Rush University Medical Center Obligated Group

Consolidated Financial Statements as of and
for the Years Ended June 30, 2008 and 2007,
Supplemental Schedules as of and for the
Year Ended June 30, 2008, and
Independent Auditors’ Report

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush University Medical Center:

We have audited the consolidated balance sheets of Rush University Medical Center Obligated Group (including Rush University Medical Center, Rush-Copley Medical Center, and Rush North Shore Medical Center) (collectively, "Rush") as of June 30, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of Rush's management. Our responsibility is to express an opinion on these 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Rush's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rush University Medical Center Obligated Group as of June 30, 2008 and 2007, and the results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the consolidated financial statements, Rush implemented Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, and changed its method of accounting for its defined benefit pension and postretirement health care plans in 2007.

As discussed in Note 2 to the consolidated financial statements, effective June 30, 2007, Rush designated its unrestricted investments as trading securities.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental Schedules I and II are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities, and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of Rush's management. These schedules have been subjected to the auditing procedures applied in our audit of the basic 2008 consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

October 15, 2008

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2008 AND 2007
(Dollars in thousands)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 139,919	$ 254,839
Short-term investments	63,754	51,775
Accounts receivable for patient services — net of allowance for doubtful accounts of $58,354 and $49,702 in 2008 and 2007	193,079	188,584
Other accounts receivable — net	48,285	50,779
Self-insurance trust — current portion	28,361	22,909
Other current assets	42,825	38,623
Total current assets	516,223	607,509
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Limited as to use for donor purposes	354,035	363,389
Collateral proceeds received under securities lending program	101,576	58,118
Investments on loan under securities lending program	100,495	57,028
Self-insurance trust — less current portion	142,133	150,455
Marketable securities and designated for capital purposes	291,535	228,390
Debt service reserve fund	15,334	14,562
Total investments	1,005,108	871,942
PROPERTY AND EQUIPMENT — At cost:		
Land and buildings	1,134,212	1,062,502
Equipment	484,729	469,887
Construction in progress	130,212	59,033
Total property and equipment	1,749,153	1,591,422
Less accumulated depreciation	(915,159)	(862,543)
Net property and equipment	833,994	728,879
OTHER ASSETS	57,076	42,870
TOTAL	$2,412,401	$2,251,200

	2008	2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 111,675	$ 90,773
Accrued expenses	127,047	124,965
Student loan funds	23,578	22,969
Estimated third-party settlements payable	127,760	132,193
Notes payable	13,546	
Current portion of accrued liability under self-insurance program	28,714	22,909
Current portion of long-term debt	12,195	3,743
Total current liabilities	444,515	397,552
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance programs — less current portion	188,293	182,859
Postretirement and pension benefits	70,804	69,668
Long-term debt — less current portion	322,077	336,712
Obligation to return collateral under securities lending program	101,576	58,118
Other long-term liabilities	44,426	32,635
Obligations under capital lease and other financing arrangements	48,558	50,685
Total long-term liabilities	775,734	730,677
Total liabilities	1,220,249	1,128,229
NET ASSETS:		
Unrestricted	683,977	627,696
Temporarily restricted for specific purposes	292,153	310,209
Permanently restricted endowments:		
Income unrestricted	26,495	27,196
Income restricted for specific purposes	189,527	157,870
Total permanently restricted endowments	216,022	185,066
Total net assets	1,192,152	1,122,971
TOTAL	$2,412,401	$2,251,200

See notes to consolidated financial statements.

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in thousands)

	2008	2007
REVENUE:		
Net patient service revenue	$ 1,464,864	$ 1,443,102
University services:		
Tuition and educational grants	40,248	37,385
Research and other operations	93,244	83,908
Other revenue	65,010	71,166
Total revenue	1,663,366	1,635,561
EXPENSES:		
Salaries, wages, and employee benefits	826,102	777,783
Supplies, utilities, and other	592,443	606,571
Depreciation and amortization	86,888	78,019
Provision for uncollectible accounts	64,582	53,050
Interest and fees	19,274	17,661
Total expenses	1,589,289	1,533,084
OPERATING INCOME	74,077	102,477
NONOPERATING INCOME (EXPENSE):		
Investment income and other	17,053	37,144
Unrestricted contributions and bequests	9,007	10,286
Fundraising expenses	(5,701)	(5,173)
Net gain (loss) on sale	906	(645)
Loss on extinguishment of debt	(1,412)	(6,992)
Loss on impairment of asset	(3,740)	
Change in fair value of interest rate swaps	(15,363)	(1,231)
Total nonoperating income	750	33,389
EXCESS OF REVENUE OVER EXPENSES	$ 74,827	$ 135,866

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Dollars in thousands)

	2008	2007
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 74,827	$ 135,866
Change in unrealized gains and losses on investments	(258)	7,140
Reclassification of net unrealized gains on securities transferred to the trading category		(14,315)
Funding of impaired endowment corpus	(338)	
Net assets released from restrictions used for purchase of property and equipment and other	5,364	15,259
Postretirement related changes other than net periodic postretirement cost	(23,314)	
Minimum pension liability adjustment		38,420
Reclassification of prior-year interest rate swap loss to earnings		799
Gain from discontinued operations		449
Cumulative effect of change in accounting principle (FASB Statement No. 158)		(6,177)
Increase in unrestricted net assets	56,281	177,441
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges and contributions:		
Restricted by donors for construction	5,250	25,448
Restricted by donors for research and other purposes	27,965	3,331
Net assets released from restrictions	(34,963)	(36,540)
Investment gains	16,032	29,966
Change in unrealized gains and losses on investments	(32,678)	3,788
Recovery of impaired endowment corpus	338	
(Decrease) increase in temporarily restricted net assets	(18,056)	25,993
PERMANENTLY RESTRICTED NET ASSETS — Pledges and contributions	30,956	8,137
INCREASE IN NET ASSETS	69,181	211,571
NET ASSETS — Beginning of year	1,122,971	911,400
NET ASSETS — End of year	$ 1,192,152	$ 1,122,971

See notes to consolidated financial statements. (Concluded)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 69,181	$ 211,571
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Unrealized gains and losses on investments — other than trading	2,606	(10,928)
Reclassification of net unrealized gains on securities transferred to the trading category		14,315
Realized gains and losses on investments — other than trading	(3,416)	(28,807)
Restricted contributions and investment income received	(44,807)	(35,172)
Postretirement related changes other than net periodic postretirement cost	23,314	
Minimum pension liability adjustment		(38,420)
Gain from discontinued operations		(449)
Cumulative effect of change in accounting principle (FASB Statement No. 158)		6,177
Depreciation and amortization	88,450	79,119
Provision for uncollectible accounts	64,582	53,050
Loss on extinguishment of debt	1,412	6,992
Loss on impairment of asset	3,740	
Change in fair value of interest rate swaps	6,267	1,231
Other	246	844
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(69,077)	(66,841)
Investments designated as trading	(87,378)	
Accounts payable and accrued expenses	463	20,157
Estimated third-party settlements payable	(4,433)	55,872
Pension and postretirement costs	(22,178)	(17,594)
Accrued liabilities under self-insurance programs	11,239	12,364
Other changes in operating assets and liabilities	(8,008)	(10,191)
Net cash provided by operating activities	32,203	253,290
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(169,589)	(139,249)
Purchase of other-than-trading investments	(7,258)	(728,780)
Sale of other-than-trading investments	7,619	604,424
Funding of debt service reserve fund		(14,320)
Proceeds from sales	931	585
Net cash used in investing activities	(168,297)	(277,340)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	18,329	35,172
Proceeds from issuance of short-term debt	13,546	
Proceeds from issuance of long-term debt	98,279	201,641
Refunding of prior debt	(101,200)	(180,305)
Funding of bond issuance costs	(1,195)	(10,843)
Payment of long-term debt	(3,754)	(3,262)
Payment of obligations under capital lease and other financing arrangements	(2,831)	(2,524)
Net cash provided by financing activities	21,174	39,879
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(114,920)	15,829
CASH AND CASH EQUIVALENTS — Beginning of year	254,839	239,010
CASH AND CASH EQUIVALENTS — End of year	$ 139,919	$ 254,839
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION —		
Cash paid for interest, including capitalized interest of $2,031 in 2008 and $1,091 in 2007	$ 18,393	$ 19,395
Noncash additions to property and equipment	$ 24,967	$ 12,211

See notes to consolidated financial statements.

1. ORGANIZATION AND BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the following affiliated organizations and their subsidiaries (collectively referred to as "Rush"): Rush University Medical Center (RUMC), Rush-Copley Medical Center (RCMC), and Rush North Shore Medical Center (RNS).

RUMC is the largest member of this multihospital system with operations that consist of several diverse activities linked by the common mission of patient care, education, and research. RUMC owns and operates an academic medical center located in Chicago, Illinois. Major operations include the following:

Rush University Hospital — Consists of an acute care hospital and the Johnson R. Bowman Health Center for the Elderly, a rehabilitation and psychiatric facility, licensed in total for 825 beds.

Rush Oak Park Hospital (ROPH) — A 296-licensed bed acute care, rehabilitation, and skilled nursing hospital located approximately eight miles west of RUMC in Oak Park, Illinois.

Rush University — A health sciences university that educates students in health-related fields. This includes Rush Medical College, the College of Nursing, the College of Health Sciences, and the Graduate College. Rush University also includes a research operation with approximately $107,349 in annual research expenditures.

