Rush University Medical Center Obligated Group

Quarterly Report
For the Year Ended June 30, 2014
Unaudited

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

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This document is dated as of August 19, 2014.

Cautionary Statements Regarding Forward-Looking Information in this Quarterly Report

Certain statements included or incorporated by reference in this Quarterly Report constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," or other similar words. Such forward-looking statements include, among others, certain statements within the Management Discussion and Analysis section of this Quarterly Report.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE OBLIGATED GROUP DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN THE EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Purpose of the Quarterly Report

The purpose of this Quarterly Report is to present the Rush University Medical Center Obligated Group's (the Obligated Group consisting of Rush University Medical Center, Rush Oak Park Hospital, Copley Memorial Hospital, Rush-Copley Medical Center, Rush-Copley Foundation, Copley Ventures and Rush-Copley Medical Group) consolidated financial statements for the fiscal years ended June 30, 2014 and 2013, and management's discussion and analysis of the Obligated Group's financial condition and results of operations for the fiscal year ended June 30, 2014. This report also provides insights on the quality of earnings reported, significant balance sheet assumptions used and any changes in assumptions used, risks to the balance sheet and statement of operations, and the impact of anticipated future events.

This report includes the consolidated activities and results of Rush University Medical Center and Rush-Copley Medical Center, including all subsidiaries, collectively "Rush" or the "Obligated Group." Rush University Medical Center also controls and operates Rush Oak Park Hospital. The primary activities and results of the Obligated Group include the hospitals, Rush University education and research activities, Rush University Medical Group (RUMG), RUMC's faculty practice plans, and other physician practice activity as well as other operating activities.

Officer's Certificate

The undersigned duly appointed and acting Senior Vice President and Chief Financial Officer of Rush University Medical Center, as the Group Representative pursuant to the Master Continuing Disclosure Agreement dated as of August 1, 2006 (Master Continuing Disclosure Agreement) between the Group Representative and Digital Assurance Certification, L.L.C., as Dissemination Agent (Dissemination Agent), hereby certifies as follows:

1. **Definitions.** Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Master Continuing Disclosure Agreement.

2. **Quarterly Report.** Accompanying this Quarterly Report Certificate is the Quarterly Report for the year ended June 30, 2014.

3. **Compliance with Master Continuing Disclosure Agreement.** The Quarterly Report is being delivered to the Dissemination Agent herewith not later than the sixtieth (60th) day following the end of such fiscal quarter which is the applicable Quarterly Report Date for purposes of such Quarterly Report. The Quarterly Report contains, or includes by reference, the Financial Information and Operating Data required by the Master Continuing Disclosure Agreement. The Financial Information and Operating Data include information with respect to the Obligated Persons identified in Schedule 1 hereto, and such Obligated Persons constitute all of the Obligated Persons with respect to the Related Bonds for the fiscal year covered by the Quarterly Report. To the extent any information is included in the Quarterly Report by reference, any document so referred to has been previously provided to the Repositories or filed with the SEC or, in the case of a reference to a Final Official Statement, has been filed with the MSRB.

   Such Financial Information and Operating Data have been prepared on the same basis as the most recently prepared Audited Financial Statements.

IN WITNESS WHEREOF the undersigned has executed and delivered this Quarterly Report Certificate to the Dissemination Agent, which has received such certificate and the Quarterly Report, all as of the 19th day of August, 2014.

RUSH UNIVERSITY MEDICAL CENTER
As Group Representative

By: ______________________
John P. Mordach

Its: Senior Vice President and Chief Financial Officer

Acknowledgment of Receipt:

Digital Assurance Certification (DAC)
As Dissemination Agent

By: ______________________
Shana Bridge

Its: Client Service Manager

SCHEDULE 1
OBLIGATED PERSONS

1. Rush University Medical Center (the Medical Center)

2. Rush Oak Park Hospital (ROPH)

3. Copley Memorial Hospital, Inc. (Copley or CMH)

4. Rush-Copley Medical Center, Inc. (Rush-Copley or RCMC)

5. Rush-Copley Foundation (Copley Foundation)
   Previously known as Copley Memorial Hospital Health Care Foundation

6. Copley Ventures, Inc. (Copley Ventures)

7. Rush-Copley Medical Group NFP (the Medical Group)
   Previously known as Rush-Copley Services Corporation (Services Corporation)

Management Discussion and Analysis of Financial Condition and Results of Operations

Selected Financial Results and Other Information

(Dollars in thousands)

Financial Results for the	Year Ended June 30, 2014	Year Ended June 30, 2013	Comparison	
Total operating revenue	$ 1,969,638	1,837,833	$ 131,805	7.2%
Total operating expenses	1,887,093	1,761,550	125,543	7.1%
Operating income	82,545	76,283	6,262	8.2%
Nonoperating income (expense)	49,902	34,721	15,181	43.7%
Excess of revenue over expenses	132,447	111,004	21,443	19.3%
Operating EBIDA	243,913	250,780	(6,867)	-2.7%

Selected Balance Sheet Information as of	June 30, 2014	June 30, 2013	Comparison	
Unrestricted cash and investments	$ 1,016,198	850,472	$ 165,726	19.5%
Restricted cash and investments	689,496	649,951	39,545	6.1%
Accounts receivable for patient services, net of allowance for doubtful accounts	211,369	190,145	21,224	11.2%
Net property and equipment	1,363,112	1,376,118	(13,006)	-0.9%
Obligated Group indebtedness	640,382	656,890	(16,508)	-2.5%
Postretirement and pension benefits	54,703	85,242	(30,539)	-35.8%
Unrestricted net assets	1,323,974	1,159,532	164,442	14.2%

Selected Cash Flow Information for the	Year Ended June 30, 2014	Year Ended June 30, 2013	Comparison	
Net cash provided by operating activities	$ 183,937	$ 266,803	$ (82,866)	-31.1%
Changes in operating assets and liabilities	(77,375)	(7,488)	(69,887)	933.3%
Capital expenditures	(100,119)	(84,054)	(16,065)	19.1%

Note 1: Refer to 'Prior Period and Significant Nonrecurring Items' on page 17 of this Quarterly Report for a listing of items impacting the Obligated Group's reported operating income for the years ended June 30, 2014 and 2013.

Financial Ratios

	UNAUDITED	AUDITED FISCAL YEAR			TARGET
	2014 Actual	2013 Actual	2012 Actual	2011 Actual	Moody's "A" Median 2012 (2)
Operating Performance:					
Operating Margin	4.2%	4.2%	3.9%	5.9%	2.9%
Excess Margin (1)	5.2%	5.5%	5.0%	6.8%	5.9%
Operating Cash Flow (EBIDA) Margin	12.4%	13.6%	11.8%	12.7%	10.3%
Liquidity:					
Days Cash on Hand	210.0	190.5	144.1	153.6	204.5
Days in Net Accounts Receivable	44.9	43.6	60.6	44.7	50.0
Financial Position / Debt Capacity:					
Debt to Capitalization	32.6%	36.2%	40.7%	43.3%	37.4%
Debt to Cash Flow (1)	2.9	2.8	3.4	3.2	3.3
Cash to Debt	166.3%	136.9%	99.8%	101.1%	98.9%
Maximum Annual Debt Service Coverage (1) (3)	4.6x	4.7x	4.0x	4.2x	4.6x
Annual Debt Service Coverage (1) (3)	4.6x	5.0x	5.7x	6.3x	5.0x
Average Age of Plant in Years	10.1	8.4	9.9	10.6	10.4
Capital Spending Ratio	0.8	0.6	1.9	3.0	1.2

Note 1: Net income excludes unrealized gains and losses on unrestricted investments, change in fair value of interest rate swaps still outstanding, nonoperating loss on impairment of assets and loss on early extinguishment of debt.

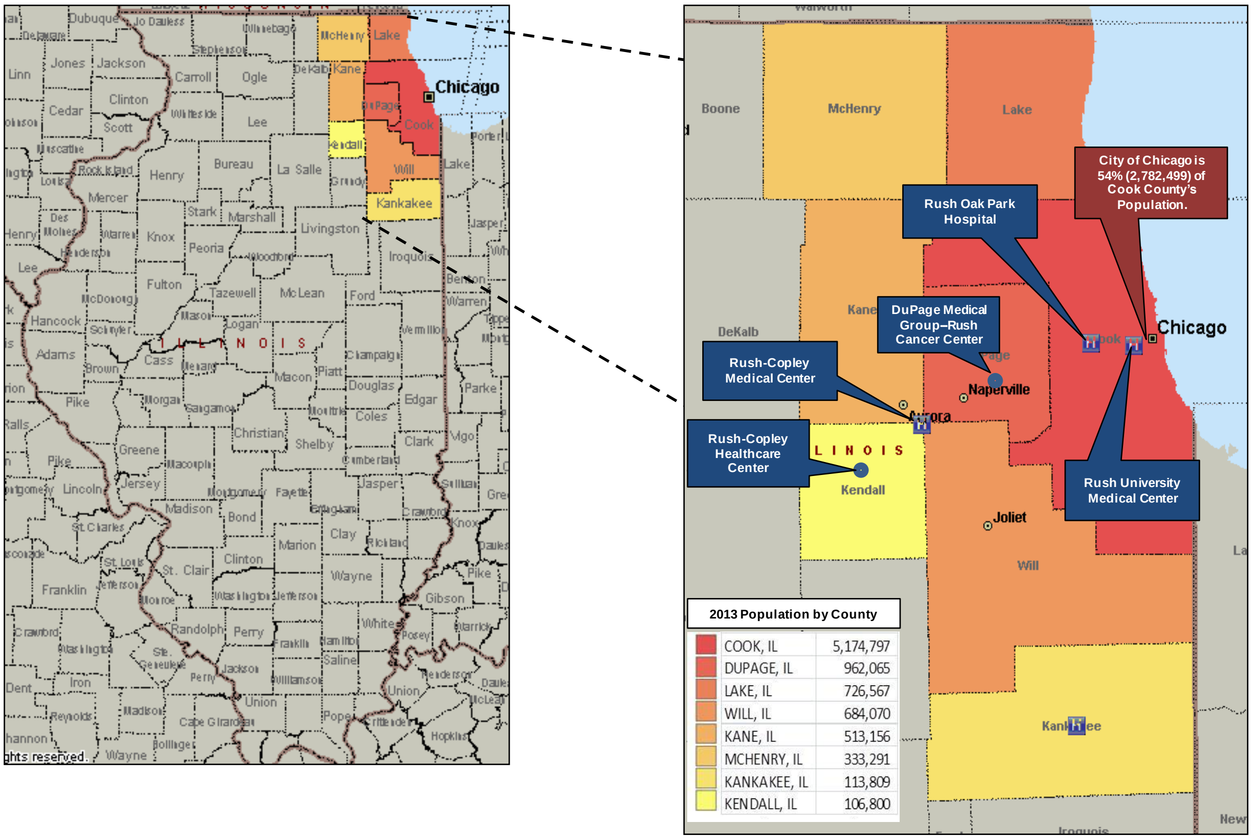
Note 2: As published by Moody's Investor Services, Fiscal Year 2012 Not-for-Profit Healthcare Medians for Freestanding Hospitals, Single-State and Multi-State Healthcare Systems, August 2013.

Note 3: Net revenue available for debt service excludes net gains and losses on sales, a component of nonoperating income, which is consistent with the Obligated Group debt covenant calculation.

Overview of the Obligated Group

The Obligated Group is a multi-hospital system with operations that consist of several diverse activities linked by the common mission of patient care, education, research, and community service. The Obligated Group's 8-county service area includes the City of Chicago and surrounding suburbs.

