auditor's Report
on the Supplementary Information

To the Board of Trustees
Proctor Health Care Incorporated
Peoria, Illinois

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
April 21, 2011

Proctor Health Care Incorporated and Related Organizations

Consolidating Schedule - Balance Sheet Information
December 31, 2010

	Proctor Hospital	Proctor Health Care Incorporated	Proctor Health Care Foundation	Belcrest Services, Ltd.
Assets				
Current Assets:				
Cash and cash equivalents	$ 3,582,867	$ -	$ 180,479	$ 403,923
Investments	6,063,213	-	12,921,553	-
Assets limited as to use	577,203	-	-	-
Receivables:				
Patient accounts receivable, net	16,259,142	-	-	871,186
Due from affiliates	10,961,250	6,011,529	5,356	137,465
Other receivables	1,054,626	-	49,883	29,714
Inventory	3,367,750	-	-	332,726
Prepaid expenses	978,139	-	-	13,241
Total current assets	42,844,190	6,011,529	13,157,271	1,788,265
Assets limited or restricted as to use:				
Assets held by trustee under indenture agreements	9,966,289	-	-	-
Less amount required to meet current obligations	577,203	-	-	-
	9,389,086	-	-	-
Property and equipment, net	42,399,988	-	5,189,651	3,959,909
Investment in affiliates, at cost	-	17,511,818	-	-
Beneficial interest in perpetual trust	6,304,747	-	-	-
Other assets	557,718	-	280,648	-
Total assets	$ 101,495,724	$ 23,523,347	$ 18,627,570	$ 5,748,174
Liabilities and Net Assets				
Current Liabilities:				
Short-term note payable	$ 1,000,000	$ -	$ -	$ -
Current portion of capital lease obligations	304,480	-	-	-
Current portion of long-term debt	2,325,000	-	-	-
Due to affiliates	3,497,241	1,554,672	340,663	4,623,139
Accounts payable and accrued expenses	12,552,148	48	258,883	636,935
Estimated third-party payor settlements	5,894,463	-	-	-
Total current liabilities	25,573,332	1,554,720	599,546	5,260,074
Capital lease obligations, net of current portion	361,044	-	-	-
Long-term debt, net of current portion	35,543,201	-	-	-
Retirement plan benefit obligation	14,898,765	-	-	-
Other long-term liabilities	-	-	8,224	-
Total liabilities	76,376,342	1,554,720	607,770	5,260,074
Net Assets:				
Unrestricted	18,746,901	21,968,627	17,525,663	488,100
Temporarily restricted	67,734	-	494,137	-
Permanently restricted	6,304,747	-	-	-
Total net assets	25,119,382	21,968,627	18,019,800	488,100
Total liabilities and net assets	$ 101,495,724	$ 23,523,347	$ 18,627,570	$ 5,748,174

Proctor Health Systems	Health Plus, Inc.	Other Entities	Eliminations	Consolidated
$ 235,513	$ 5,805	$ 165,049	$ -	$ 4,573,636
-	-	587,193	-	19,571,959
-	-	-	-	677,203
469,811	-	-	-	17,600,149
124,865	-	-	(17,240,465)	-
82,357	-	156,395	-	1,342,975
-	-	-	-	3,700,476
1,450	-	-	-	992,830
883,996	5,805	908,637	(17,240,465)	48,358,228
-	-	-	-	8,966,289
-	-	-	-	577,203
-	-	-	-	9,389,086
1,736,620	-	1,398,735	-	54,684,901
-	-	-	(17,511,818)	-
-	-	-	-	6,304,747
1,000	5,500	-	-	844,863
$ 2,621,616	$ 11,305	$ 2,307,372	$ (34,752,283)	$ 119,582,825
$ -	$ -	$ -	$ -	$ 1,000,000
-	-	-	-	304,480
-	-	-	-	2,325,000
6,649,772	574,978	-	(17,240,465)	-
380,852	140,638	41,977	-	14,011,481
-	-	-	-	5,894,463
7,030,624	715,616	41,977	(17,240,465)	23,535,424
-	-	-	-	361,044
-	-	-	-	35,543,201
-	-	-	-	14,898,765
-	-	-	-	8,224
7,030,624	715,616	41,977	(17,240,465)	74,346,658
(4,409,008)	(795,096)	1,820,728	(17,511,818)	37,834,097
-	90,785	444,667	-	1,097,323
-	-	-	-	6,304,747
(4,409,008)	(704,311)	2,265,395	(17,511,818)	45,236,167
$ 2,621,616	$ 11,305	$ 2,307,372	$ (34,762,283)	$ 119,582,825