Rush University Medical Group (RUMG) — Faculty practice plan that employed 350 physicians as of June 30, 2008.

RUMC, through a joint venture arrangement with a third party, is responsible for the operations and management of ROPH. As a result, RUMC controls and has an economic interest in ROPH. Substantially, all assets, liabilities, and net assets as well as all revenue and expenses of ROPH are consolidated with the financial results of RUMC, and all significant intercompany activity has been eliminated.

RUMC consolidates the following wholly owned subsidiaries: Vyridian Revenue Management; Health Delivery Management, and RPSLMC Insurance Company, Ltd. Vyridian Revenue Management is a limited liability company that provides physician billing and collection services primarily to RUMG. Health Delivery Management is a limited liability company that operates retail and infusion pharmacies for RUMC and ROPH. RPSLMC Insurance Company, Ltd. is an off-shore insurance company that provides professional and general liability insurance coverage to RUMC. All significant intercompany activity has been eliminated.

RUMC has majority ownership in a number of subsidiaries, including Rush Surgicenter LLP, a limited partnership that operates an outpatient surgery center, and Circle Imaging Partners and Oak Park Imaging, limited partnerships that equip, maintain, and provide outpatient imaging services. The financial results of these subsidiaries are also consolidated with the financial results of RUMC. At June 30, 2008 and 2007, minority interests in the consolidated subsidiaries totaled $2,285 and $2,490, respectively, included in other noncurrent liabilities.

RCMC is the sole corporate member of Copley Memorial Hospital, Inc., an acute care hospital located in Aurora, IL. RCMC is also the sole corporate member of the following subsidiaries: Rush-Copley Services Corporation (“Services”), which changed its name in fiscal year 2007 to Rush-Copley Medical Group, NFP (the “Medical Group”); Copley Ventures, Inc. (“Ventures”); and Copley Memorial Hospital Health Care Foundation, Inc., which changed its name in fiscal year 2008 to Rush-Copley Foundation (the “Foundation”). RNS is a 265-bed teaching hospital located in Skokie, Illinois.

RUMC, RCMC, and RNS are affiliated for the purpose of advancing their missions in patient care, education, research, and community service through formal affiliation agreements which cover governance and other organizational relationships. All three of these organizations are Illinois not-for-profit corporations, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Pursuant to the Amended and Restated Master Trust Indenture dated August 1, 2006, RUMC, RCMC, and RNS are jointly and severally liable for certain debt issued through the Illinois Finance Authority (see Note 5). All significant intercompany activity has been eliminated.

On July 15, 2008, RNS and Evanston Northwestern Healthcare Corporation (ENH) entered into an Agreement and Plan of Merger (the “Merger Agreement”) providing for the merger of RNS with and into ENH on a date to be set (the “Closing Date”). ENH, as the surviving corporation, will assume all assets and liabilities of RNS on the Closing Date. In addition, at the Closing Date, the Merger Agreement also contemplates that pursuant to the Amended and Restated Master Trust Indenture dated as of August 1, 2006, RNS would withdraw from the Obligated Group in connection with the merger. At the same time as any such withdrawal, all debt outstanding under the Master Trust Indenture for which RNS is the primary obligor would be defeased or redeemed and the mortgage on the RNS land for the benefit of the Master Trustee would be released.

It is anticipated that the Closing Date will occur on or around January 2, 2009, however, there can be no assurance that the conditions precedent to the Merger Agreement will be met and that approval from applicable government agencies will be obtained. As such, for purposes of the June 30, 2008, financial statements, RNS is considered part of the Obligated Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements have been presented in conformity with generally accepted accounting principles as recommended in the audit and accounting guide for health care organizations published by the American Institute of Certified Public Accountants.

Use of Estimates — The preparation of financial statements 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, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — Marketable securities having an original maturity of 90 days or less are considered to be cash equivalents.

Inventory — Medical supplies, pharmaceuticals, and other inventories are stated at the lower of cost or market.

Investments — Investments in equity and debt securities with readily determinable fair values are measured at their fair market value using quoted market prices and are recorded as such in the consolidated financial statements. Short-term investments having an original maturity greater than 90 days that are available for current operations are reported as current assets. As of June 30, 2007, Rush transferred its investments from an other-than-trading category to a trading category (see Note 4). Alternative investments, consisting of hedge funds, real estate investments, and private equity limited partnerships, are designated as other-than-trading. Hedge funds are measured at their fair market value based on information provided by the respective fund. Investments in limited partnerships (principally private equity funds) are reported at cost, adjusted for impairment losses, based on information provided by the respective partnership. Real estate investments are carried at amortized cost.

Investment gains and losses (including interest, dividends, realized gains and losses, and unrealized gains and losses recognized on trading securities) are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on other-than-trading securities are excluded from the excess of revenue over expenses and are reflected in the change in net assets. Investment returns on permanently restricted assets are allocated to purposes specified by the donor, either as temporarily restricted or unrestricted, as applicable.

Derivative Instruments — Derivative instruments, specifically interest rate swaps, are recorded on the consolidated balance sheets at their respective fair values. Management has elected not to pursue hedge accounting; therefore, the change in the fair value of those derivative instruments is reflected in nonoperating income (expense) in the accompanying consolidated statements of operations and changes in net assets. During fiscal year 2008, Rush terminated one of its interest rate swaps and paid settlement costs of $9,096 (see Note 5).

Capitalized Interest — Interest expense, net of interest income, incurred during the construction of major projects from bond proceeds, is capitalized during the construction period. Such capitalized interest is amortized over the depreciable life of the related assets on a straight-line basis. Capitalized interest was $2,031 and $1,091 in 2008 and 2007, respectively.

Fair Value of Financial Instruments — Financial instruments consist of primarily cash and cash equivalents, investments, derivative instruments, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and long-term debt. Except as otherwise disclosed (see Note 5), the fair value of these instruments approximated their financial statement carrying amount at June 30, 2008 and 2007, because of their short-term maturity.

Property and Equipment — Property and equipment are recorded at cost. Depreciation and amortization expenses are recognized over the estimated useful lives of the assets using the straight-line method.

Costs of computer software developed or obtained for internal use, including external direct costs of materials and services, payroll, and payroll-related costs for employees directly associated with internal-use software development projects, and interest costs incurred during the development period are capitalized and included in property and equipment in the accompanying consolidated balance sheets.

Long-Lived Assets — Rush continually evaluates whether circumstances have occurred that would indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, Rush uses an estimate of the undiscounted cash flows over the remaining life of the assets in measuring whether the asset is recoverable. Rush recognized an impairment adjustment of $3,740 within nonoperating income (expense) during the year ended June 30, 2008, for unamortized bond issuance costs related to the bond insurance on its Series 2006A Variable Rate Demand Bonds (see Note 5). No impairment adjustments were recorded during the year ended June 30, 2007.

Other Assets — Other assets include investments in joint ventures accounted for on the equity basis (see Note 13), debt issuance costs (net of amortization, which is computed on the straight-line basis over the life of the related debt), and other items.

Securities Lending — Rush records, as an asset, the fair value of its beneficial interest in cash collateral pools for securities lent to third parties, as well as records a corresponding liability for the collateral received that will be paid back to the third party.

Charity Care — It is an inherent part of Rush's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as patient service revenue. Rush also incurs losses related to the unreimbursed costs of providing services to Medicaid patients.

Rush has an established charity care policy and maintains records to identify and monitor the level of charity care it provides. RUMC provides free care to all patients whose family income is less than 250% of the poverty level and will provide services at a discount for patients whose family income is less than 400% of the poverty level. RCMC provides free care to all patients who apply and support income and asset levels of less than 300% of the current-year poverty level and discounts balances for patients with incomes under 500% of the poverty level. RNS provides free care to all patients whose family income is less than 200% of the poverty level. Interest-free payment plans are also provided. These records include the estimated cost of unreimbursed services provided and supplies furnished under its charity care policy and the excess of cost over reimbursement for Medicaid patients. Rush also monitors the unreimbursed cost of patient bad debts.

In December 2006, the Centers for Medicare and Medicaid Services renewed the Illinois Hospital Assessment Program (the "Program") to improve Medicaid reimbursement for Illinois hospitals. The Program was approved retroactively to July 1, 2005. The net benefit to Rush from this Program was $23,908 during the year ended June 30, 2008, and $47,816 during the year ended June 30, 2007, of which $23,908 related to fiscal year 2007 and $23,908 related to fiscal year 2006 (see Note 3). The following information measures of the level of charity care provided for the years ended June 30, 2008 and 2007:

	2008	2007
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients	$ 65,597	$ 52,755
Net benefit under the Program (2008 component)	(23,908)	
Net benefit under the Program (2007 component)		(23,908)
Net benefit under the Program (2006 component)		(23,908)
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program	41,689	4,939
Estimated costs and expenses incurred to provide charity care in the hospitals	13,681	9,570
Total	$ 55,370	$ 14,509

The total number of patients that were either provided charity care directly by Rush or that were covered by the Program represented 17.1% and 15.4% of Rush's total patients in 2008 and 2007, respectively.

Contributions — Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional gifts are reported at fair value when the conditions have been substantially met. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as other revenue (if time restricted or restricted for operating purposes) or reported in the consolidated statements of changes in net assets as net assets released from restrictions used for purchase of property and equipment (if restricted for capital acquisitions). Donor-restricted contributions for operating purposes whose restrictions are met within the same year as received are reported as other revenue in the accompanying consolidated statements of operations.