The Obligated Group hospitals consist of an academic medical center, Rush University Medical Center, and two community hospitals that each serve distinct markets in the Chicago metropolitan area.



Rush University Medical Center (RUMC)

A 731-licensed bed acute care hospital, of which 677 are currently staffed, which includes the Johnson R. Bowman Health Center for the Elderly, a rehabilitation and psychiatric facility, and Rush Children's Hospital. RUMC competes with four other academic medical centers in the Chicago metropolitan area as well as several large suburban hospitals with specialty and local strength. RUMC was the third largest hospital provider in the 8-county Chicago metropolitan area with a market share of 3.2% and 3.0% during the nine months ended March 31, 2014 and fiscal year ended June 30, 2013, respectively. In a highly fragmented market, RUMC focuses on building market share in its strategic programs: Neurosciences, Bone and Joint, Cancer Care, High Risk Infant and Mother, Transplant, and Heart and Vascular. RUMC was the market leader in Neurosciences and Bone and Joint and third in Cancer Care and Heart and Vascular during the nine months ended March 31, 2014.

Rush Oak Park Hospital (ROPH)

A 296-licensed bed acute care, rehabilitation and skilled nursing hospital, of which 128 are currently staffed, located approximately 8 miles west of RUMC in Oak Park, Illinois. Local competition is strong and represented by integrated delivery system hospitals and for-profit systems. Three of the strategic programs at RUMC are currently integrated at ROPH: Cancer Care, Heart and Vascular, and Bone and Joint. Effective October 25, 2013, RUMC became the sole corporate member of ROPH pursuant to a change in membership interest. All assets, liabilities and net assets of ROPH are consolidated with the financial results of Rush as of June 30, 2014. Effective June 30, 2014, ROPH became an additional member of the Obligated Group.

Copley Memorial Hospital (CMH)

A 210-licensed bed acute care hospital, of which 210 are currently staffed, located approximately 35 miles west of RUMC in Aurora, Illinois. CMH is focused on providing advanced medicine services not usually found at a community hospital. CMH was the market leader in its 15-Zip code primary service area with a market share of 39.5% and 39.7% during the nine months ended March 31, 2014 and fiscal year ended June 30, 2013, respectively (primary service area includes the cities of Aurora, Eola, Oswego, Montgomery, Yorkville, Plano, Sandwich, Bristol, Newark, Somonauk and Plainfield). CMH is the market leader in its primary service area in the following strategic programs: Cancer Care, Neurosciences, Heart and Vascular, Women's Health, and Emergency Services. CMH also ranked seventh in the state of Illinois for deliveries during the nine months ended March 31, 2014.

Recent Honors and Recognition

Rush's commitment to the very best patient care is central to our mission and recognized in a variety of honors and quality outcomes, including the following recent awards:

U.S. News & World Report
"Best Hospitals"

In the 2014-15 issue of U.S. News & World Report magazine showcasing "Best Hospitals," RUMC ranked nationally among the best hospitals in America in seven adult specialties including Orthopedics (6th), Geriatrics (17th), Neurology and Neurosurgery (17th), Nephrology (31st), Urology (43rd), Cardiology and Heart Surgery (46th) and Cancer (48th). The following RUMC specialty services were high-performing: Diabetes and Endocrinology, Ear, Nose and Throat, Gastroenterology, Gynecology and Pulmonology. Also, Rush-Copley Medical Center was high-performing in the specialty of Orthopedics.

Hospitals & Health Networks
"Most Wired"

Rush University Medical Center was named one of only 20 advanced "Most Wired" hospitals in the nation according to the 16th annual survey conducted by Hospitals & Health Networks for 2014. The survey focused on health care systems and hospitals throughout the nation using clinical information systems that improve and enhance patient care and the patient experience.

Disability Matters Conference
"Workplace Award"

In April 2014, Rush University Medical Center was honored with the Workplace Award at the eighth annual Disability Matters Conference. For decades, Rush has led the way in providing accommodations and opportunities for people with disabilities and has received numerous awards for disability initiatives. The Disability Matters award recipients represent the best of the best when it comes to the commitment required and actions necessary to successfully mainstream disability in the workforce, workplace and marketplace, according to Springboard Consulting, which sponsors the conference.

Chicago Tribune
"Top Workplaces"

Rush-Copley Medical Center was ranked 4th overall in the large employer category in The Chicago Tribune's 2013 ranking of "Chicago's Top Workplaces." The top workplaces are determined solely on employee feedback based on employee surveys conducted by a leading research firm on organization health and employee engagement. In addition, Rush-Copley was recognized as a top workplace for "communication" with the highest survey scores related to employees feeling well informed about important decisions.

UHC
"Quality Leadership Award"

Rush University Medical Center ranked fifth in the University HealthSystem Consortium (UHC) 2013 Quality Leadership Award in an annual study of 101 academic medical centers across the nation. Medical centers that demonstrate excellence in delivering high-quality care in the study receive the Quality Leadership Award. Rush was the only medical center in Illinois to be listed among the top 10. Overall, it is the sixth time since the study began in 2005 that Rush was ranked in the top ten and Rush's fifth appearance among the top five. UHC's principal member institutions are evaluated on the basis of mortality, effectiveness, safety, patient centeredness and equity of care. Also, in every year that the study has been conducted, Rush attained a perfect score in the equity of care category.

BMO Harris
"Donation for New Education and Career Opportunities"

During October 2013, Rush University Medical Center received a $5 million donation from BMO Harris Bank to expand a unique model of care that educates and trains students for new health care jobs needed to deliver high-quality, coordinated health care to Chicago's underserved and low-income West and South Side communities. The funding will strengthen and accelerate existing health care partnerships among Rush, the Medical Home Network and City Colleges of Chicago, creating new, sustainable models of care through numerous programs.

NIH
"Shared Grant for Alzheimer's Research"

In September 2013, the National Institutes of Health (NIH) announced the award of a new research grant which aims to set the stage for the discovery that could be used to treat Alzheimer's disease. Rush University Medical Center is one of only four organizations which are the principal investigation sites for the study. The total expected funding of the research grant is $7.9 million. This award was among several new research grants totaling $45 million that the NIH awarded to advance the National Plan to Address Alzheimer's Disease, a national effort that aims to find effective interventions for Alzheimer's by 2025.

HRC Foundation
"Leader in LGBT Healthcare Equality"

For the fifth consecutive year, RUMC was named a leader in LGBT Healthcare Equality in the Healthcare Equality Index (HEI) 2013 report, an annual survey of U.S. hospitals regarding treatment of lesbian, gay, bisexual, and transgender patients and their families and hospital employees. Rush is one of only four hospitals in the nation that achieved a perfect score on all of the core criteria of the survey for each of the five years that it has participated. The HEI survey is administered annually by the Human Rights Campaign (HRC) Foundation.

Leapfrog
"Top Rating for Patient Safety"

In the spring 2014 survey, both RUMC and Rush-Copley again received a top grade "A" for patient safety from the Leapfrog Group. These scores represent a hospital's overall performance in keeping patients safe from preventable medical and medication errors, infections and injuries. This is the fifth consecutive time that RUMC received top grade in a nationwide patient safety evaluation of hospitals by The Leapfrog Group.

ANCC
"Magnet Status Designation"

In September 2010, RUMC received a four-year renewal of its Magnet status, the highest recognition given for nursing excellence. The designation recognizes nursing staff for quality patient care, nursing excellence, and innovations in professional nursing practice. RUMC was first awarded the Magnet designation in 2002 by the American Nurses Credentialing Center (ANCC). RUMC was the first hospital in Illinois treating both children and adults to achieve Magnet status and is the only hospital in Illinois treating both children and adults to receive the designation for a third time.

HHS
"Graduate Nurse Education"

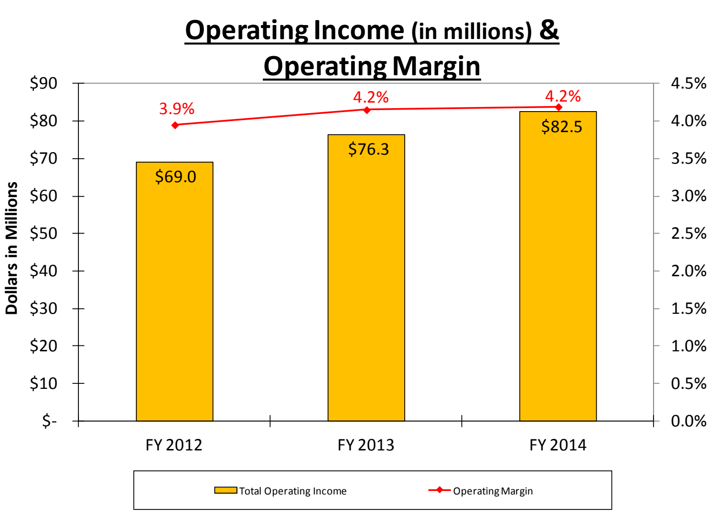
The Department of Health and Human Services named RUMC as one of five hospitals nationwide to take part in an initiative designed to train more nurses at a higher level. Under the Graduate Nurse Education (GNE) demonstration, Rush will receive approximately $12.9 million over four years to increase training opportunities for Advanced Practice Nurses. The GNE demonstration, which is funded through the Affordable Care Act, promotes a partnership among Rush's College of Nursing, several hospitals and select community service sites throughout Illinois. The GNE demonstration awards are recognized as they are earned. In total, RUMC has received $6.2 million in GNE funding through June 30, 2014. RUMC recognized $1.4 million in GNE funding during the fiscal year ended June 30, 2013 and an additional $2.4 million during the fiscal year ended June 30, 2014.

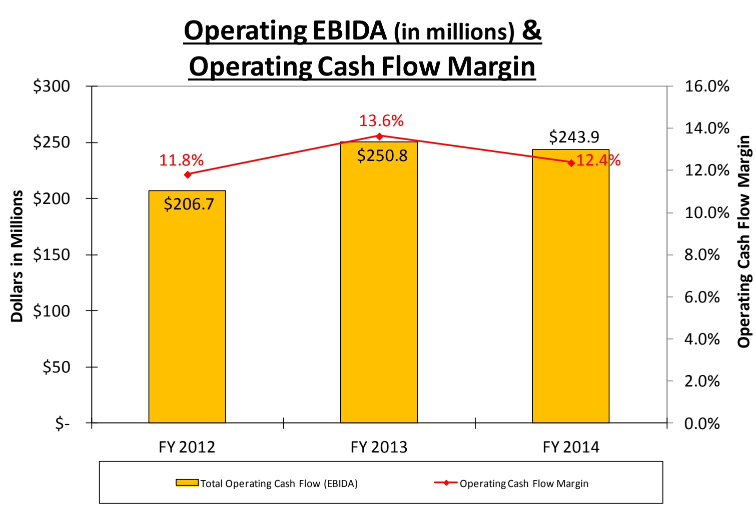
Financial Performance

The operating results of the Obligated Group for the years ended June 30, 2014 and 2013 were as follows:

Operations Summary *(In thousands)*	Fiscal Year Ended June 30, 2014 Actual	Fiscal Year Ended June 30, 2013 Actual	FY 2014 vs. 2013 Comparison	
Net patient service revenue	$ 1,719,676	$ 1,592,707	$ 126,969	8.0%
Other operating revenue	249,962	245,126	4,836	2.0%
Total operating revenue	1,969,638	1,837,833	131,805	7.2%
Salaries, wages and employee benefits	988,381	935,857	52,524	5.6%
Supplies, utilities and other	582,908	515,978	66,930	13.0%
Purchased services	110,122	95,780	14,342	15.0%
Depreciation and amortization	121,028	132,330	(11,302)	-8.5%
Malpractice and other insurance	44,314	39,438	4,876	12.4%
Interest	40,340	42,167	(1,827)	-4.3%
Total operating expenses	1,887,093	1,761,550	125,543	7.1%
Operating income	82,545	76,283	6,262	8.2%
Nonoperating income/(expense)	49,902	34,721	15,181	43.7%
Excess of revenue over expenses	$ 132,447	$ 111,004	$ 21,443	19.3%

Note: Net patient service revenue presented above is net of contractual allowances and discounts and net of the provision for uncollectible accounts for the years ended June 30, 2014 and 2013.