Proctor Health Care Incorporated and Related Organizations

Consolidating Schedule - Balance Sheet Information
December 31, 2009

	Proctor Hospital	Proctor Health Care Incorporated	Proctor Health Care Foundation	Belcrest Services, Ltd.
Assets				
Current Assets:				
Cash and cash equivalents	$ 526,816	$ -	$ 244,334	$ 722,943
Investments	6,114,253	-	11,678,759	-
Assets limited as to use	2,834,537	-	-	-
Receivables:				
Patient accounts receivable, net	15,798,621	-	-	960,148
Due from affiliates	9,008,872	6,100,008	2,960	105,757
Other receivables	553,462	-	30,322	14,832
Inventory	3,104,359	-	-	364,026
Prepaid expenses	824,730	-	-	14,666
Total current assets	38,765,452	6,100,008	11,956,375	2,182,372
Assets limited or restricted as to use:				
Assets held by trustee under indenture agreements	9,052,011	-	-	-
Less amount required to meet current obligations	2,834,537	-	-	-
	6,217,474	-	-	-
Property and equipment, net	45,433,982	3,500	5,295,734	4,047,809
Investment in affiliates, at cost	-	17,355,735	-	-
Beneficial interest in perpetual trust	5,923,261	-	-	-
Other assets	623,220	-	267,736	-
Total assets	$ 96,963,389	$ 23,459,243	$ 17,519,845	$ 6,230,181
Liabilities and Net Assets				
Current Liabilities:				
Short-term note payable	$ 1,000,000	$ -	$ -	$ -
Current portion of capital lease obligations	285,870	-	-	-
Current portion of long-term debt	2,265,000	-	-	-
Due to affiliates	3,589,711	869,020	253,817	4,645,600
Accounts payable and accrued expenses	10,813,838	286,008	275,927	630,731
Estimated third-party payor settlements	5,324,412	-	-	-
Total current liabilities	23,268,831	1,155,028	529,744	5,276,331
Capital lease obligations, net of current portion	643,490	-	-	-
Long-term debt, net of current portion	36,522,001	-	-	-
Retirement plan benefit obligation	11,657,062	-	-	-
Other long-term liabilities	-	-	13,185	-
Total liabilities	72,091,384	1,155,028	542,929	5,276,331
Net Assets:				
Unrestricted	18,911,796	22,304,215	16,546,689	953,850
Temporarily restricted	36,948	-	430,227	-
Permanently restricted	5,923,261	-	-	-
Total net assets	24,872,005	22,304,215	16,976,916	953,850
Total liabilities and net assets	$ 96,963,389	$ 23,459,243	$ 17,519,845	$ 6,230,181