RUMC is the beneficiary of several split-interest agreements, primarily perpetual trusts held by others. RUMC recognized its interest in these trusts in 2008 as permanently restricted net assets based on either RUMC's percentage of the fair value of the trust assets or the present value of expected future cash flows to be received from the trusts, as appropriate, based on each trust arrangement (see Accounting Adjustments within Note 2).

Excess of Revenue Over Expenses — The consolidated statements of operations include excess (deficiency) of revenue over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets, and other items that are required by generally accepted accounting principles to be reported separately (such as minimum pension liability adjustments, extraordinary items, the effect of discontinued operations, postretirement related changes other than net periodic postretirement costs, and the cumulative effect of changes in accounting principle).

Nonoperating Income (Expense) — Nonoperating income (expense) consists primarily of unrestricted investment returns on the endowment investment pool, the difference between total investment return and amount allocated to operations for investments designated for self-insurance programs, investment income or loss (including interest, dividends, realized gains and losses, and gains and losses recognized on trading securities still held at June 30, 2008 and 2007) on all other investments, changes in the fair value of interest rate swaps, losses on extinguishment of debt, net gains (losses) on sales, unrestricted contributions, losses on impaired assets, and fundraising expenses.

New Accounting Pronouncements — In July 2006, the FASB issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN No. 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN No. 48 states that a tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. The term "tax position" also encompasses a decision to classify a transaction, entity, or other position in a tax return as tax exempt. Rush adopted FIN No. 48 during fiscal year 2008. Rush did not recognize any impact to its financial statements as a result of adopting FIN No. 48.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. In order to address the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying these definitions, this statement defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. FASB Statement No. 157 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 at the measurement date. FASB Statement No. 157 is effective for years beginning after November 15, 2007, although early adoption is permitted, and will be effective for Rush in fiscal year 2009. Rush has not yet fully evaluated the impact of adoption of this pronouncement on its consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. FASB Statement No. 159 permits entities that elect the fair value provisions of FASB Statement No. 157 to choose to measure many financial instruments and certain other items at fair value. It also provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. Accordingly, unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. FASB Statement No. 159 is effective for years beginning after November 15, 2007, and will be effective for Rush in fiscal year 2009. Rush has not yet fully evaluated the impact of adoption of this pronouncement on its consolidated financial statements.

Revisions and Reclassifications — Certain revisions have been made to the 2007 financial statements to conform to the 2008 presentation. Rush changed the presentation in the consolidated balance sheets for the year ended June 30, 2008, to report investments on loan under the securities lending program separately from pooled investment assets (see Note 4).

Accounting Adjustments — Rush recorded the following two adjustments to the 2008 consolidated financial statements which related to the prior year:

- As of June 30, 2008, Rush reclassified an investment fund with a fair value of $26,465 to short-term investments, which was presented in cash and cash equivalents as of June 30, 2007, at a fair value of $30,000. This reclassification had no impact on the statements of operations and changes in net assets for the periods presented.

- During 2008, Rush recognized its beneficial interest in certain perpetual trusts held by others based on Rush's percentage of the fair value of the trust assets or the present value of expected future cash flows to be received from the trusts, as appropriate based on each trust arrangement. The fair value of Rush's interest in these trust assets was $26,478 as of June 30, 2008, recognized as an increase in permanently restricted net assets in the consolidated balance sheets and statements of changes in net assets. Rush held an interest in these trusts as of June 30, 2007. This adjustment had no impact on the statements of operations for the periods presented.

Management believes that these accounting adjustments are not material to the consolidated financial statements as of and for the years ended June 30, 2008 and 2007. In making this assessment, management considered qualitative and quantitative factors, including the impact to the statements of operations and changes in net assets for the periods presented.

During 2007, Rush recorded an out-of-period adjustment to the consolidated financial statements resulting from the accounting in prior years of a real estate investment carried in Rush's endowment investment pool at estimated fair value instead of at historical cost in accordance with generally accepted accounting principles. This adjustment resulted in a decrease in unrestricted net assets of $3,258 and a decrease in temporarily restricted net assets of $13,779 for the year ended June 30, 2007, representing reversal of $13,737 of unrealized gains on the real estate investment recorded in fiscal year 2003 and recognition of accumulated depreciation on the property of $3,300 for depreciation that should have been recorded for fiscal year 1989 (year of acquisition) through fiscal year 2006. Management believes the accounting adjustment is not material to the consolidated financial statements as of and for the year ended June 30, 2007.

3. NET PATIENT SERVICE REVENUE

The mix of net patient service revenue (excluding the reimbursement under the Program) from patients and third-party payors for the years ended June 30, 2008 and 2007, was as follows:

	2008	2007
Medicare	29 %	30 %
Medicaid	9	9
Blue Cross	25	22
Managed Care	24	27
Commercial and Self-pay	13	12
Total	100 %	100 %

Rush has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payment, and discounted charges. Patient service revenue is reported at the estimated net realizable amounts from third-party payors, patients, and others for services rendered, including estimated retroactive settlements. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in estimates relating to prior periods increased net patient service revenue by $7,583 in 2008 and $6,591 in 2007. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount.

Rush has filed formal appeals relating to the settlement of certain prior-year Medicare cost reports. The outcome of such appeals cannot be determined at this time. Any resulting gains will be recognized in the consolidated statements of operations when realized.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by healthcare providers, which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenues from patient services. Management believes that Rush is in substantial compliance with current laws and regulations.

In December 2006, the Centers for Medicare and Medicaid Services approved the Program to improve Medicaid reimbursement for Illinois hospitals. This program was approved retroactively to July 1, 2005. The net benefit to Rush from this program was $23,908 during the year ended June 30, 2008, and $47,816 during the year ended June 30, 2007, of which $23,908 related to fiscal year 2007 and $23,908 related to fiscal year 2006. Due to the tax assessment provisions contained in the legislation, implementation of the program impacted both operating revenues and expense in the consolidated statements of operations. For the year ended June 30, 2008, the Medicaid payment of $62,019 was included in net patient service revenue, representing 4% of the total balance, and the tax assessment of $38,111 was included in supplies, utilities, and other expense. For the year ended June 30, 2007, the Medicaid payment of $124,039 was included in net patient service revenue, representing 9% of the total balance, and the tax assessment of $76,223 was included in supplies, utilities, and other expense.

CMS approved the program through June 30, 2008. Beyond fiscal year 2008, the future of this Program is uncertain.

4. ASSETS LIMITED AS TO USE AND INVESTMENTS

Investments consist primarily of marketable equity and debt securities, which are held in investment pools to satisfy the investment objectives for which the assets are held or to satisfy donor restrictions. Investments in equity and debt securities with readily determinable fair values are designated as trading securities. Rush holds an interest in a collective business trust that invests primarily in equity and equity-related securities, which is also designated as a trading security. The trust is valued and priced daily, and liquidity is available on a daily basis. Rush also holds certain investments in alternative securities consisting of hedge funds, real estate investments, and limited partnerships, which are designated as other-than-trading.

As of June 30, 2008 and 2007, investments were as follows:

	2008								
	Limited as to Use for Donor Purposes								
	Endowment	Designated for Donor Restriction	Subtotal	Interest in Collateral Pool	Investments on Loan for Securities Lending	Debt Service Reserve Fund	Self-Insurance Trust	Marketable Securities	Total
Cash and equivalents	$ 5,108	$ 4,373	$ 9,481	$ -	$ -	$ 1,449	$ 3,611	$ 6,044	$ 20,585
Government securities	14,048	14,206	28,254			8,818	29,194	47,890	114,156
Corporate bonds	6,436	7,327	13,763				29,202	13,217	56,182
Equity securities	89,908	85,778	175,686				39,188	28,412	243,286
Fixed income mutual funds	30,476	57,542	88,018				68,485	265,783	422,286
Equity mutual funds and commingled trust	10,289	7,848	18,137					14,518	32,655
Alternative investments designated as other-than-trading	24,130	23,240	47,370					6,910	54,280
Accrued interest and other	408	500	908			5,067	814	1,410	8,199
	180,803	200,814	381,617	-	-	15,334	170,494	384,184	951,629
Beneficial interest in trusts	26,478		26,478						26,478
Investments on loan under securities lending program	(71,600)		(71,600)		100,495			(28,895)	-
Interest in cash collateral pools			-	101,576					101,576
Net pledges receivable	7,677	9,863	17,540						17,540
Total	143,358	210,677	354,035	101,576	100,495	15,334	170,494	355,289	1,097,223
Less amount reported as current			-				(28,361)	(63,754)	(92,115)
Investments — noncurrent	$143,358	$210,677	$354,035	$101,576	$100,495	$ 15,334	$142,133	$291,535	$1,005,108