Drivers of Performance – Operating Revenue

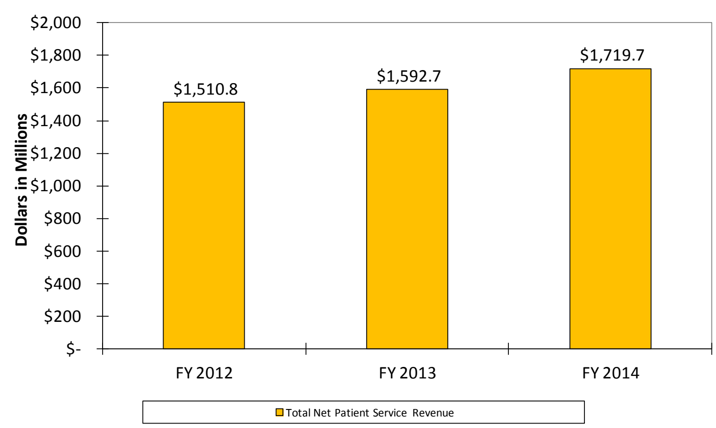
Operating revenue increased by 7.2% when comparing the year ended June 30, 2013 to the year ended June 30, 2014. The largest contributor to operating revenue is patient service revenue in the hospitals at 76.0% of operating revenue for the year ended June 30, 2014.

	Fiscal Year Ended June 30, 2014		Fiscal Year Ended June 30, 2013	
Revenue Source	**Operating Revenue**	**% of Total**	**Operating Revenue**	**% of Total**
Patient Service Revenue:				
Hospitals	$ 1,495,289	76.0%	$ 1,390,212	75.6%
Physician Practice Plans	224,387	11.3%	202,495	11.1%
University Services:				
Research	109,173	5.5%	110,611	6.0%
Education (*)	62,563	3.2%	62,530	3.4%
Other Operating Activities	78,226	4.0%	71,985	3.9%
Total	$ 1,969,638	100.0%	$ 1,837,833	100.0%

(*) Includes the Rush Medical College, the College of Nursing, the College of Health Sciences and the Graduate College.

Net patient service revenue for the hospitals and physician practice plans combined increased by $127.0 million or 8.0% from the year ended June 30, 2013 to the year ended June 30, 2014, due to:

Net Patient Service Revenue (in millions)



- Increase in admissions of 0.5% with a decrease in average length of stay along with growth in inpatient surgeries;
- Significant increases in outpatient hospital net revenue and physician practice plan revenue;
- Despite lower outpatient volumes overall, Rush experienced increases in key services lines including cancer care;
- Increase in emergency department activity at RUMC and ROPH;
- An additional $48.5 million in Medicaid revenue from the Enhanced Illinois Hospital Assessment Program related to outpatient revenues as described in further detail under 'Reimbursement Environment and Payor Mix' on pages 12-13 of this Quarterly Report.
- Offsetting increase in the charity care provision of $30.2 million or 16%.

Volumes and Growth

A summary of the Obligated Group volume trends for the year ended June 30, 2014 compared to the year ended June 30, 2013 is included in the table below.

Obligated Group Volume Trends	Year Ended June 30th FY 2014 versus 2013			
Admissions	0.5%		Total Surgeries	-0.3%
Patient Days	-1.0%		Emergency Room Visits	1.0%
Adjusted Discharges	3.8%		Observation Cases	7.1%
Other Outpatient Visits	-0.8%			

OPERATING REVENUE METRICS

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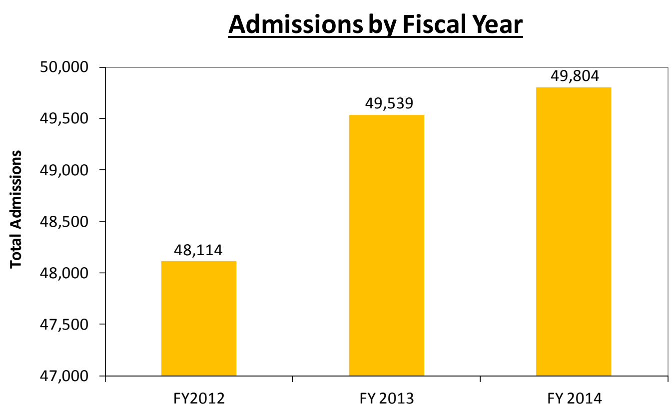
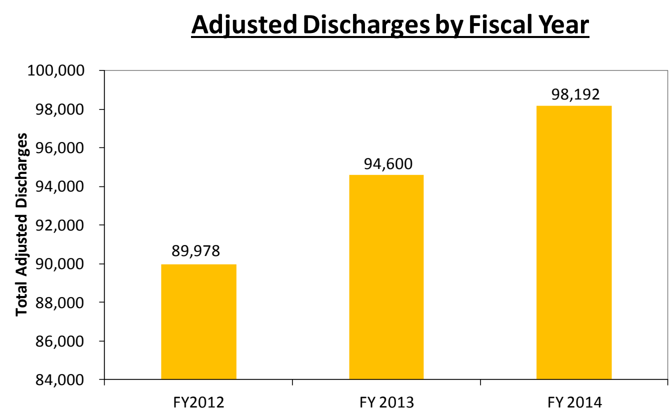
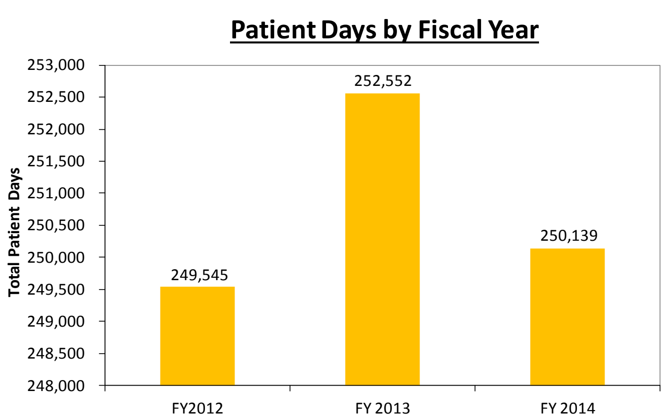
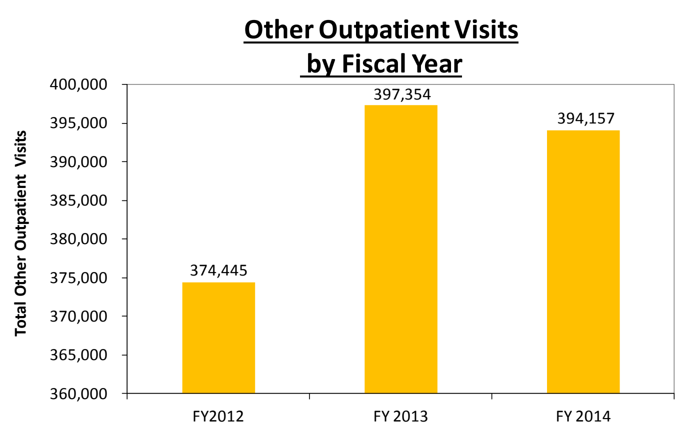
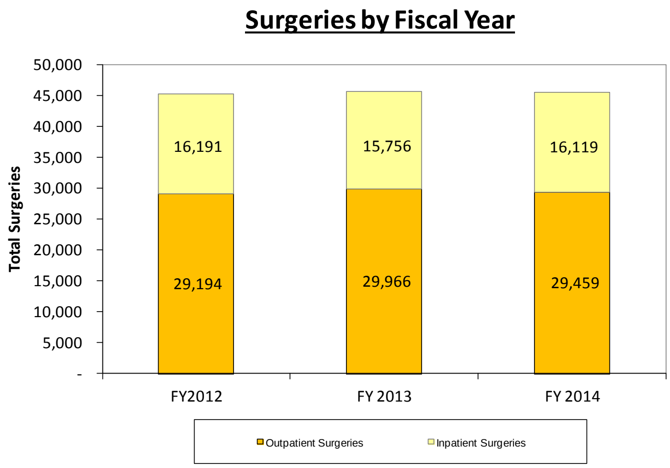


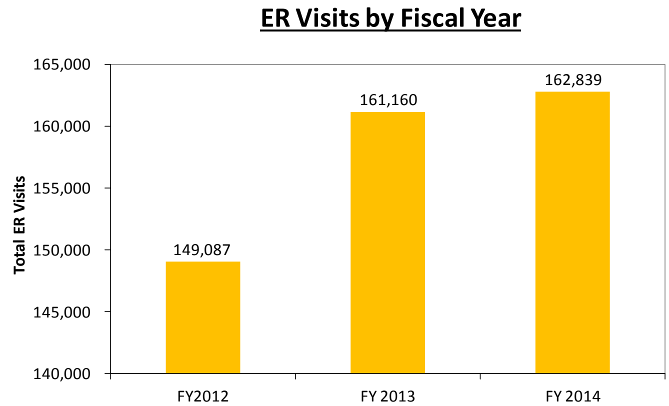


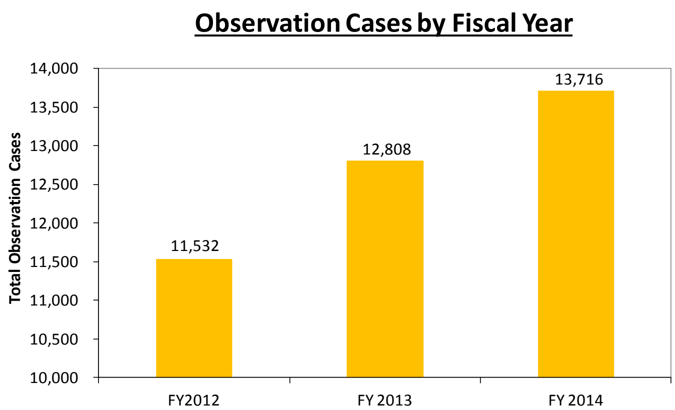




*Other outpatient visits excludes emergency room visits, outpatient surgical cases and observation cases, which are separately reported.







Reimbursement Environment and Payor Mix

Revenue for the hospitals includes payments from government programs such as Medicare and Medicaid, from managed care companies under negotiated contracts, from commercial insurance companies with no negotiated contract, and directly from patients. The table below represents percentages of gross revenues for hospital patient services, by payor, for the year ended June 30, 2014 and 2013.