Proctor Health Systems	Health Plus, Inc.	Other Entities	Eliminations	Consolidated
$ 401,057	$ 28,293	$ 107,582	$ -	$ 2,030,827
-	-	586,985	-	18,379,997
-	-	-	-	2,834,537
456,519	-	-	-	17,215,288
67,967	-	-	(15,285,564)	-
53,653	-	131,927	-	784,186
-	-	-	-	3,468,385
6,893	-	-	-	846,289
986,089	28,293	826,494	(15,285,564)	45,559,519
-	-	-	-	9,052,011
-	-	-	-	2,834,537
-	-	-	-	6,217,474
1,800,844	-	1,467,940	-	58,049,809
-	-	-	(17,355,735)	-
-	-	-	-	5,923,261
1,000	5,000	-	-	896,956
$ 2,787,933	$ 33,293	$ 2,294,434	$ (32,641,299)	$ 116,647,019
$ -	$ -	$ -	$ -	$ 1,000,000
-	-	-	-	285,870
-	-	-	-	2,265,000
5,450,820	476,596	-	(15,285,564)	-
428,954	281,418	9,432	-	12,726,308
-	-	-	-	5,324,412
5,879,774	758,014	9,432	(15,285,564)	21,591,590
-	-	-	-	643,490
-	-	-	-	36,622,001
-	-	-	-	11,697,062
-	-	-	-	13,185
5,879,774	758,014	9,432	(15,285,564)	70,427,328
(3,091,841)	(815,506)	1,870,773	(17,355,735)	39,324,241
-	90,785	414,229	-	972,189
-	-	-	-	5,923,261
(3,091,841)	(724,721)	2,285,002	(17,355,735)	46,219,691
$ 2,787,933	$ 33,293	$ 2,294,434	$ (32,641,299)	$ 116,647,019

Proctor Health Care Incorporated and Related Organizations

Consolidating Schedule - Statement of Operations Information
Year Ended December 31, 2010

	Proctor Hospital	Proctor Health Care Incorporated	Proctor Health Care Foundation	Belcrest Services, Ltd.
Operating revenue:				
Net patient service revenue	$ 106,779,692	$ -	$ -	$ 6,771,399
Other operating revenue	4,436,977	-	-	42,073
Net assets released from restriction	1,541,552	-	68,366	-
	112,758,221	-	68,366	6,813,472
Operating expenses:				
Patient care, support, and administrative	96,202,430	473,168	-	6,827,152
Interest and amortization of deferred financing costs	1,906,933	-	-	-
Net pension cost	(277,286)	-	-	-
Provision for depreciation	6,130,520	3,500	-	117,036
Provision for doubtful accounts	5,225,941	-	-	346,582
	109,188,538	476,668	-	7,290,770
Income (loss) from operations	3,569,683	(476,668)	68,366	(477,298)
Nonoperating gains (losses):				
Gifts and bequests	-	-	160,765	-
Investment income (loss), net	412,365	-	1,258,228	-
Medical office building operations, net	-	-	(189,735)	-
Fund-raising, development, and health care support	-	-	(214,631)	-
Other, net	(105,746)	-	(104,019)	-
	306,619	-	910,608	-
Excess (deficiency) of revenue and gains over expenses and losses	3,876,302	(476,668)	978,974	(477,298)
Other changes in unrestricted net assets:				
Transfer from Proctor Health Care Incorporated to Proctor Hospital	(141,080)	141,080	-	-
Transfer from Belcrest Services, Ltd. to Proctor Health Systems	-	-	-	11,548
Issuance of Health Plus, Inc common stock	-	-	-	-
Additional capital contribution	-	-	-	-
Pension related changes other than net periodic pension cost	(3,900,117)	-	-	-
Change in unrestricted net assets	$ (164,895)	$ (335,588)	$ 978,974	$ (465,750)