	2007									
	Limited as to Use for Donor Purposes									
	Endowment	Designated for Donor Restriction	Subtotal	Interest in Collateral Pool	Investments on Loan for Securities Lending	Debt Reserve Reserve Fund	Self-Insurance Trust	Marketable Securities	Total
Cash and equivalents	$ 10,498	$ 11,672	$ 22,170	$ -	$ -	$ 6,203	$ 13,065	$ 5,419	$ 46,857
Government securities	7,380	8,045	15,425	-	-	8,012	21,928	57,879	103,244
Corporate bonds	5,979	11,664	17,643	-	-	287	31,455	24,263	73,648
Equity securities	93,132	101,957	195,089	-	-	-	43,284	28,516	266,889
Fixed income mutual funds	27,252	46,608	73,860	-	-	-	62,814	145,665	282,339
Equity mutual funds and commingled trust	8,283	8,214	16,497	-	-	-	-	11,533	28,030
Alternative investments designated as other-than-trading	22,728	25,131	47,859	-	-	-	-	5,993	53,852
Accrued interest and other	3,405	3,764	7,169	-	-	60	818	897	8,944
	178,657	217,055	395,712	-	-	14,562	173,364	280,165	863,803
Investments on loan under program	(57,028)	-	(57,028)	-	57,028	-	-	-	-
Interest in cash collateral pools	-	-	-	58,118	-	-	-	-	58,118
Net pledges receivable	8,683	16,022	24,705	-	-	-	-	-	24,705
Total	130,312	233,077	363,389	58,118	57,028	14,562	173,364	280,165	946,626
Less amount reported as current	-	-	-	-	-	-	(22,909)	(51,775)	(74,684)
Investments — noncurrent	$130,312	$233,077	$363,389	$ 58,118	$ 57,028	$ 14,562	$150,455	$228,390	$871,942

Hedge funds are recorded at fair value, which represents Rush’s share of the net assets of these entities. Hedge fund investments also include certain liquidity restrictions that may require 45 to 60 days advance notice for redemptions. The fair value of hedge fund investments was $25,077 and $23,461 at June 30, 2008 and 2007, respectively. Real estate investments are recorded at cost of $7,712, less accumulated depreciation of $3,685 and $3,448, as of June 30, 2008 and 2007, respectively (see Note 2). Investments in limited partnerships (principally private equity funds) that hold restricted securities and are not publicly traded are recorded at cost, adjusted for impairment losses, which was $25,365 and $22,831 at June 30, 2008 and 2007, respectively. The fair value of these partnership investments, as estimated by management of the limited partnerships based on audited financial statements and other relevant factors, was $26,282 and $29,262 at June 30, 2008 and 2007, respectively. As many factors are considered in arriving at the estimated fair value, Rush routinely monitors and assesses methodologies and assumptions used in valuing these partnerships. At June 30, 2008, commitments for additional contributions to limited partnership funds totaled $24,641.

Rush’s endowment investment pool provides support for professorships (37%), research (11%), free care (8%), student financial aid (7%), education (7%), scholarships and fellowships (5%), and miscellaneous specific purposes (6%). Approximately 19% of Rush’s endowment pool is unrestricted at June 30, 2008. RUMC specifically has adopted endowment investment and spending policies to preserve purchase power over the long-term, achieve competitive investment returns, moderate overall investment risk, and provide stable annual support to the programs supported by the endowment. The Finance Committee of the Board approves the annual spending policy for program support. RUMC’s spending rate was 4.3% for the fiscal years ended June 30, 2008 and 2007, and income from the endowment fund provided $16,817 and $15,400 of support for the Medical Center’s programs during fiscal years 2008 and 2007, respectively. The spending rate is based on a 12-quarter moving average of ending market values for pooled assets.

Rush monitors the accumulated losses on permanently restricted investments to determine whether the endowment corpus has been impaired. A funding of $338 was required as of June 30, 2008, to restore the endowment corpus balance. The funding was made through unrestricted net assets and is included in the accompanying consolidated statements of operations and changes in net assets.

It is RUMC's intent to maintain a long-term investment portfolio to support its self-insurance program. Accordingly, beginning with the year ended June 30, 2007, the total return on investments restricted for the self-insurance program is reported in the consolidated statements of operations and changes in net assets in two segments. The investment return allocated to operations, reported in other revenue, is determined by a formula designed to provide a consistent stream of investment earnings to support the self-insurance provision reported in supplies, utilities, and other expense. This allocated return, 6% for the years ended June 30, 2008 and 2007, approximates the real return that RUMC expects to earn on its investments over the long-term and totaled $9,925 and $9,284 for years ended June 30, 2008 and 2007, respectively. The difference between the total investment return and the amount allocated to operations is reported in nonoperating income (expense) and totaled $(3,334) and $5,393 for the years ended June 30, 2008 and 2007, respectively. There is no guarantee the investment return expected by management will be realized. For the years ended June 30, 2008 and 2007, the total annual investment return was approximately 4% and 9%, respectively.

RUMC participates in a securities lending arrangement whereby RUMC provides certain of its marketable securities to be loaned to independent third parties through a commercial bank. These loaned securities are collateralized against loss and/or default by a beneficial interest in various collateral pools maintained by the commercial bank. The bank is responsible for reviewing the creditworthiness of the borrowers. At June 30, 2008 and 2007, RUMC loaned approximately $100,495 and $57,028, respectively, in securities and accepted collateral for these loans in the amount of $103,203 and $58,623, respectively, of which $101,576 and $58,118, respectively, represents cash collateral and is included in investments and long-term liabilities in the accompanying consolidated balance sheets.

During the year ended June 30, 2007, Rush transferred its investments from an other-than-trading category to a trading category. This transfer between categories of investments was accounted for at fair value, with the cumulative portion of unrealized holding gains and losses at the date of transfer not previously recognized in earnings recognized in 2007. As a result of this transfer between categories of investments, approximately $12,965 of cumulative net unrealized gains on the trading portfolio as of June 30, 2007, was recognized within nonoperating income (expense) within investment income. In addition, $1,350 of cumulative net unrealized gains on the trading portfolio as of June 30, 2007, was recognized within operations, reported in other revenue, related to the self-insurance program.

The composition and presentation of investment income and the change in unrealized gains and losses on investments for the years ended June 30, 2008 and 2007, are as follows:

	2008	2007
Interest and dividends	$ 38,130	$ 34,773
Unrealized (losses) gains on trading securities	(9,128)	14,315
Net realized gains on sales of securities	15,543	28,807
	$ 44,545	$ 77,895
Reported as:		
Other operating revenue	$ 11,210	$ 9,527
Nonoperating income	17,303	38,402
Temporarily restricted net assets — investment gains	16,032	29,966
	$ 44,545	$ 77,895
Change in unrealized gains and losses on investments:		
Unrestricted net assets	$ (258)	$ (7,175)
Temporarily restricted net assets	(32,678)	3,788
	$ (32,936)	$ (3,387)

Rush holds certain investments in alternative securities consisting of hedge funds, real estate investments, and limited partnerships. Rush reported the following gains and losses on its alternative investments (designated as other-than-trading) as of 2008 and 2007:

	2008	2007
Reported as:		
Nonoperating (expense) income	$ 800	$ (360)
Temporarily restricted net assets — investment (losses) gains	3,707	(1,458)
	$ 4,507	$ (1,818)
Change in unrealized gains and losses on other-than-trading investments:		
Unrestricted net assets	$ (258)	$ (67)
Temporarily restricted net assets	(1,741)	(269)
	$ (1,999)	$ (336)

5. LONG-TERM DEBT

Rush's long-term debt is issued under a Master Trust Indenture which established an Obligated Group comprised of RUMC, RCMC, and RNS. The Obligated Group is jointly and severally liable for the obligations issued under the Master Trust Indenture. Each Obligated Group member is expected to pay its allocated share of the debt issued on its behalf. At June 30, 2008, such issuances are secured by a pledge of gross receipts and a mortgage on primary healthcare facilities, as defined, of the Obligated Group members.

As described in Note 1, RNS entered into a Merger Agreement with ENH on July 15, 2008. Pursuant to the Amended and Restated Master Trust Indenture dated as of August 1, 2006, it is expected RNS would withdraw from the Obligated Group in connection with the merger. At the same time as any such withdrawal, all debt outstanding under the Master Trust Indenture for which RNS is the primary obligor would be defeased or redeemed and the mortgage on the RNS land for the benefit of the Master Trustee would be released. While it is anticipated that the merger will close on or around January 2, 2009, there can be no assurance that the conditions precedent to the Merger Agreement will be met and that approval from applicable government agencies will be obtained. As such, the RNS debt with principal payments due subsequent to June 30, 2009, is classified as long-term at June 30, 2008.

A summary of Rush's long-term debt as of June 30, 2008 and 2007, is as follows:

	2008	2007
Fixed-Rate Debt		
Illinois Health Facilities Authority Revenue Bonds, insured by Municipal Bond Insurance Corporation (MBIA):		
Series 2006B, 5% to 5.75%, due annually on November 1, 2012 through 2035	$ 96,750	$ -
Series 1998A, 5% to 5.25%, due annually on November 1, 2011 through 2024	90,825	90,825
Total fixed-rate debt	187,575	90,825
Variable-Rate Debt		
Illinois Health Facilities Authority Revenue Bonds:		
Series 2006A Variable Rate Demand Bonds, due in varying amounts through November 2035, insured by MBIA, with a standby bond purchase agreement provided by JP Morgan Chase Bank National Association, with an average interest rate of 3.63% and 3.64% in fiscal years 2008 and 2007, respectively.	101,200	101,200
Series 2006B Auction Rate Securities, due in varying amounts through November 2035, insured by MBIA, with an average interest rate of 4.87% and 3.52% in fiscal years 2008 and 2007, respectively, converted to fixed rate on May 28, 2008.		101,200
Series 1989A, due in varying amounts through October 2010, secured by a letter of credit from The Northern Trust Company, with an average interest rate of 2.85% and 3.66% in fiscal years 2008 and 2007, respectively.	19,500	21,500
Series 1985 C, D, and F, through the Revolving Fund Pooled Financing Program, due in February 2011, secured by letters of credit from JP Morgan Chase Bank National Association, with an average interest rate of 3.05% and 3.67% in fiscal years 2008 and 2007, respectively. The interest rates include 1.3% trustee and Authority fees.	7,925	9,509
Series 1983, due in November 2015, with an average interest rate of 4.6% and 4.38% in fiscal years 2008 and 2007, respectively.	8,320	8,320
Total variable-rate debt	136,945	241,729
Total tax-exempt debt	324,520	332,554
Mortgage loan, 6.03%, collateralized by fitness center, due May 2017	9,086	9,256
Total debt	333,606	341,810
Less current portion of long-term debt	(7,745)	(3,743)
Less long-term debt to be advance refunded using a short-term facility	(4,450)	
Less unamortized premium	1,979	
Less unamortized discount	(1,313)	(1,355)
Long-term debt	$322,077	$336,712
Estimated fair value based on quoted market prices and other relevant information	$327,122	$343,138