Gross Revenue Mix By Payor	Fiscal Year Ended June 30, 2014	June 30, 2013
Medicare	34.6%	34.6%
Medicaid	16.7%	16.9%
Blue Cross of Illinois	24.9%	25.2%
Managed Care - non Blue Cross	18.8%	17.7%
Commercial and Self-Pay	5.0%	5.6%
Total	100.0%	100.0%

Governmental payors accounted for 51.3% of the Obligated Group's gross revenue for the year ended June 30, 2014. There have been modest increases in Medicare reimbursement in the last several years and no increases in Illinois Medicaid base rates since 1993. During the first half of fiscal year 2013 and again during the first half of fiscal year 2014, Rush and other Illinois hospitals experienced a significant delay in payment by the state of Illinois for amounts due under Medicaid and other state funded programs (as described under 'State of Illinois Budgetary

Pressures and Medicaid Payment Deferrals' on page 23 of this Quarterly Report), which improved during the second half of fiscal year 2013 and again during the second half of fiscal year 2014 and through the date of this report.

In December 2006 and again in December 2008, CMS approved the Illinois Hospital Assessment Program in order to improve Medicaid reimbursement for Illinois hospitals. This program increased net patient service revenue in the form of additional Medicaid payments and increased supplies, utilities and other expense through a tax assessment from the state of Illinois. In October 2013, CMS approved the Enhanced Illinois Hospital Assessment Program which provides for additional Medicaid payments and a tax assessment for Illinois hospitals based on outpatient gross revenues, collectively referred to along with the existing program as the "Hospital Assessment Program," which was retroactive to June 10, 2012. The combined Hospital Assessment Program's impact on the Consolidated Statements of Operations during the year ended June 30, 2014 and 2013 was as follows:

Illinois Hospital Assessment Program Impact *(In thousands)*	**Fiscal Year Ended June 30, 2014**	**Fiscal Year Ended June 30, 2013**
Net patient service revenue	$ 102,882	$ 54,366
Supplies, utilities and other expense	58,239	33,431
Operating income	44,643	20,935
Non-operating income	-	-
Excess of revenue over expenses	$ 44,643	$ 20,935

In June 2014 the Governor of the state of Illinois signed a bill extending the Hospital Assessment Program until June 2018. The total payment amounts should not vary from historic levels.

During the year ended June 30, 2014, Rush received and recognized $2.8 million in primary care enhanced Medicaid payments from the state of Illinois related to fiscal year 2013 services under the Medicaid/Medicare parity provision of the Patient Protection and Affordable Care Act designed to promote access to primary care for new Medicaid beneficiaries under the law's expansion of coverage to adults earning up to 138% of the poverty level. The final CMS parity rule brings Medicaid payments for certain primary care services and some preventive health services up to Medicare levels for 2013 and 2014.

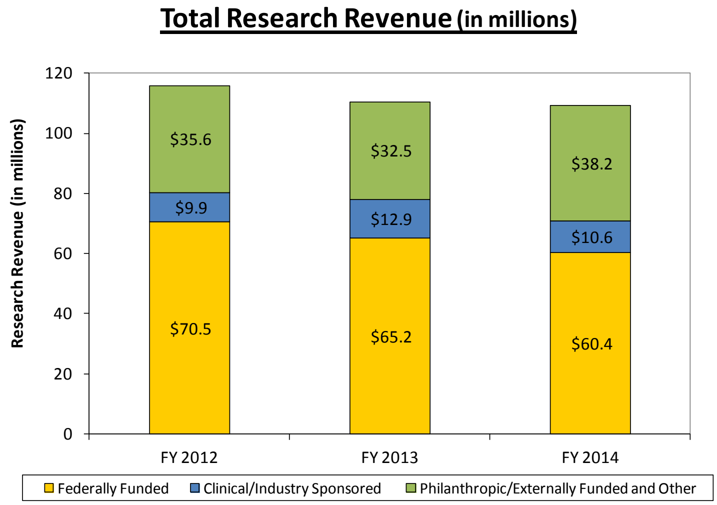
The Chicago metropolitan market has experienced consolidation in the managed care market that has impacted the Obligated Group. Products sponsored by Blue Cross Blue Shield of Illinois, the largest health insurer in the market, accounted for 57.0% of managed care gross revenue and 24.9% of total gross revenue of the Obligated Group for the year ended June 30, 2014. RUMC and ROPH have contracts to provide services to participants in the Blue Cross Blue Shield of Illinois PPO and non-risk based HMO insurance plans at agreed upon rates through December 31, 2014. RCMC has contracts to provide services to participants in the Blue Cross Blue Shield of Illinois PPO and HMO insurance plans at agreed upon rates through December 31, 2014.

Contracts with other managed care payors are generally no longer than two to three years in length and subject to automatic renewal, renegotiation or termination at the end of the term. Negotiations related to contract renewals can be challenging and such contracts may or may not be renewed. Management cannot predict with any certainty the ultimate outcome of future negotiations with managed care payors as contracts expire. In December 2012, Rush reached agreement with Aetna on a new three-year contract to expire December 31, 2015.

Physician Practice Plans

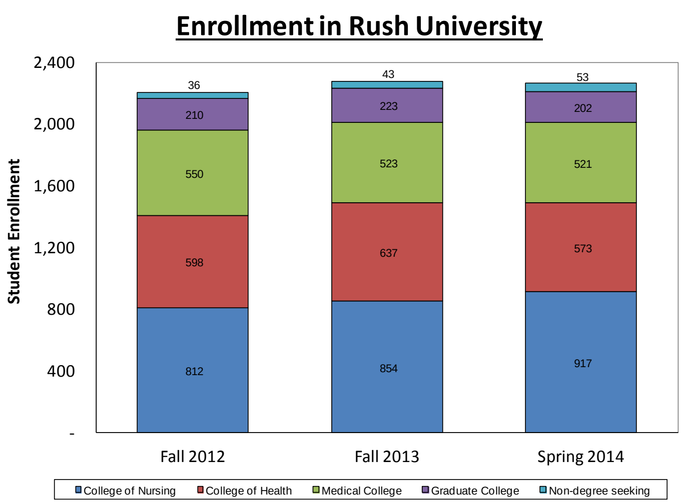
Total patient service revenue from the physician practice plans increased $21.9 million or 10.8% from the year ended June 30, 2013 to the year ended June 30, 2014 due to increases in inpatient admissions, surgical cases, emergency department visits, and outpatient clinic visits in Cancer Care, Neurology and Neurosurgery, Transplant, Heart & Vascular, and other medical and surgical specialties at RUMC. CMH also experienced growth due to increases in convenient care patients in its medical group.

Other Operating Revenue



Other operating revenue represented 12.7% of total operating revenue and increased $4.8 million or 2.0% from the year ended June 30, 2013 to the year ended June 30, 2014. Other operating revenue consists primarily of external funding for research and internal fund support to research (44%), tuition and educational grants (25%), and other non-patient care service activities (31%).

Research revenue decreased by 1.3% for the year ended June 30, 2014 versus the year ended June 30, 2013 due primarily to a decrease in federally funded research activities. For the year ended June 30, 2014, Rush University Research reported an excess of expenses over revenue of $19.9 million that was supported from operating income.



Rush University is 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. Revenue consists mainly of tuition revenue. Expenses are those instructional expenses required to educate the students. Tuition and educational grants revenue remained flat (an increase of 0.1% in the year ended June 30, 2014 versus the year ended June 30, 2013) despite enrollment growth year over year due to changes in enrollments between colleges, and also related to changes in the academic calendar from quarterly terms to semester/trimester terms, which impacts timing of tuition revenue recognition. There were approximately 2,266 students enrolled in Rush University for the Spring Quarter 2014.

Other operating activities consist primarily of rental income from professional/medical office buildings, food service at the hospitals, parking facility fees, a health club at RCMC, revenue recognized under the GNE program and the self insurance total return at RUMC. Other operating revenue also includes revenue earned under the Medicare and Medicaid incentive programs for adoption of an electronic health record through the American Recovery and Reinvestment Act (ARRA) as described in more detail under 'Information Technology' on page 22 of this Quarterly Report. Revenue from other operating activities increased $6.2 million or 8.7% during the year ended June 30, 2014 versus the year ended June 30, 2013.

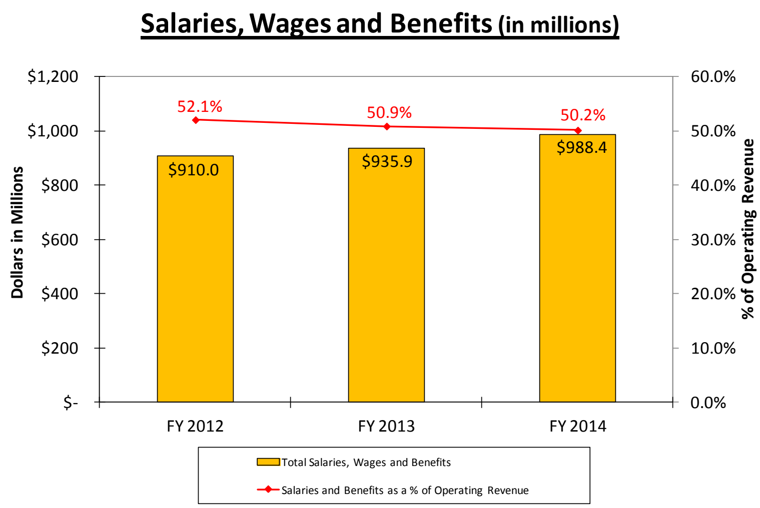
Drivers of Performance – Operating Expense

Operating expenses increased by 7.1% when comparing the year ended June 30, 2013 to the year ended June 30, 2014. Operating costs as a percentage of operating revenue for the year ended June 30, 2014 and 2013 were as follows:

Operating Costs as a % of Operating Revenue *(In thousands)*	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Salaries, wages and employee benefits	50.2%	50.9%
Supplies, utilities and other (including purchased services)	35.2%	33.3%
Depreciation and amortization	6.1%	7.2%
Malpractice and other insurance	2.2%	2.1%
Interest	2.0%	2.3%

Significant changes in operating expenses have been identified as follows:

Salaries, Wages and Employee Benefits



Salaries, wages and employee benefits increased by $52.5 million or 5.6%. The increase in the expense was primarily driven by:

- Annual merit increases;
- Increase in FTE's of 3.1% driven by volumes;
- Increase in employed physicians of 7.4%;
- Higher tuition assistance benefits at RUMC;
- Offsetting decrease in pension expense at RUMC of $2.8 million or 10.7%, as described in further detail under Note D on page 31 of this Quarterly Report;
- Salaries, wages and benefits for FY 2013 reflect a decrease of $10.6 million due to settlement interest income recognized by RUMC related to the recovered cost of resident FICA taxes paid and previously expensed, plus interest, as described in further detail under 'Settlements' on page 25 of this Quarterly Report.

The table below shows the employed full-time equivalents (FTEs) and employed physicians for the Obligated Group at June 30, 2014 as compared to June 30, 2013:

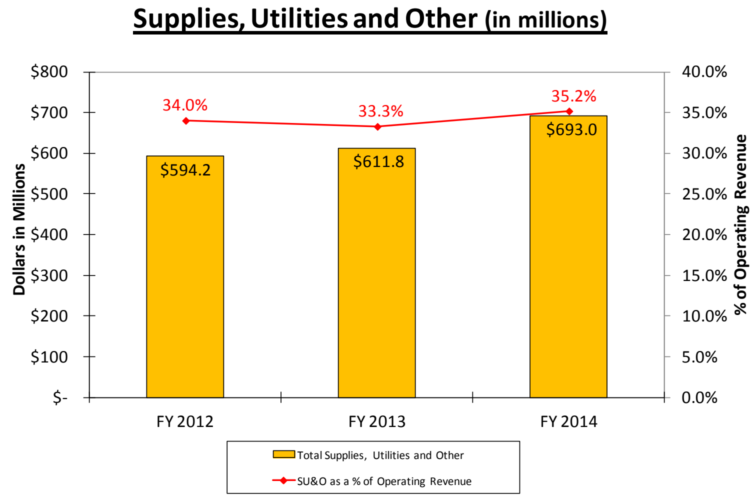
	As of June 30, 2014	As of June 30, 2013	Percent Change
Number of Full-time Equivalents	10,005	9,703	3.1%
Number of Employed Physicians	569	530	7.4%

Included in total Hospital FTEs were 669 medical residents. Of the 10,005 FTE's approximately 8.1% of nonclinical employees are represented by a union. Recently, Teamsters Local 743 has undertaken targeted organizing activity among select groups of non-professional RUMC employees. The National Labor Relations Board has scheduled a union election for approximately 290 RUMC patient care technicians, to take place August 27-28, 2014.