Proctor Health Systems	Health Plus, Inc.	Other Entities	Eliminations	Consolidated
$ 4,537,286	$ -	$ -	$ -	$ 118,088,377
428,700	484,216	467,133	(812,603)	5,046,496
-	-	-	-	1,609,918
4,965,986	484,216	467,133	(812,603)	124,744,791
5,999,847	619,889	444,377	(1,463,011)	109,103,852
-	-	-	-	1,906,933
-	-	-	-	(277,288)
49,289	-	91,289	-	6,391,634
271,747	-	-	-	5,844,270
6,320,883	619,889	535,666	(1,463,011)	122,969,403
(1,354,897)	(135,673)	(68,533)	650,408	1,775,388
45,066	-	-	-	205,831
555	-	18,488	-	1,689,636
-	-	-	(690,102)	(679,637)
-	-	-	39,694	(174,937)
3,657	-	-	-	(206,108)
49,278	-	18,488	(650,408)	634,585
(1,305,619)	(135,673)	(50,045)	-	2,409,973
-	-	-	-	-
(11,548)	-	-	-	-
-	15,000	-	(15,000)	-
-	141,083	-	(141,083)	-
-	-	-	-	(3,900,117)
$ (1,317,167)	$ 20,410	$ (50,045)	$ (156,083)	$ (1,490,144)

Proctor Health Care Incorporated and Related Organizations

Consolidating Schedule - Statement of Operations Information
Year Ended December 31, 2009

	Proctor Hospital	Proctor Health Care Incorporated	Proctor Health Care Foundation	Belcrest Services, Ltd.
Operating revenue:				
Net patient service revenue	$ 94,594,957	$ -	$ -	$ 6,856,325
Other operating revenue	4,117,749	1,225,066	-	61,944
Net assets released from restriction	1,265,178	-	40,375	-
	99,977,884	1,225,066	40,375	6,918,269
Operating expenses:				
Patient care, support, and administrative	87,739,850	3,313,057	-	7,077,697
Interest and amortization of deferred financing costs	1,802,947	-	-	-
Net pension cost	(536,950)	-	-	-
Provision for depreciation	5,883,722	4,000	-	123,711
Provision for doubtful accounts	3,899,843	-	-	69,983
	98,789,412	3,317,057	-	7,271,391
Income (loss) from operations	1,188,472	(2,091,991)	40,375	(353,122)
Nonoperating gains (losses):				
Gifts and bequests	(199)	-	175,284	-
Investment income (loss), net	907,210	-	1,929,405	4,348
Medical office building operations, net	-	-	(318,547)	-
Fund-raising, development, and health care support	-	-	(360,655)	-
Other, net	(107,584)	-	(67,017)	-
	799,427	-	1,368,470	4,348
Excess (deficiency) of revenue and gains over expenses and losses	1,987,899	(2,091,991)	1,408,845	(348,774)
Other changes in unrestricted net assets:				
Transfer from Proctor Hospital to Proctor Health Care Incorporated	19,259	(19,259)	-	-
Pension related changes other than net periodic pension cost	2,891,478	-	-	-
Change in unrestricted net assets	$ 4,898,636	$ (2,111,250)	$ 1,408,845	$ (348,774)

Proctor Health Systems	Health Plus, Inc.	Other Entities	Eliminations	Consolidated
$ 5,798,671	$ -	$ -	$ -	$ 107,249,953
810,878	2,764,818	526,241	(1,431,680)	8,064,116
-	-	-	-	1,305,553
6,609,549	2,764,818	525,241	(1,431,580)	116,619,622
7,279,445	3,203,241	505,617	(2,138,809)	106,980,098
-	-	-	-	1,802,947
-	-	-	-	(536,950)
77,215	-	34,220	-	6,122,868
408,543	-	-	-	4,378,369
7,765,203	3,203,241	539,837	(2,138,809)	118,747,332
(1,155,654)	(448,423)	(14,596)	707,229	(2,127,710)
184,994	-	-	-	380,079
1,333	-	32,312	-	2,874,606
-	-	-	(634,977)	(953,524)
-	-	-	(72,252)	(422,907)
10,943	-	-	-	(163,656)
197,270	-	32,312	(707,229)	1,694,598
(958,384)	(448,423)	17,718	-	(433,112)
-	-	-	-	-
-	-	-	-	2,891,478
$ (958,384)	$ (448,423)	$ 17,718	$ -	$ 2,458,366