Annual maturities of outstanding long-term debt are as follows:

Years Ending June 30	RUMC	RCMC	RNS	Obligated Group Total
2009	$ 5,284	$ 594	$ 6,317	$ 12,195
2010	5,999	605	2,162	8,766
2011	7,636	1,466	2,345	11,447
2012	4,547	203	2,273	7,023
2013	5,900	217	2,550	8,667
Thereafter	184,203	67,523	33,782	285,508
Total	$ 213,569	$ 70,608	$ 49,429	$ 333,606

The Obligated Group's revenue bonds with variable interest rates are subject to remarketing provisions that require the Obligated Group to repurchase the bonds if they cannot be sold to a third party. The Obligated Group has entered into various letters of credit and related standby agreements with commercial banks to provide funding for such repurchases as necessary. The letter of credit and standby agreements have varying expiration dates. The Series 1983 variable-rate debt was issued as a private placement with no required credit enhancement. The Obligated Group has a standby bond purchase agreement related to the Series 2006A Variable Rate Demand Revenue Refunding Bonds (the "Series 2006A Bonds") which expires December 2008, which is described in more detail below. As of June 30, 2008, there was $56,600 in borrowings against this standby bond purchase agreement, and as of June 30, 2007, there were no borrowings against this standby bond purchase agreement. The letter of credit related to the Series 1989A variable-rate debt expires December 2008 and the letter of credit related to the Series 1985 pool loans expires February 2011. In the absence of such agreements, the Obligated Group would be required to replace them with similar credit arrangements, convert the related debt from variable to fixed interest rates, or fund required repurchases from available funds. Draws are routinely made from the letters of credit to pay off principal and interest, and are reimbursed to the commercial banks on the following business day. As of June 30, 2008 and 2007, there were no outstanding draws against the letters of credit related to the Series 1989A or Series 1985 Bonds.

On August 17, 2006, the Illinois Finance Authority (IFA) issued $101,200 of Series 2006A, Bonds and $101,200 of Series 2006B Auction Rate Securities Revenue Refunding Bonds (the "Series 2006B ARS Bonds") on behalf of the Obligated Group (collectively, the "Series 2006 Bonds"). Proceeds from the Series 2006 Bonds were used to refund the Series 1993, 1996A, and 1998 Bonds, fund a debt service reserve trust, and provide financing for costs of issuance. The Series 2006 Bonds are due on November 1, 2035, and are secured by a mortgage on certain real property, a pledge of the gross receipts of the Obligated Group, and a bond insurance policy.

On June 14, 2006, in anticipation of the issuance of the Series 2006 Bonds, the Obligated Group entered into two forward-starting interest rate swaps to effectively fix the interest payments on the Series 2006 Bonds during the term of the swap arrangements, which expire on November 1, 2035. Under terms of the swaps, the Obligated Group pays the counterparties a fixed amount equal to 3.925% of the outstanding principal on the Series 2006 Bonds (the "notional amount"). The counterparties pay the Obligated Group a floating amount equal to 68% of the London InterBank Offered Rate (2.48% at June 30, 2008) of the notional amount.

On May 28, 2008, the Obligated Group converted the interest rate mode of $96,750 of outstanding Series 2006B ARS Bonds to fixed interest rates varying from 5% to 5.75%. Concurrent with the conversion, the Obligated Group redeemed the $4,450 of outstanding Series 2006B ARS Bonds which were allocated to RNS. The conversion was accomplished through a mandatory tender on the conversion date. The Series 2006B ARS Bonds were reoffered as one series, the IFA Series 2006B Fixed Rate Revenue Refunding Bonds (the “Series 2006B Fixed Rate Bonds”). In connection with the conversion, Rush reported a loss on extinguishment of debt of $1,412 within nonoperating income (expense) in fiscal year 2008.

On May 21, 2008, in anticipation of the interest rate mode conversion of the Series 2006B ARS Bonds, the Obligated Group terminated the interest rate swaps associated with the Series 2006B ARS Bonds and funded the settlement costs with the proceeds of a draw on a short-term line of credit in the amount of $9,096, which is reported in notes payable on the accompanying consolidated balance sheets and in nonoperating income (expense) in the accompanying consolidated statement of operations and changes in net assets as of June 30, 2008. At June 30, 2008, the remaining swap associated with the Series 2006A Bonds had a notional amount of $101,200 and a fair value of $(7,498), of which $(7,259) is reported in other long-term liabilities, and $(239) is reported in current liabilities in the accompanying consolidated balance sheets. The fair value of the swaps at June 30, 2007 was $(1,231), all reported in other long-term liabilities. Management dedesignated the hedging relationship related to the interest rate swaps at June 30, 2007; therefore, the cumulative change in fair value of the swaps of $(6,267) and $(1,231) is reflected in nonoperating income (expense) in the accompanying consolidated statement of operations and changes in net assets for the years ended June 30, 2008 and 2007, respectively.

The Obligated Group executed a $50,000 short-term line of credit with a bank during fiscal year 2008. At June 30, 2008, the Obligated Group had $13,546 in outstanding draws against this line of credit. As described above, the amount drawn by Rush was used to fund the termination of the interest rate swaps associated with the Series 2006B ARS Bonds. The borrowings under this short-term line of credit are due and payable in fiscal year 2009 and, therefore are classified within notes payable at June 30, 2008.

During fiscal year 2008, the Obligated Group also executed a $100,000 line of credit with a bank. On July 22, 2008, the Obligated Group drew $52,328 against the line of credit to pay off the borrowings against the standby bond purchase agreement noted above and related interest. On August 18, 2008, the Obligated Group drew $44,573 against the line of credit to extinguish the remaining Series 2006A Bonds. The terms of the $100,000 line of credit are such that any borrowings would be due and payable during fiscal year 2009. It is the intention of the Obligated Group to refinance the $96,901 drawn against the $100,000 line of credit during fiscal year 2009. On July 14, 2008, the Obligated Group received letter of credit commitments from two banks for a total of $98,800 to provide enhanced liquidity on the Series 2006A Bonds and to secure an exit strategy from the borrowings under the $100,000 line of credit. The repayment terms for funds borrowed under these letters of credit are either one or three years from their issuance.

Subsequent to June 30, 2008, the Obligated Group utilized a short-term line of credit to redeem $4,450 of outstanding Series 2006A Bonds which were allocated to RNS. Concurrent with the redemption, RNS terminated its interest rate swaps associated with the Series 2006A Bonds and funded the settlement costs in the amount of $280 with proceeds from a draw on a line of credit. The fixed rate on the remaining swap on the Series 2006A Bonds increased to 3.945% effective July 22, 2008.

On July 22, 2008, the Obligated Group also drew against the $50,000 short-term line of credit to pay off $4,450 of borrowings against the standby bond purchase agreement and related interest related to RNS. The total redemption of the Series 2006A bonds on July 22, 2008, was $56,600. The $4,450 in Series 2006A Bonds redeemed using the short-term line of credit is presented as short-term debt and the remaining $96,750 in Series 2006A Bonds are presented as long-term debt in the accompanying consolidated balance sheets.

As of June 30, 2008, the Obligated Group evaluated the carrying value of the unamortized bond issuance costs related to the bond insurance on its Series 2006A Bonds. It was determined that the value of this long-term asset was impaired at June 30, 2008, and the Obligated Group recognized an impairment adjustment of $3,740 within nonoperating income (expense) in fiscal year 2008.

The Obligated Group is subject to certain financial covenants, including maintaining a minimum historical debt service coverage ratio; limitations on selling, leasing, or otherwise disposing of Obligated Group property; and certain other nonfinancial covenants. In addition, under the standby bond purchase and letter of credit agreements, the Obligated Group is required to maintain minimum levels for days cash on hand, debt to capitalization, and maximum annual debt service coverage ratios. The Obligated Group was in compliance with its debt covenants as of June 30, 2008 and 2007.

6. POSTRETIREMENT BENEFITS

Defined Benefit Pension Plans and Postretirement Healthcare Plans — RUMC has two defined benefit pension plans, the Retirement Plan and the Pension Plan (collectively referred to as the “Defined Benefit Pension Plans”), covering substantially all of its employees. Benefits are based on the years of service and the employee’s final average earnings, as defined. RUMC funds the amount calculated by the Defined Benefit Pension Plans’ consulting actuary to meet the minimum ERISA funding requirements. The Defined Benefit Pension Plans’ assets and obligations are measured at June 30 (the “Measurement Date”) each year. Employer contributions were $31,247 and $30,931 during 2008 and 2007, respectively. The actuarial cost method used to compute the Defined Benefit Pension Plans’ liabilities and expenses is the projected unit credit method. The Defined Benefit Pension Plans’ assets are primarily invested in marketable equity securities, U.S. Treasury and U.S. Government agency securities, corporate bonds, and insurance contracts.