Supplies, Utilities and Other (including Purchased Services)

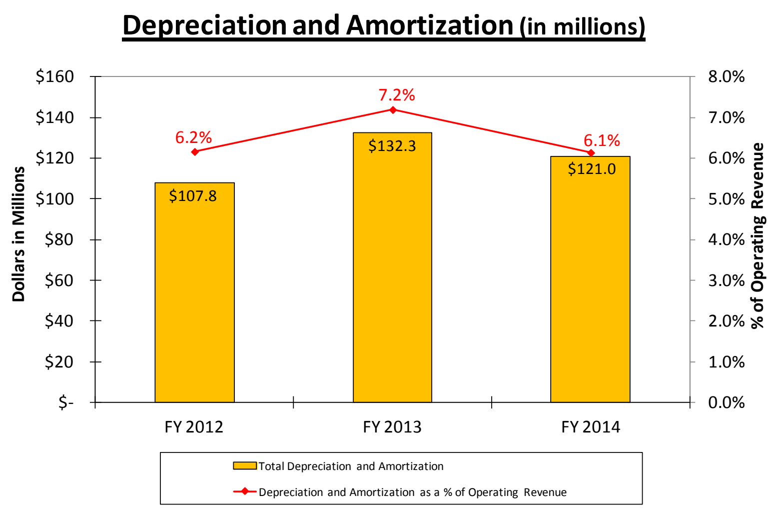
Supplies, utilities and other expense, including purchased services, increased $81.3 million or 13.3%. This increase in expense was primarily due to:

- Increase in medical supply and drug expenses of $28.0 million or 9.6% related to increased volumes and higher drug utilization.
- Higher facility repairs, equipment purchasing, and utilities at RUMC;
- Increase in purchased services of $14.3 million or 15.0% due to an increase in legal services, consulting fees, and memberships and dues;
- An additional $24.8 million in Medicaid tax assessment from the Enhanced Illinois Hospital Assessment Program related to outpatient revenues as described in further detail under 'Reimbursement Environment and Payor Mix' on pages 12-13 of this Quarterly Report.



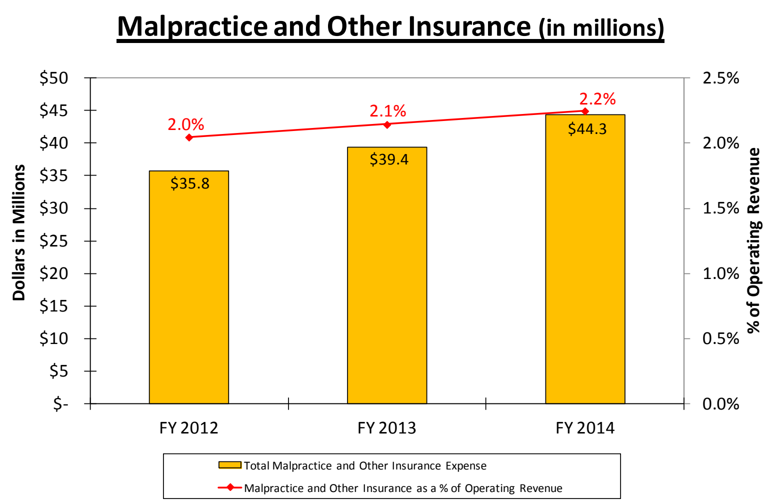
Depreciation and Amortization

Depreciation and amortization expense decreased $11.3 million or 8.5%. Capital spending levels decreased significantly during years ended June 30, 2014 and 2013 as RUMC completed the most significant component of its Campus Transformation with the opening of the new patient tower in January 2012 (see Capital Expenditures and Capital Spending Ratio on page 21 of this Quarterly Report). Also included in depreciation expense for the year ended June 30, 2013 was an asset charge of $9.6 million related to a one-time impairment.



Malpractice and Other Insurance

Malpractice and other insurance cost the Obligated Group $44.3 million during the year ended June 30, 2014, an increase of $4.9 million or 12.4% over the year ended June 30, 2013. Malpractice expense was 2.2% of operating revenue during fiscal year 2014, which was consistent with levels during fiscal year 2013. An additional $2 million was accrued for malpractice as of June 30, 2014.



Interest Expense

Interest expense decreased $1.8 million or 4.3%. Rush made $12.1 million in principal payments on long-term debt during the year ended June 30, 2014. Capitalized interest was $1.3 million and $0.2 million for the year ended June 30, 2014 and 2013, respectively.

Prior Period and Significant Nonrecurring Items

During the year ended June 30, 2014 and 2013, prior period and significant nonrecurring items impacted the Obligated Group's reported operating income as follows:

Prior Period and Significant Nonrecurring Items *(in millions)*		**Fiscal Year Ended June 30, 2014**	**Jun-14 Operating Margin**		**Fiscal Year Ended June 30, 2013**	**Jun-13 Operating Margin**
Operating income reported	**$**	**82.5**	**4.2%**	**$**	**76.3**	**4.2%**
Items impacting operating revenue		(43.5)	-2.2%		(19.5)	-1.1%
Items impacting operating expenses		15.9	0.8%		(1.4)	-0.1%
Total adjustments		**(27.6)**	**-1.4%**		**(20.9)**	**-1.1%**
Adjusted operating income	**$**	**54.9**	**2.8%**	**$**	**55.4**	**3.0%**

Nonoperating Income

Total non-operating income/(expense) increased by $15.2 million or 43.7% from the year ended June 30, 2013 to the year ended June 30, 2014. Significant changes in non-operating income/(expense) have been identified as follows:

Investment Income

Investment income increased $32.9 million due to net unrealized gains on the Obligated Group's unrestricted investments of $29.2 million during the year ended June 30, 2014 compared to net unrealized gains of $1.5 million during the year ended June 30, 2013.

Unrestricted Contributions, Net of Fundraising Expenses

Unrestricted contributions, net of fundraising expenses, decreased $3.3 million primarily driven by a decrease in unrestricted contributions by $2.9 million.

Change in Fair Value of Interest Rate Swaps

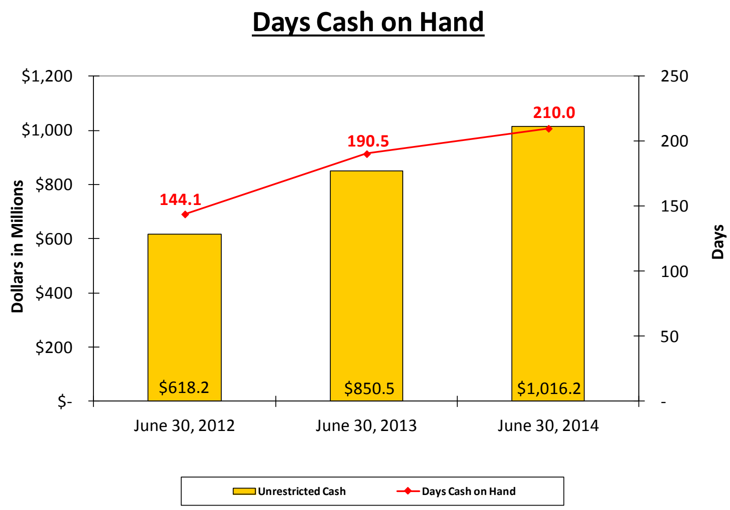
The Obligated Group recognized a gain in the fair value of its interest rate swaps of $0.4 million and $7.5 million for the years ended June 30, 2014 and 2013, respectively, as a result of favorable changes in rates on the discount curve.

Net Gain on Sale

RCMC recognized a net gain of $8.8 million on the sale of one of its professional office buildings during the year ended June 30, 2013, as described in more detail under 'Recent Transactions' on page 25 of this Quarterly Report, and amortized an additional $1.5 million during the year ended June 30, 2014.

Analysis of Financial Condition

Liquidity and Capital Resources

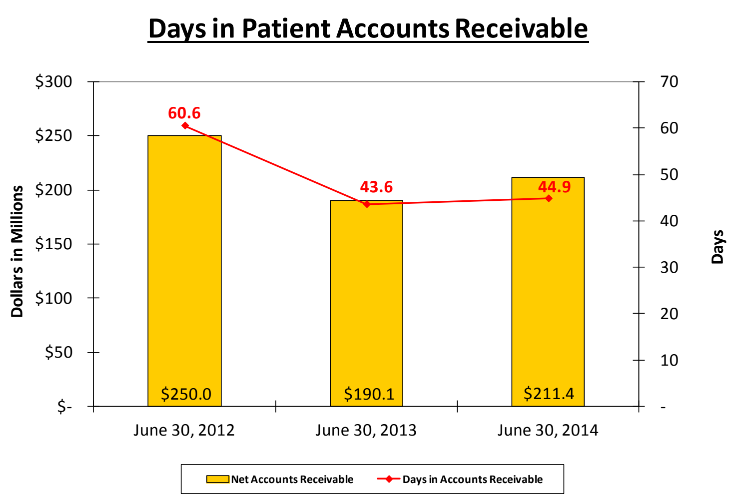


The Obligated Group's unrestricted cash and investments at market value increased by $165.7 million or 19.5% from June 30, 2013 to June 30, 2014, 210.0 days cash on hand at June 30, 2014. Included in unrestricted cash and investments was $61.5 million and $57.1 million of Specific Purpose Fund balances as of June 30, 2014 and 2013, respectively, and $52.2 million and $46.6 million of appreciation on the unrestricted portion of RUMC's endowment as of June 30, 2014 and 2013, respectively.

The increase in the Obligated Group's unrestricted cash and investments from June 30, 2013 to June 30, 2014 was due to cash flow generated from operations which included receipts from the Enhanced Hospital Assessment Program as well as primary care physician enhanced Medicaid payments related to fiscal year 2013 services, as described under 'Reimbursement Environment and Payor Mix' on pages 12-13 of this Quarterly Report. The Obligated Group also recognized $29.2 million in unrealized gains on the Obligated Group's unrestricted cash and investments, offset by a $51.6 million funding of the RUMC pension trust, $12.1 million in payments of long-term debt and $100.1 million in capital expenditures.

Excluded from unrestricted cash and investments were the following temporarily restricted assets:

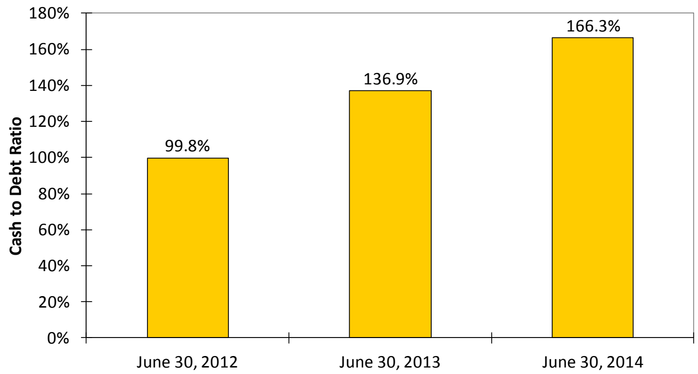
- Appreciation on the restricted portion of RUMC's endowment fund of $212.5 million and $181.3 million as of June 30, 2014 and 2013, respectively. These temporarily restricted funds are used to support specific purposes such as research and education.
- Debt service reserve funds restricted for principal and interest payments on the Obligated Group's debt of approximately $48.7 million as of June 30, 2014 and 2013.



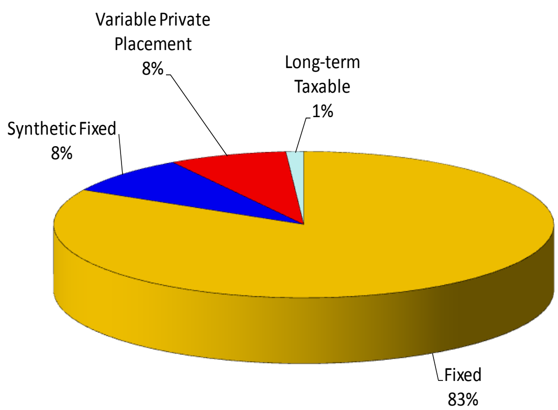
Consolidated days in net accounts receivable through fiscal year 2011 were historically less than national industry averages. During fiscal year 2012, the first half of fiscal year 2013 and again during the first half of fiscal year 2014, Rush and other Illinois hospitals experienced a significant delay in payment by the state of Illinois for amounts due under Medicaid and other state funded programs (as described under 'State of Illinois Budgetary Pressures and Medicaid Payment Deferrals' on page 23 of this Quarterly Report), which improved during the second half of fiscal year 2013 and again during the second half of fiscal year 2014 and through the date of this report. Days in accounts receivable ended at 44.9 as of June 30, 2014. Collections of non-Medicaid receivables during the year have been strong to offset any continuing payment delays on Medicaid receivables.

The Obligated Group's indebtedness, including capital leases, deferred financing obligations and guarantees, was $640.4 million and $656.9 million at June 30, 2014 and June 30, 2013, respectively. The decrease in the Obligated Group's indebtedness is due to principal payments on the Series 2006B, 2009A, and 2011 revenue bonds, RCMC mortgage loan and capital leases. The Obligated Group's ratio of the sum of unrestricted cash and investments and debt service reserve funds to indebtedness was 166.3% at June 30, 2014.

Cash to Debt

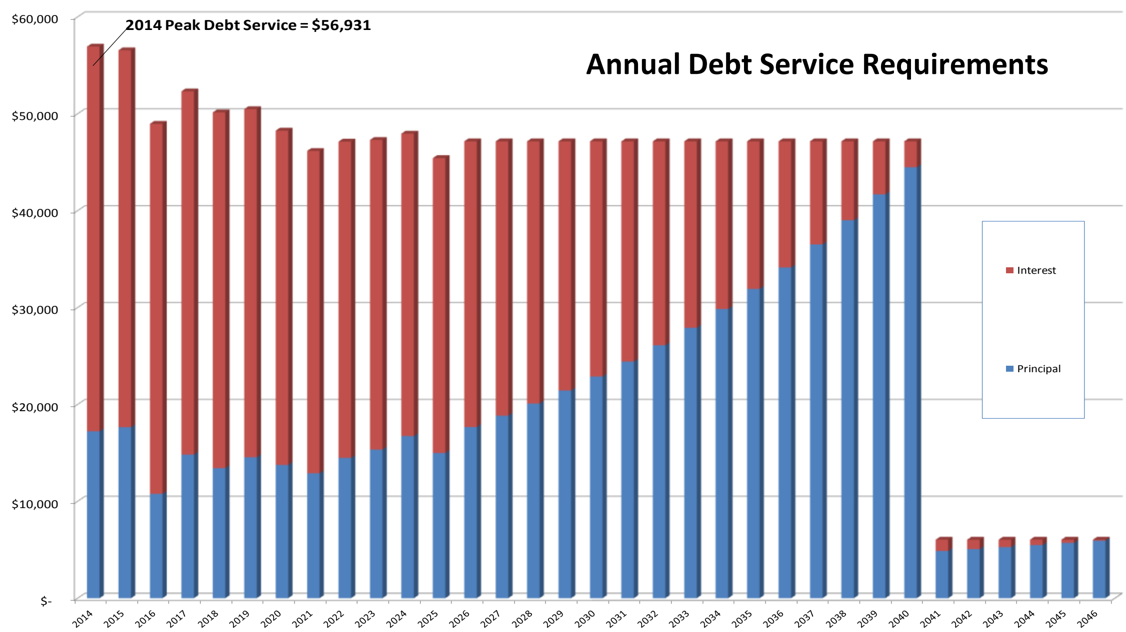


Underlying Debt Structure



Excluding capital leases, deferred financing obligations and guarantees, the Obligated Group's indebtedness was $597.4 million as of June 30, 2014, of which 83% was committed fixed rate and another 8% was synthetic fixed rate.

The following chart sets forth the estimated annual debt service requirements of the Obligated Group in each period ending June 30, including principal and interest payments and mandatory sinking fund requirements.



For purposes of calculating interest on the Series 2008A Bonds, an interest rate of 3.945% per annum is assumed, which is the fixed rate under the interest rate swap agreements, described in further detail under 'Interest Rate Swap Agreements' on pages 34-35 of this Quarterly Report. For purposes of calculating interest on the Series 2011 Bonds, an interest rate of 2.83% is assumed, which is paid monthly on an actual over 360 basis. For purposes of calculating certain of the other loans and capital leases with bullet principal payments, principal has been amortized in accordance with the provisions of the Master Indenture. All other debt service is based on actual interest rates.

The Obligated Group holds a $100 million, 180-day line of credit with JP Morgan Chase Bank N.A.; the maturity date of this line of credit is December 31, 2015. This line of credit is secured under the Master Trust Indenture. As of June 30, 2014 there were no borrowings outstanding under this line of credit.

Investment Program

Rush's investment program consists of unrestricted cash and investments, an endowment at RUMC and RCMC and investment trusts maintained for the specific purpose of funding RUMC's self-insured general and professional liability claims, and RUMC's defined benefit plan. The Investment Committee of the Board at RUMC has the primary purpose of assisting the Board in the oversight of RUMC's asset pools, and specifically, assets in the self insurance trust, endowment fund, and Master Retirement Trust and investment offerings in the defined contribution plans. The Finance Committee of the Board at RUMC has similar responsibilities for unrestricted cash and investments. The Finance Committee of the Board at RCMC is responsible for determining and implementing all investment policies, selecting and terminating investment managers and reviewing investment performance.

The Obligated Group's unrestricted cash and investments consisted of the following at June 30, 2014 and 2013:

Asset Summary *(In millions)*	Total Unrestricted Cash & Investments June 30, 2014	June 30, 2013
Cash and Cash Equivalents	$ 139.9	$ 196.3
Fixed Income Securities	492.7	427.4
Equity Securities, U.S. and International	179.5	89.1
World Asset Allocation Mutual Funds	123.3	64.1
Moderate Allocation (Balanced) Mutual Funds	28.6	27.0
Unrestricted Endowment	52.2	46.6
Total	$ 1,016.2	$ 850.5

The objective of the RUMC self-insurance trust is to fund the self-insurance obligations of RUMC. As of June 30, 2014, self-insurance trust assets had a market value of $126.2 million versus a market value of $125.2 million as of June 30, 2013. The increase in the self insurance trust assets related to the investment income of approximately $24.5 million offset by $23.5 million payout of claims and related fees during the year ended June 30, 2014.

The following table shows the current asset allocation targets and ranges as well as the asset allocation at June 30, 2014, and 2013 for the self insurance trust:

Asset Class	Target Allocation and Range		Percentage Trust Assets at June 30, 2014	June 30, 2013
Fixed Income	75%	(+/-5%)	67%	69%
Domestic Equity	25%	(+/-5%)	28%	27%
Cash/Money Market	--	--	5%	4%

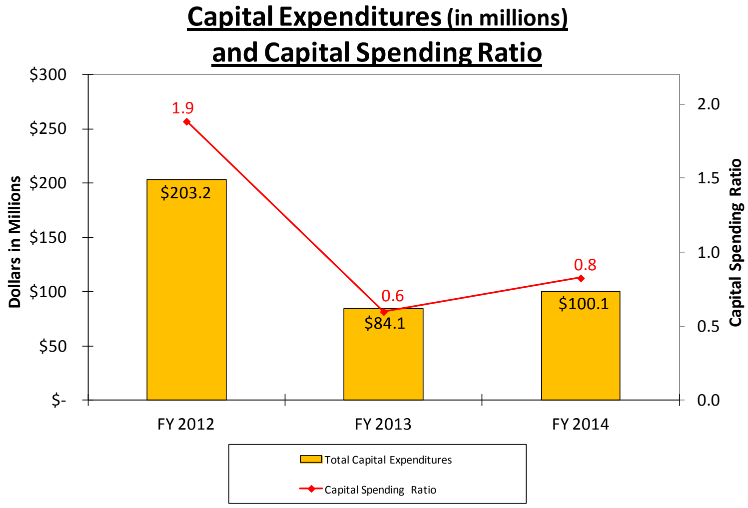
As noted in Note L to the Consolidated Financial Statements on page 44 of this Quarterly Report, RUMC uses the total return concept to record returns on investments in its self-insurance trust.

RCMC does not maintain a self-insurance trust to fund its self-insurance obligations. As of June 30, 2014, approximately $17.6 million of RCMC's unrestricted cash and investments is estimated to be required to fund self-insurance obligations.

The objective of the RUMC Master Retirement Trust is to manage the assets to assure the funding of the defined benefit pension obligations of covered current and former employees. Further details regarding the asset allocation of the Defined Benefit Plan assets are specified in Note D to the Consolidated Financial Statements on page 32 of this Quarterly Report.

Campus Transformation

Total capital expenditures for Rush amounted to $100.1 million during the year ended June 30, 2014, a $16 million increase from the year ended June 30, 2013.



RUMC Campus Transformation Project
$1.1 Billion from FY2004-FY2016

The RUMC Campus Transformation project includes new facilities and renovation to existing facilities driven by a redesign of patient care processes to improve efficiency and patient safety, and provide a more inviting environment to physicians, patients and visitors. The project is being completed in multiple phases.

During the year ended June 30, 2012, RUMC completed the second and largest phase of its Campus Transformation effort with the opening of its new 14-story, state-of-the-art hospital building, the Tower, which included a new emergency center. Rush finished construction of the 8th floor of the Tower which is dedicated entirely to obstetrics and neonatology which opened March 9, 2014. The obstetrics and neonatology unit features 72 licensed NICU beds, 10 labor/delivery/recovery suites and three obstetric operating rooms, some of which are housed in the attached Atrium facility currently under renovation. Construction of the Tower began in the last quarter of fiscal year 2008 and was completed during fiscal year 2014 with the completion of the 8th floor. The total cost of the Tower was approximately $683 million, including capitalized interest.

Life-to-date, RUMC has spent $1,028 million on the Campus Transformation including amounts spent on the Tower. Funding to date has been from $160 million in donations, $90 million from government and other sources, including $52.5 million in tax increment financing from the City of Chicago, $292 million in debt proceeds, and $486 million from operations.