In addition to the pension programs, RUMC also provides postretirement healthcare benefits for certain employees (the “Postretirement Healthcare Plans”). Further benefits under the Postretirement Healthcare Plans have been curtailed.

In fiscal year 2007, RUMC adopted FASB Statement No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. FASB Statement No. 158 requires organizations to recognize the funded status of a pension plan, measured as the difference between plan assets at fair value and the projected benefit obligation, and a retiree health plan, measured as the difference between plan assets at fair value and the accumulated benefit obligation, within the consolidated balance sheet. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost will be recognized each year as a separate charge or credit to unrestricted net assets. The cumulative effect of adopting FASB Statement No. 158 was a one-time charge to unrestricted net assets of $6,177 as of June 30, 2007.

The following tables set forth the Defined Benefit Pension Plans and Postretirement Healthcare Plans as of the Measurement Date and amounts recognized in Rush's consolidated balance sheets and statements of operations and changes in net assets for 2008 and 2007:

	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2008	2007	2008	2007
Actuarial present value of benefit obligations — accumulated benefit obligation	$ 561,495	$ 577,199	$ 10,154	$ 11,362
Change in projected benefit obligations:				
Projected benefit obligation — beginning of measurement period	$ 589,579	$ 557,142		
Service costs	12,463	11,260		
Interest costs	36,686	34,694		
Actuarial losses (gains)	(43,499)	6,714		
Benefits paid	(21,490)	(20,231)		
Projected benefit obligation — end of measurement period	$ 573,739	$ 589,579		
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	$ 530,421	$ 445,730	$ -	$ -
Actual return on plan assets	(27,942)	73,991		
Employer contributions	31,247	30,931	478	523
Benefits paid	(21,490)	(20,231)	(478)	(523)
Fair value of plan assets — end of measurement period	$ 512,236	$ 530,421	$ -	$ -
Plan assets less than projected benefit obligation	$ (61,503)	$ (59,158)	$	$ (17,564)
Accrued benefit liability — beginning of year	$ (59,158)	$ (99,737)	$ (11,361)	$ (18,396)
Fiscal year activity:				
Net periodic pension cost	(11,122)	(16,392)	1,573	309
Employer contributions	31,247	30,931	478	523
Minimum pension liability adjustment (before FAS 158)		38,420		
Postretirement-related changes other than net periodic postretirement cost:				
Actuarial loss arising during 2008	(28,577)		1,545	
Reclassification adjustment for losses reflected in periodic expense in 2008	6,107		(2,389)	
Cumulative effect — FAS 158		(12,380)		6,203
Accrued benefit liability — end of year	$ (61,503)	$ (59,158)	$ (10,154)	$ (11,361)
Net periodic pension cost comprised the following:				
Service cost	$ 12,463	$ 11,260	$ 122	$ 122
Interest cost on projected benefit obligation	36,686	34,694	694	814
Expected return on plan assets	(44,134)	(37,952)		
Amortization of prior service cost and other actuarial amounts	(70)	(22)	(294)	(990)
Recognized actuarial gain	6,177	8,412	(2,095)	(255)
Net periodic pension cost (credit)	$ 11,122	$ 16,392	$ (1,573)	$ (309)
Assumptions used to determine benefit obligations at the measurement date and the net periodic pension cost:				
Discount rate — benefit obligation	7.05 %	6.35 %	7.05 %	6.35 %
Discount rate — pension expense	6.35	6.35	6.35	6.35
Rate of increase in compensation levels	5.21	5.21	5.21	5.21
Expected long-term rate of return on plan assets	8.50	8.50		

The postretirement and pension liability included in the June 30, 2008 and 2007, consolidated balance sheets include $853 and $851, respectively, classified as accrued expenses and $70,804 and $69,668, respectively, classified as noncurrent liabilities. In accordance with FASB Statement No. 158, all previously unrecognized actuarial losses and prior service costs are reflected in the consolidated balance sheets. For fiscal year 2008, the postretirement related charges other than net periodic benefit cost related to the pension and postretirement healthcare plans are included as a separate charge to unrestricted net assets and total $(23,314). This amount includes actuarial losses arising during fiscal year 2008 of $(27,032) and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2008 of $3,718. An estimate of $1,913 of this amount will be included as a component of pension expense in fiscal year 2009.

The discount rate used by RUMC is based on a hypothetical portfolio of high quality bonds with cash flows matching the Defined Benefit Pension Plans' expected benefit payment stream.

RUMC's overall expected long-term rate of return on assets is 8.5% in both 2008 and 2007. The expected long-term rate of return is based on the total portfolio of the Defined Benefit Pension Plans' investments rather than the accumulation of returns on individual asset categories. RUMC's investment objective is to achieve its targeted long-term rate of return while avoiding excessive risk. Risk is effectively managed through diversification, which is achieved by employing various investment managers and mutual funds to direct investments over a broad spectrum of assets including domestic equities, international equities, fixed-income securities, and alternative investments (consisting of hedge funds and limited partnerships). The weighted-average asset allocations of RUMC's Defined Benefit Pension Plans' assets at June 30, 2008 and 2007, were as follows:

Asset Category	Target Allocation	Percentage Plan Assets at June 30 2008	Percentage Plan Assets at June 30 2007
Domestic equity securities	50 %	45 %	49 %
International equity securities	10	11	12
Debt securities	30	35	30
Alternative investment securities	10	9	9
Total	100 %	100 %	100 %

RUMC expects to make the following contributions to and estimated benefit payments from its Defined Benefit Pension Plans and Postretirement Healthcare Plans:

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Expected contributions in 2009	$ 20,174	$ 854
Estimated benefit payments:		
2009	$ 26,190	$ 854
2010	28,376	1,020
2011	31,348	1,174
2012	34,339	1,186
2013	37,811	1,134
2014 through 2018	240,378	4,857
Total	$ 398,442	$ 10,225

Tax-Deferred Savings Plan — RUMC maintains a 403(b) tax-deferred retirement savings plan for all employees. Employee contributions are made to the plan voluntarily and on a pretax basis. Maximum annual contributions are limited by federal regulations. RUMC provides all eligible participants a matching contribution up to 3% of an employee's salary. All participants are fully vested in the value of the matching contribution after three years of vesting service. Matching contributions of $7,158 and $6,344 were made to this plan in the years ended June 30, 2008 and 2007, respectively.

457(b) Defined Contribution Plan — RUMC also sponsors a noncontributory Section 457(b) defined contribution plan (the "457(b) Plan") covering selected employees, in which participants may contribute a percentage of qualifying compensation up to certain limits as defined by the 457(b) Plan. The 457(b) Plan assets and liabilities, totaling $5,729 at June 30, 2008, and $5,005 at June 30, 2007, are included in marketable securities and other long-term liabilities, respectively, in the consolidated balance sheets. The assets of this 457(b) Plan are subject to the claims of the general creditors of RUMC.

Defined Contribution Pension Plans — RCMC and RNS maintain defined contribution retirement plans for employees who meet certain eligibility requirements. Contributions are made to the plans based on employee earnings, and additional discretionary contributions are made to partially match contributions made by employees. Total expenses for these plans were $5,796 and $5,113 in the years ended June 30, 2008 and 2007, respectively.

Supplemental Retirement Plans — RUMC and RCMC sponsor noncontributory supplemental retirement plans for certain management employees. RUMC sponsors a nonqualified supplemental defined benefit retirement plan, which is unfunded. Benefits under the supplemental plan, which were curtailed as of December 31, 2004, are paid when incurred from operating funds. Effective January 1, 2007, RUMC adopted a new Supplemental Executive Retirement Plan (SERP) as a replacement for the curtailed supplemental defined benefit retirement plan. Annual benefits are credited to each participant's account using a target benefit formula based on compensation and years of service. During 2008 and 2007, the SERP was funded for calendar years 2005 through 2008. RCMC sponsors a similar nonqualified, supplemental retirement plan with annual benefits credited to each participant's account based on an amount expressed as a percentage of the participant's compensation. The plan is currently funded at 60% of benefits accrued. The benefit obligation under these plans was $7,591 and $5,771 as of June 30, 2008 and 2007, respectively.

7. CONCENTRATION OF CREDIT RISK

Rush grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivables from patients and third-party payors at June 30, 2008 and 2007, was as follows:

	2008	2007
Medicare	14 %	15 %
Medicaid	15	13
Managed care	52	48
Commercial and self-pay	19	24
Total	100 %	100 %

8. CONTINGENCIES

Professional Liability — RUMC, RCMC, and RNS maintain insurance programs, including both self-insured and purchased insurance arrangements, for certain professional liability claims. Self-insured risks are retained in varying amounts according to policy year and entity. For the year ended June 30, 2008, RUMC retained self-insured risk to $10,000 per occurrence (with an additional $10,000/$15,000 buffer-aggregate self-insured limit). For the years ended June 30, 2007, 2006, and 2005, RUMC retained self-insured risk to $17,500 per occurrence (with an additional $5,000 inner-aggregate self-insured limit). RCMC participates in a retrospectively rated pooled insurance program and retained self-insured risk to $1,000 per occurrence and $3,000 annual aggregate. RNS retained self-insured risk to $1,000 per occurrence. Amounts above specified self-insured limits are insured through purchased insurance policies. Insurance is purchased on a claims-made basis. Rush has established a trust fund to pay claims and related costs.