The remaining projects in the final phase of RUMC's Campus Transformation include renovation of existing inpatient and ambulatory care units and demolition of the oldest buildings, which are expected to be complete by fiscal year 2016 at a cost of approximately $73 million and will be funded primarily through $22.5 million in remaining tax increment financing from the City of Chicago and cash from operations. Construction commitments outstanding as of June 30, 2014 were $12.1 million.

RCMC Master Facilities Plan
$218 Million from FY2007-FY2016

The RCMC Facilities Master Plan includes additions to and renovation of current facilities and an expansion to the Yorkville market.

During April 2012, RCMC opened a new free-standing emergency center in Yorkville, Illinois, which completed the second phase of an expansion project to develop a free-standing emergency center, outpatient surgery center and physician offices in Kendall County, named one of the fastest growing U.S. Counties of 10,000 or more in the United States. The final phase of this project, which includes the build out of space for other outpatient diagnostic services and physician offices, was completed in fiscal year 2014. The Yorkville expansion cost approximately $36 million.

RCMC's Master Facilities Plan also includes expansion and renovation of various outpatient services, expected to cost approximately $62 million through fiscal year 2016, and program growth to respond to various market opportunities, at a cost of $24 million through fiscal year 2016. Other projects include the addition of bed capacity in the Medical/Surgical and ICU units ($20 million), addition of parking to support campus expansion ($13 million), expansion and renovation of the operating rooms ($27 million) and renovation and expansion of other campus buildings and room upgrades including the main entrance and atrium at CMH and an administrative office building ($36 million).

The sources in funding for the $218 million Master Facilities Plan are currently expected to include $26 million in net borrowing from two revenue bond issues, which has been secured, and approximately $192 million in cash flow generated from operations. As of June 30, 2014, $172 million has been spent on the RCMC Master Facilities Plan. Funding to date has been from $26 million from debt proceeds and the remaining $146 million from operations. Construction commitments outstanding as of June 30, 2014 were $4.7 million.

Information Technology

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and provide for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology in ways that demonstrate improved quality, safety, and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years in order to qualify for additional Medicaid incentive payments.

Rush recognizes HITECH incentive payments as revenue when it is reasonably assured that the meaningful use objectives have been achieved. Rush recognized incentive payments totaling $7.4 million and $10.4 million for the years ended June 30, 2014 and 2013, respectively, within other revenue in the consolidated statements of operations and changes in net assets. Rush’s compliance with the meaningful use criteria is subject to audit by the federal government. Total incentive payments Rush has received to-date amounted to $30.3 million as of June 30, 2014.

Laws, Regulations and Related Litigation

Contingencies

RUMC is pursuing a multimillion dollar breach of contract claim against prime architect Perkins+Will, Inc. and its mechanical design subcontractor, Environmental Systems Design, Inc. (ESD), as a result of certain errors and omissions by the defendants in the design of the Tower, which have necessitated the expenditure of additional construction costs.

While a precise figure for total damages has not yet been determined, RUMC estimates that multi-million dollars in damages will be at issue. RUMC has notified the appropriate parties and insurance carriers about this damage, undertaken necessary repair work, and is taking appropriate legal action against potentially responsible parties to obtain payment for such work.

In the ordinary course of business, Rush receives new lawsuits containing allegations of professional and/or general liability insurance.

Tax Exempt Status

On June 14, 2012, the Governor of Illinois signed into law a series of bills passed by the Illinois General Assembly designed to repair a long-term deficit in the state's Medicaid program. One of the bills sets clear criteria for property and sales tax exemptions for nonprofit hospitals. The value of specified services and activities must equal or exceed the estimated value of the applicant's property tax liability, as determined under a formula in the law. Services that count toward exemption include, but are not limited to: charity care, health services to low-income and underserved individuals, unreimbursed costs for Medicaid and other means-tested government programs, and unreimbursed costs of providing medical education and medical research or training of health care professionals. Management assessed the formula contained in the property tax exemption legislation and feels reasonably confident that the value of services Rush currently provides that count towards exemption under the law comfortably exceed its estimated property tax liability. Also, the Office of the Illinois Attorney General has promulgated rules on presumptive charity care requirements. Management is reviewing the rules and will continue to do so to ensure Rush's compliance.

Two cases have been filed in the Circuit Court of Cook County challenging the constitutionality of the hospital tax exemption provisions: *Oswald v. Hamer* and *Mitra [originally Sebastian] v. Hamer*. The Illinois Hospital Association has intervened, and the cases are currently proceeding through the Circuit Court of Cook County in motion practice. Management is carefully monitoring these cases.

State of Illinois Budgetary Pressures and Medicaid Payment Deferrals

During fiscal year 2012, the first half of fiscal year 2013 and again during the first half of fiscal year 2014, untimely processing of Medicaid payments by the state of Illinois led to a significant increase in days of Medicaid receivables. While Medicaid payments improved during the second half of fiscal year 2013 and again during the second half of fiscal year 2014, and through the date of this report, it is possible that the fiscal challenges of the state of Illinois may result in additional payment delays that could have an adverse effect on the Obligated Group's cash flows and financial condition. Management is carefully monitoring this situation. Refer to 'Analysis of Financial Condition' on page 18 of this Quarterly Report to review the Obligated Group's trends for days cash on hand and days in net patient accounts receivable.

Healthcare Reform

Management is analyzing the federal "Patient Protection and Affordable Care Act," and the "Health Care and Education Affordability Reconciliation Act of 2010," (hereinafter the "Healthcare Reform Act"), and will continue to do so in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, at this time, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the Healthcare Reform Act.

Rush-Copley

Rush-Copley Medical Center has submitted a Certificate of Need application to the Illinois Health Facilities Services and Review Board (IHFSRB). The application was deemed complete by the IHFSRB on July 7, 2014 and is tentatively scheduled to go before the IHFSRB at its October 7, 2014 meeting.

The application is for an expansion and modernization of the hospital's entire surgical suite including existing operating rooms, pre and post surgical areas, and central sterile supply and distribution. Three additional operating rooms will be constructed. As a result of the expansion it will be necessary to construct a new hospital main entrance and lobby. Project costs as submitted to the IHFSRB are $52.7 million.

Ratings and Other Disclosures

Ratings

Moody's, S&P and Fitch have assigned municipal bond ratings of "A2", "A" and "A+," respectively, to the long-term debt of the Obligated Group. As of August 26, 2013, Moody's affirmed the Obligated Group's A2 rating and revised the outlook to "Positive." As of January 27, 2014, Fitch upgraded the Obligated Group's rating to A+ and affirmed the "Stable" outlook. As of April 16, 2014, S&P affirmed the Obligated Group's A rating and revised the outlook to "Positive."

Any explanation of the significance of such ratings may only be obtained from Moody's, S&P and Fitch. Certain information and materials not included in this Quarterly Report may have been furnished to Moody's, S&P and Fitch concerning the Obligated Group. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained only from the rating agencies furnishing the same. There is no assurance that such ratings will remain in effect for any given period of time or that such ratings will not be revised downward or upward or withdrawn entirely by any of such rating agencies if, in the judgment of such rating agency, circumstances warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the Obligated Group's outstanding bonds.

Community Benefit

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 300% of the federal poverty level or less and a 68% discount to all uninsured patients (increased from 65% for the period July 1, 2011 to March 31, 2012) regardless of ability to pay, and provides further discounts for patients with a family income up to 400% of the federal poverty level. RCMC provides free care to all patients whose family income is less than 300% of the federal poverty level and a 30% discount to all uninsured patients regardless of ability to pay, and discounts balances to patients under 600% of the federal poverty level. Interest-free payment plans are also provided. Charity care includes 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.

Total community benefit provided during fiscal year 2013 amounted to $323 million, of which $245 million (76%) represents unreimbursed care provided to patients in the hospitals. Unreimbursed care consists of charity care provided to patients without the demonstrated ability to pay (at cost), bad debts (at expected reimbursement, not charges) and unreimbursed costs for Medicare and Medicaid patients. During fiscal year 2013, the Obligated Group recognized net reimbursement from the Illinois Hospital Assessment Program of $20.9 million, which offset the cost of unreimbursed care.

The table below shows the total community benefit provided during fiscal year 2013 and 2012 by service type:

Community Benefit Type *(In thousands)*	**Fiscal Year 2013**		**Fiscal Year 2012**	
Unreimbursed care provided to patients in the Hospitals	$244,476	76%	$228,145	75%
Support of education programs	45,761	15%	43,916	14%
Unreimbursed costs for research	16,460	5%	13,761	5%
Physician clinics providing primary and preventative care services to uninsured and Medicaid patients	6,047	1%	5,660	2%
Other	10,677	3%	11,612	4%
Total	$323,421	100%	$303,094	100%

The fiscal year 2014 community benefit report has not yet been filed.

Corporate Compliance Program

RUMC has a structured corporate compliance program which includes policies, procedures, required education for all employees and medical staff, an audit and monitoring plan, an anonymous hotline and a disciplinary process for non-compliance as well as a structure for investigation of findings or issues. The corporate compliance department oversees the areas of auditing/monitoring, HIPAA privacy, research compliance and regulatory compliance processes. Staff monitor changes in regulations and communicate to impacted departments.

RUMC established its corporate compliance program in 1998 upon resolution of the Board of Trustees. At that time, the position of Chief Compliance Officer (CCO) was created as well as a Corporate Compliance Committee. The CCO reports directly to the President and Chief Executive Officer of RUMC. The Corporate Compliance Committee consists of senior managers of RUMC and exists to advise the CCO in carrying out the responsibilities under the program. The Audit Committee of the Board oversees the corporate compliance program, receives quarterly updates on compliance activities and approves the annual corporate compliance plan.

ROPH also has a Compliance Officer and Corporate Compliance Committee which meets quarterly and consists of senior managers from clinical and operational areas. The RUMC department of Corporate Compliance supports and oversees at ROPH the functions of auditing/monitoring, HIPAA privacy, compliance program oversight, policies, research compliance and regulatory compliance. The ROPH Compliance Officer reports to the President and CEO of ROPH and makes quarterly reports to the ROPH Board of Directors.

RCMC also has a Compliance Officer and Corporate Compliance Committee, which meets bi-monthly. The Corporate Compliance Committee consists of members from all of the clinical and support areas. RCMC also has an Audit and Compliance Committee of the Board of Directors which oversees the corporate compliance program.

Recent Transactions

On November 29, 2012, Copley Memorial Hospital sold a professional office building for $25.8 million, at a gain of $22.2 million, and signed operating lease agreements to rent back approximately 90% of the rentable square footage with initial lease terms ranging from five to ten years. An immediate gain of $8.0 million was recognized within nonoperating income in the accompanying consolidated statement of operations with a deferred gain of $14.2 million recorded within other liabilities in the accompanying consolidated balance sheet, of which $0.8 million was amortized during fiscal year 2013, resulting in a total gain on sale of $8.8 million reported in nonoperating income during the year ended June 30, 2013. An additional $1.5 million of the deferred gain was amortized during fiscal year 2014. The remaining deferred gain will be recognized over the life of the initial lease terms.

Settlements

RUMC has historically paid FICA tax on medical residents as if they were employees. In March 2010, the IRS made an administrative determination that teaching hospitals and medical residents are exempt from paying FICA taxes under the student exception for time spent in a residency program between 1994 and April 1, 2005, when new IRS regulations imposing a specific FICA requirement for medical residents were put into place. Teaching hospitals and residents are eligible for a refund of FICA taxes paid, plus interest. During the year ended June 30, 2013, RUMC received $63 million from the IRS representing a refund of FICA taxes previously paid of $20 million, $11 million in settlement interest and $32 million for the resident portion to be distributed to the residents. RUMC recognized the interest component of the FICA refund of $11 million as a reduction in salaries, wages and benefit expense. The resident portion was paid out to the residents during fiscal year 2013 and is not included in the accompanying consolidated balance sheet as of June 30, 2013.