Rush has employed independent actuaries to estimate the ultimate cost of claim settlements. Self-insured liabilities are based on the actuarial estimate of losses using Rush's actual payout patterns, and various other assumptions, and are recorded at the estimated present value of self-insured claims that will be settled in the future. If the present value method was not used, Rush's liability for self-insured claims would be approximately $58,797 and $57,730 higher than the amounts recorded in the consolidated balance sheets at June 30, 2008 and 2007, respectively. The discount rates used in calculating the present value by organization are as follows:

	RUMC	RCMC	RNS
2008	6.00 %	4.92 %	5.00 %
2007	6.00	4.87	5.00

Under the terms of its insurance arrangements, RCMC can be charged retrospective premiums if actuarially determined funding for the group insurance program in which it participates proves inadequate.

During fiscal years 2008 and 2007, actual experience on RUMC's self-insured claims was better than projected. The change in estimate related to prior periods of $25,383 and $26,500 was recognized as a decrease in supplies, utilities, and other expense in the consolidated statements of operations and changes in net assets for the years ended June 30, 2008 and 2007, respectively.

Rush is subject to various other regulatory investigations, legal proceedings, and claims which are incidental to its normal business activities. In the opinion of management, the amount of ultimate liability with respect to professional liability matters and other actions will not have a material adverse effect on the consolidated financial position or results of operations of Rush.

Guarantee of Indebtedness — RUMC provides a $1,750 guarantee on a $3,500 loan through the Illinois Finance Authority Pooled Financing Program for RML Specialty Hospital, a joint venture with another healthcare provider. This loan calls for monthly payments of $33 through December 2012 at which time a balloon payment of $1,700 is due.

Self-Funded Medical Benefit Plans — Effective January 1, 2005, RUMC and RCMC sponsor self-funded medical benefit plans covering substantially all of their employees and their dependents. The medical benefit expense is based on actual medical and prescription claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. At June 30, 2008 and 2007, the estimated liability for unpaid and unreported claims was $7,450 and $7,390, respectively, included in accrued expenses. The medical benefit expense was $50,157 and $45,872 for the years ended June 30, 2008 and 2007, respectively.

9. LEASE COMMITMENTS AND FINANCING OBLIGATIONS

Obligations Under Capital Lease and Other Financing Arrangements — RUMC is party to a deferred financing agreement with a third party to lease a medical office building adjacent to Rush Oak Park Hospital for a remaining period of 13 years. Under the terms of this lease, the annual expense, excluding maintenance and repairs, taxes, and other operating expenses was approximately $3,800 in 2008 and $3,700 in 2007, and increases each year by 2.5%.

In September 2005, RUMC entered into a long-term contract with a vendor for the licensing, implementation, and maintenance of a clinical, patient management, and patient accounting system. Under terms of the contract, RUMC will pay licensing fees over an initial 6.25-year term and, at the end of the initial term, RUMC has the right to convert the arrangement to a perpetual license for a fee. The arrangement has been treated in the manner of a capital lease, with the present value of future license payments included in equipment and the related obligation included in obligations under capital lease. The asset has a net book value of approximately $6,969 at June 30, 2008. In addition to licensing fees, RUMC pays maintenance fees for support services received under terms of the agreement. Related costs are recognized as expenses when incurred. Maintenance fees were not significant in 2008.

In June 2005, RCMC, through its subsidiary Ventures, sold land and two separate medical office buildings to an unrelated third party and simultaneously entered into agreements with the third party to lease back portions of each building. For one building, the lease term is 10 years, with an approximate monthly rent of $31 and an annual 2.5% escalation increase. This agreement also includes a $1 per month signage lease agreement. The other building is leased under a four-year lease agreement for approximately $10 per month, with a 2.5% annual escalation increase. This building also includes a $3 per month signage lease for 10 years. Additionally, a portion of this building has a 22-year land lease agreement for $2 per month, with an annual CPI-related escalation increase, to be paid through 2027. These transactions have been accounted for as financings rather than sale-leaseback transactions as prescribed by FASB Statement No. 98, *Accounting for Leases*. As of June 30, 2008 and 2007, the carrying amount of the land and buildings was $9,079, less accumulated depreciation of $3,744 and $3,296, respectively. As of June 30, 2008, $6,266 is reported in obligations under capital lease and other financing arrangements.

RUMC, RCMC, and RNS are also party to certain capital lease arrangements relating to medical and office equipment. Expiration of leases ranges from 2009 to 2012.

Total future minimum lease payments under these capital leases and other financing arrangements, together with the present value of these minimum lease payments, at June 30, 2008, are as follows:

Years Ending June 30	Capital Leases	Financing Arrangements	Total
2009	$ 2,247	$ 4,290	$ 6,537
2010	2,247	4,339	6,586
2011	1,963	4,434	6,397
2012	1,667	4,554	6,221
2013	652	4,680	5,332
Thereafter		52,265	52,265
Total minimum payments	8,776	74,562	83,338
Less amount representing interest	(664)	(31,424)	(32,088)
Net present value of capital lease and deferred financing arrangements	8,112	43,138	51,250
Less current portions included in accounts payable	(1,972)	(720)	(2,692)
Long-term portion	$ 6,140	$ 42,418	$ 48,558

Obligations Under Operating Leases — Rush is party to various noncancelable operating leases with third parties. Rental expense was approximately $17,436 and $16,769 for 2008 and 2007, respectively. Total minimum payments under noncancelable operating leases at June 30, 2008, are as follows:

Years Ending June 30	
2009	$ 7,618
2010	5,870
2011	4,894
2012	4,472
2013	3,050
Thereafter	6,750
Total	$ 32,654

10. SALE OF ASSETS AND DISCONTINUED OPERATIONS

Rush Behavioral Health (RBH) was a division of RUMC providing outpatient behavioral health services. In May 2007, RUMC sold all of the assets of RBH to Resurrection Health Care, an Illinois not-for-profit corporation. As a result of this transaction, RUMC recorded a loss on sale of $645.

Hospice Partners was a not-for-profit corporation wholly owned by RUMC that provided support and palliative care for terminally ill patients. In September 2005, RUMC sold substantially all of the assets of Hospice Partners to HCR-Manor Care Inc., a public hospice and home-care service company. RUMC recorded a gain from discontinued operations of $449, included in changes in unrestricted net assets, for the year ended June 30, 2007.

During fiscal year 2008, RUMC sold its ownership interest in Rush-Barton Senior Living Supportive Living Center, a low-income senior assisted-living development. As a result of this transaction, RUMC recorded a gain on sale of $906.

11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by Rush has been limited by donors to a specific time period or purpose, and represent amounts that are to be used for capital acquisitions or operating purposes. At June 30, 2008 and 2007, temporarily restricted net assets are available for the following purposes or periods:

	2008	2007
Health care services:		
Construction and purchase of equipment	$ 41,062	$ 39,552
Indigent care	1,265	1,030
Health education	3,362	3,499
Women's Board	3,598	3,743
Specific-purpose pledges	37,874	44,466
Other special purposes	44,941	27,839
Restricted investment income	160,051	190,080
Total	$ 292,153	$ 310,209

Permanently restricted net assets are those required by donors to be maintained by Rush in perpetuity. Investment income earned on permanently restricted net assets is recorded as temporarily restricted net assets if restricted and as nonoperating income if unrestricted.

During 2008 and 2007, net assets were released from donor restrictions by purchasing property and equipment of $5,364 and $15,259, respectively, and incurring expenses of $29,599 and $21,281, respectively, both of which satisfied the restricted purposes of healthcare services. Net assets released from restriction used in operations are included in other revenue in the accompanying consolidated statements of operations.

12. PROMISES TO CONTRIBUTE

At June 30, 2008, contributions receivable included the following unconditional promises to give:

	2008	2007
Capital campaign	$ 62,829	$ 56,504
Restricted to future periods	2,165	2,564
Unconditional promises to give before unamortized discount and allowance for uncollectibles	64,994	59,068
Less unamortized discount	(7,998)	(4,325)
Less allowance for uncollectibles	(1,610)	(1,594)
Net unconditional promises to give	$ 55,386	$ 53,149
Amounts due in:		
Less than one year	$ 17,475	$ 18,320
One to five years	27,129	38,424
More than five years	20,390	2,324
Total	$ 64,994	$ 59,068
Reported as:		
Other accounts receivable — net	$ -	$ 8,840
Assets limited as to use for donor purposes	17,539	24,705
Other assets	37,847	19,604
Total	$ 55,386	$ 53,149

A discount rate of 1.9% was applied to new pledges given during 2008. Discount rates ranged from 4% to 6% in 2007.

The capital campaign began on February 1, 2004. As of June 30, 2008, RUMC received an accumulated $130,202 in unconditional promises to contribute for its capital campaign which have been recognized as temporarily and permanently restricted contributions. Certain pledges were received from related parties, but the total is not considered material at June 30, 2008.

In addition, RUMC has received conditional promises to contribute that are not recognized as assets in the consolidated balance sheet at June 30, 2008. The total is not considered material at June 30, 2008.

13. JOINT VENTURES AND OTHER AFFILIATIONS

Rush has affiliations with and interests in other organizations which are not consolidated. These organizations primarily operate inpatient and outpatient health services and managed care contracting services.

Investments in unconsolidated joint ventures, accounted for on the equity method, totaled $14,955 and $14,718 at June 30, 2008 and 2007, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income recognized from these joint ventures was $3,429 and $4,468 in 2008 and 2007, respectively, and included in other revenue in the accompanying consolidated statements of operations. During 2008 and 2007, RUMC received $415 and $2,500 in annual distributions from RML Specialty Hospital during 2008 and 2007, respectively, reflected in the consolidated statements of cash flows within operating activities.

RNS is a 50% owner of the Rush North Shore Practice Organization, a joint venture with area physicians formed to provide certain contracting and contract administration services for capitated contracts. RNS and the PHO have agreed that the PHO will purchase RNS's shares of the PHO, at a nominal valuation per share, no later than December 31, 2008. At June 30, 2008, Rush has recorded an impaired value of the PHO investment of $416.

	2008			
	RUMC	RCMC	RNS	Total
Total income recognized	$ 1,859	$ 500	$ 1,070	$ 3,429
Total equity interest	$ 10,961	$ 3,023	$ 971	$ 14,955
Total venture net revenue	$ 53,546	$ 6,585	$ 18,411	$ 78,542

	2007			
	RUMC	RCMC	RNS	Total
Total income recognized	$ 2,468	$ 522	$ 1,478	$ 4,468
Total equity interest	$ 9,396	$ 3,107	$ 2,215	$ 14,718
Total venture net revenue	$ 50,680	$ 5,853	$ 17,621	$ 74,154

14. FUNCTIONAL EXPENSES

Expenses related to the patient care, education, and research services provided by Rush for the years ended June 30, 2008 and 2007, were as follows:

	2008	2007
Healthcare	$ 1,264,905	$ 1,193,017
University services, including research	149,466	137,641
General and administrative	136,807	126,203
Illinois Medicaid hospital assessment	38,111	76,223
Total	$ 1,589,289	$ 1,533,084

15. SUBSEQUENT EVENT

Subsequent to June 30, 2008, the global financial markets experienced a significant decline in value. As of October 15, 2008, Rush experienced additional unrealized losses on its investments of approximately $106,388 from amounts recorded as of June 30, 2008, of which $47,662 would represent unrestricted losses which would reduce the excess of revenues over expenses in the statement of operations and $58,726 would represent losses on restricted investments which would reduce the change in restricted net assets in the statement of changes in net assets. Rush will continue to monitor its investments but has no immediate plans to change its investment portfolio.

* * * * * *

SUPPLEMENTAL SCHEDULES

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

SCHEDULE I

CONSOLIDATING BALANCE SHEET INFORMATION
AS OF JUNE 30, 2008
(Dollars in thousands)

	Rush University Medical Center	Rush-Copley Medical Center	Rush North Shore Medical Center	Eliminations	Obligated Group
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 121,438	$ 8,232	$ 10,249	$ -	$ 139,919
Short-term investments	26,465	37,289			63,754
Accounts receivable for patient services — net of allowance for doubtful accounts of $58,354	130,145	42,600	20,334		193,079
Other accounts receivable — net	49,713		2,381	(3,809)	48,285
Self-insurance trust — current portion	28,361				28,361
Other current assets	29,317	7,761	5,747		42,825
Total current assets	385,439	95,882	38,711	(3,809)	516,223
ASSETS LIMITED AS TO USE AND INVESTMENTS:					
Limited as to use for donor purposes	341,587	8,813	3,635		354,035
Collateral proceeds received under securities lending program	101,576				101,576
Investments on loan under securities lending program	100,495				100,495
Self-insurance trust — less current portion	136,767		5,366		142,133
Marketable securities and designated for capital purposes	266,460	13,093	11,982		291,535
Debt service reserve fund	9,495	5,325	514		15,334
Total investments	956,380	27,231	21,497		1,005,108
PROPERTY AND EQUIPMENT — At cost:					
Land and buildings	809,879	182,461	141,872		1,134,212
Equipment	330,133	75,418	79,178		484,729
Construction in progress	102,656	27,268	288		130,212
Total property and equipment	1,242,668	285,147	221,338		1,749,153
Less accumulated depreciation	(638,244)	(131,616)	(145,299)		(915,159)
Net property and equipment	604,424	153,531	76,039		833,994
OTHER ASSETS	55,420	5,122	3,252	(6,718)	57,076
TOTAL	$2,001,663	$ 281,766	$ 139,499	$ (10,527)	$2,412,401

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP **SCHEDULE I**

CONSOLIDATING BALANCE SHEET INFORMATION
AS OF JUNE 30, 2008
(Dollars in thousands)

	Rush University Medical Center	Rush-Copley Medical Center	Rush North Shore Medical Center	Eliminations	Obligated Group
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	$ 84,430	$ 23,010	$ 6,597	$ (2,362)	$ 111,675
Accrued expenses	102,014	10,974	15,506	(1,447)	127,047
Student loan funds	23,578				23,578
Estimated third-party settlements payable	93,471	25,558	8,731		127,760
Notes payable	5,776	2,997	4,773		13,546
Current portion of accrued liability under self-insurance programs	28,714				28,714
Current portion of long-term debt	5,284	595	6,316		12,195
Total current liabilities	343,267	63,134	41,923	(3,809)	444,515
LONG-TERM LIABILITIES:					
Accrued liabilities under self-insurance programs — less current portion	174,124	7,119	7,050		188,293
Postretirement and pension benefits	70,804				70,804
Long-term debt — less current portion	209,695	69,476	42,906		322,077
Obligation to return collateral under securities lending program	101,576				101,576
Other long-term liabilities	42,765	7,401	978	(6,718)	44,426
Obligations under capital lease and other financing arrangements	41,760	6,266	532		48,558
Total long-term liabilities	640,724	90,262	51,466	(6,718)	775,734
Total liabilities	983,991	153,396	93,389	(10,527)	1,220,249
NET ASSETS:					
Unrestricted	521,953	119,549	42,475		683,977
Temporarily restricted for specific purposes	287,514	2,068	2,571		292,153
Permanently restricted endowments:					
Income unrestricted	20,443	6,052			26,495
Income restricted to specific purposes	187,762	701	1,064		189,527
Total permanently restricted net assets	208,205	6,753	1,064		216,022
Total net assets	1,017,672	128,370	46,110		1,192,152
TOTAL	$2,001,663	$281,766	$139,499	$(10,527)	$2,412,401

(Concluded)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

SCHEDULE II

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008
(Dollars in thousands)

	Rush University Medical Center	Rush-Copley Medical Center	Rush North Shore Medical Center	Eliminations	Obligated Group
REVENUE:					
Net patient service revenue	$1,028,021	$ 261,810	$175,795	$ (762)	$1,464,864
University services:					
Tuition and educational grants	40,248				40,248
Research and other operations	93,244				93,244
Other revenue	53,733	9,140	2,888	(751)	65,010
Total revenue	1,215,246	270,950	178,683	(1,513)	1,663,366
EXPENSES:					
Salaries, wages, and employee benefits	616,390	118,627	91,085		826,102
Supplies, utilities, and other	429,822	99,519	64,615	(1,513)	592,443
Depreciation and amortization	59,970	16,134	10,784		86,888
Provision for uncollectible accounts	35,928	18,310	10,344		64,582
Interest and fees	12,883	3,719	2,672		19,274
Total expenses	1,154,993	256,309	179,500	(1,513)	1,589,289
OPERATING INCOME (LOSS)	60,253	14,641	(817)		74,077
NONOPERATING INCOME (EXPENSE):					
Investment income and other	13,575	2,729	749		17,053
Unrestricted contributions and bequests	6,854	1,892	261		9,007
Fundraising expenses	(4,872)	(829)			(5,701)
Net gain on sale	906				906
Change in fair value of interest rate swaps	(9,590)	(5,307)	(466)		(15,363)
Loss on extinguishment of debt	(827)	(413)	(172)		(1,412)
Loss on impairment of asset	(2,282)	(1,354)	(104)		(3,740)
Total nonoperating income	3,764	(3,282)	268		750
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	$ 64,017	$ 11,359	$ (549)	$	$ 74,827

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

SCHEDULE II

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2008 (Dollars in thousands)

	Rush University Medical Center	Rush-Copley Medical Center	Rush North Shore Medical Center	Eliminations	Obligated Group
UNRESTRICTED NET ASSETS:					
Excess (deficiency) of revenue over expenses	$ 64,017	$ 11,359	$ (549)	$ -	$ 74,827
Change in unrealized gains and losses on investments	(258)				(258)
Funding of impaired endowment corpus	(338)				(338)
Net assets released from restrictions used for purchase of property and equipment and other	5,994	73	(703)		5,364
Postretirement related changes other than net periodic postretirement cost	(23,314)				(23,314)
Increase in unrestricted net assets	46,101	11,432	(1,252)		56,281
TEMPORARILY RESTRICTED NET ASSETS:					
Pledges and contributions:					
Restricted by donors for construction	5,250				5,250
Restricted by donors for research and other purposes	26,720	151	1,094		27,965
Net assets released from restrictions	(34,228)	(299)	(436)		(34,963)
Investment gains	16,057	(25)			16,032
Change in unrealized gains and losses on investments	(32,678)				(32,678)
Recovery of impaired endowment corpus	338				338
(Decrease) increase in temporarily restricted net assets	(18,541)	(173)	658		(18,056)
PERMANENTLY RESTRICTED NET ASSETS — Pledges and contributions	30,956				30,956
INCREASE (DECREASE) IN NET ASSETS	58,516	11,259	(594)		69,181
NET ASSETS — Beginning of year	959,156	117,111	46,704		1,122,971
NET ASSETS — End of year	$1,017,672	$128,370	$46,110	$ -	$1,192,152

(Concluded)