Consolidated Financial Statements and Notes to the Financial Statements

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

Consolidated Balance Sheets

(Dollars in thousands)

	Unaudited June 30, 2014	Note 1 Audited June 30, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 139,390	$ 195,751
Accounts receivable for patient services— net of allowance for doubtful accounts of $46,871 and $47,097 respectively	211,369	190,145
Other accounts receivable	50,120	47,385
Self-insurance trust— current portion	27,404	24,724
Other current assets	49,495	51,360
Total current assets	477,778	509,365
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments— less current portion	876,808	654,721
Limited as to use by donor or time restriction or other	514,630	476,069
Self-insurance trust— less current portion	98,808	100,497
Debt service reserve trust	48,654	48,661
Total assets limited as to use and investments	1,538,900	1,279,948
PROPERTY AND EQUIPMENT— At cost:		
Property and equipment	2,587,079	2,492,627
Less accumulated depreciation	(1,223,967)	(1,116,509)
Net property and equipment	1,363,112	1,376,118
OTHER ASSETS	56,209	39,152
TOTAL ASSETS	$ 3,435,999	$ 3,204,583
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 311,978	$ 272,419
Estimated third-party settlements payable— net	155,652	149,192
Current portion of accrued liability under self-insurance programs	45,396	35,880
Current portion of long-term debt	12,928	12,065
Total current liabilities	525,954	469,556
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance programs— less current portion	202,314	197,188
Postretirement and pension benefits	54,703	85,242
Long-term debt— less current portion	584,453	597,166
Other long-term liabilities	78,883	76,118
Obligations under capital lease and other financing arrangements	38,791	43,037
Total long-term liabilities	959,144	998,751
Total liabilities	1,485,098	1,468,307
NET ASSETS:		
Unrestricted	1,323,974	1,159,532
Temporarily restricted for specific purposes	369,656	328,127
Permanently restricted endowments	257,271	248,617
Total net assets	1,950,901	1,736,276
TOTAL LIABILITIES AND NET ASSETS	$ 3,435,999	$ 3,204,583

Note 1: The June 30, 2013 financial statement information was derived from and should be read in conjunction with the Rush University Medical Center Obligated Group 2013 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Unaudited Year Ended June 30, 2014	Note 1 Audited Year Ended June 30, 2013
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,787,341	$ 1,655,120
Provision for uncollectible accounts	(67,665)	(62,413)
Net patient service revenue less provision for uncollectible accounts	1,719,676	1,592,707
University services:		
Tuition and educational grants	62,563	62,530
Research and other operations	99,594	100,844
Other revenue	87,805	81,752
Total revenue	1,969,638	1,837,833
EXPENSES:		
Salaries, wages and employee benefits	988,381	935,857
Supplies, utilities and other	582,908	515,978
Insurance	44,314	39,438
Purchased services	110,122	95,780
Depreciation and amortization	121,028	132,330
Interest and fees	40,340	42,167
Total expenses	1,887,093	1,761,550
OPERATING INCOME	82,545	76,283
NON-OPERATING INCOME (EXPENSE):		
Investment income (loss) and other	50,756	17,889
Unrestricted contributions, net of fundraising expenses	(2,784)	539
Change in fair value of interest rate swaps	429	7,451
Net gain on sale	1,501	8,842
Total non-operating income (expense)	49,902	34,721
EXCESS OF REVENUE OVER EXPENSES	$ 132,447	$ 111,004

Note 1: The June 30, 2013 financial statement information was derived from and should be read in conjunction with the Rush University Medical Center Obligated Group 2013 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in thousands)

	Unaudited Year Ended June 30, 2014	Note 1 Audited Year Ended June 30, 2013
UNRESTRICTED NET ASSETS		
Excess of revenue over expenses	$ 132,447	$ 111,004
Recovery of impaired endowment corpus	-	233
Net assets released from restrictions used for the purchase of property and equipment	24,895	12,340
Postretirement related changes other than net periodic postretirement cost	-	62,776
Other	7,100	1,053
Increase in Unrestricted Net Assets	164,442	187,406
RESTRICTED NET ASSETS		
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges, contributions and grants	49,856	33,449
Net assets released from restrictions	(59,903)	(46,680)
Investment gains (losses)	31,475	25,356
Change in unrealized gains (losses) on investments	20,101	21,664
Increase in Temporarily Restricted Net Assets	41,529	33,789
PERMANENTLY RESTRICTED NET ASSETS:		
Pledges and contributions	6,663	5,462
Change in unrealized gains (losses) impacting endowment corpus	-	233
Replenishment of impaired endowment corpus	-	(233)
Investment gains on trustee-held investments	1,991	1,035
Increase in Permanently Restricted Net Assets	8,654	6,497
INCREASE IN NET ASSETS	214,625	227,692
NET ASSETS—Beginning of year	1,736,276	1,508,584
NET ASSETS—End of year	$ 1,950,901	$ 1,736,276

Note 1: The June 30, 2013 financial statement information was derived from and should be read in conjunction with the Rush University Medical Center Obligated Group 2013 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

(Concluded)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Unaudited Year Ended June 30, 2014	Note 1 Audited Year Ended June 30, 2013
OPERATING ACTIVITIES:		
Increase in net assets	$ 214,625	$ 227,692
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	121,028	132,330
Postretirement related changes other than net period postretirement cost	-	(62,776)
Provision for uncollectible accounts	67,665	62,413
Change in fair value of interest rate swaps	(429)	(7,451)
Net unrealized and realized (gains) losses on investments	(102,800)	(46,590)
Restricted contributions and investment income received	(33,238)	(21,687)
Investment (gains) losses on trustee held investments	(1,991)	(1,035)
(Gain) Loss on disposal of equipment and other	(2,047)	237
Net gain on sale	(1,501)	(8,842)
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(88,889)	(2,586)
Accounts payable and accrued expenses	37,348	8,522
Estimated third-party settlements payable	6,460	(9,592)
Pension and postretirement costs	(30,539)	(21,857)
Accrued liability under self-insurance programs	14,642	(3,917)
Other changes in assets and liabilities	(16,397)	21,942
Net cash provided by operating activities	183,937	266,803
INVESTING ACTIVITIES:		
Additions to property and equipment	(100,119)	(84,054)
(Purchase) sale of investments, net	(158,336)	(156,711)
Proceeds from sale of building	-	25,396
Net cash used in investing activities	(258,455)	(215,369)
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	35,251	25,096
Payment of long-term debt	(12,065)	(6,610)
Payment of obligations under capital lease and other financing arrangements	(5,029)	(5,213)
Net cash provided by financing activities	18,157	13,273
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56,361)	64,707
CASH AND CASH EQUIVALENTS—Beginning of year	195,751	131,044
CASH AND CASH EQUIVALENTS—End of year	$ 139,390	$ 195,751

Note 1: The June 30, 2013 financial statement information was derived from and should be read in conjunction with the Rush University Medical Center Obligated Group 2013 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

Note A – Organization and Basis of Presentation

Rush University Medical Center Obligated Group is comprised of Rush University Medical Center and Subsidiaries (RUMC) and Rush-Copley Medical Center and Subsidiaries (RCMC), collectively "Rush" or the "Obligated Group." Rush University Medical Center also controls and operates Rush Oak Park Hospital, which is an Obligated Group member.

The accompanying unaudited consolidated financial statements of Rush for the year ended June 30, 2014 and 2013 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim reporting and applied on a basis substantially consistent with that of the fiscal year 2013 audited consolidated financial statements. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended June 30, 2013.

Included in Rush's financial statements are all of its wholly owned or controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Note B – Accounting Pronouncements

In December 2011, the FASB issued new guidance which enhances disclosures about financial and derivative instruments that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet. The new disclosures provide financial statement users information about the effect or potential effect of netting arrangements on an entity's financial position. The enhanced disclosures are effective for Rush in fiscal year 2014. Rush at this time does not have any transactions that would qualify under these new disclosure requirements.

In October 2012, the FASB issued new guidance which requires not-for-profit (NFP) entities to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Those cash receipts would be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts would be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities in the statement of cash flows. This guidance is effective for Rush in fiscal year 2014 and did not have a material impact to the consolidated financial statements.

Note C – 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.

Significant estimates recorded within the Obligated Group's financial statements include, but are not limited to, the following: recognition of patient service revenue, which includes, contractual allowances, provisions for uncollectible accounts and charity care, and third party settlements; asset impairment on disposal of long-lived assets; useful lives for long-lived assets; reserves for losses and expenses related to health care professional, general and other self insured liability risks; and pension and actuarial assumptions.

Note D – Retirement Plans

Rush maintains a defined benefit pension plan and supplemental retirement plan, defined contribution plans and other postretirement benefit plans that together cover substantially all of Rush's employees.

Benefits and Employer Contributions

Benefits are based on years of service and the employee's final average earnings, as defined. Defined Benefit Plan assets and obligations are measured at June 30th (the Measurement Date) each year. Employer contributions were $51.6 million and $45.5 million during fiscal year 2014 and 2013, respectively, which satisfy minimum contribution requirements.

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.

Obligations and Funded Status

Pension plan expense included in the Consolidated Statements of Operations and Changes in Net Assets for the fiscal years ended June 30, 2014 and 2013, was as follows:

Pension Expense	**Fiscal Year Ended**	
(in thousands)	**June 30, 2014**	**June 30, 2013**
Pension Plan Expense	$23,166	$25,934
Assumptions Used to Determine Pension Plan Expense:		
Discount Rate	5.20%	4.60%
Assumed Long-Term Rate of Return on Plan As:	7.00%	7.50%
Rate of Increase in Compensation Levels	5.35%	5.38%

The pension liability included in the Consolidated Balance Sheet for the fiscal years ended June 30, 2014 and 2013 was as follows:

Pension Liability	**Fiscal Year Ended**	
(in thousands)	**June 30, 2013**	**June 30, 2012**
Fair Value of Plan Assets	$ 805,326	$ 772,344
Projected Benefit Obligation	883,311	933,774
Accrued Benefit Liability	$ (77,985)	$ (161,430)
Assumptions Used to Determine Accrued Benefit Liability:		
Discount Rate	5.20%	4.60%
Assumed Long-Term Rate of Return on Plan Assets	7.00%	7.50%
Rate of Increase in Compensation Levels	5.35%	5.38%

The discount rate used is based on a spot interest rate yield curve for a broad group of corporate bonds rated AA or better as of the Measurement Date. Rush uses this yield curve and the estimated payouts of the Plans to develop an aggregate discount rate. The estimated payouts are the sum of the payouts under the Defined Benefit Plan(s) and the Postretirement Healthcare Plans. For fiscal year 2013, the discount rate was estimated under a bond model approach, which is based on a hypothetical bond portfolio whose cash flow from coupons and maturities match the year-by-year Plans' cash flows using bonds rated AA or better.

As of the date of this report, the actuarial valuation as of and for the year ended June 30, 2014 was not yet available. No adjustment to the liability for a change in these assumptions was made at June 30, 2014 for this unaudited Quarterly Report. The change in assumptions could have a material impact on the recorded liability when the valuation is updated in the audited Annual Report.

Plan Assets

The Plan Assets had a fair value of $912.9 million and $805.3 million at June 30, 2014 and 2013, respectively. The actual rate of return on plan assets was as follows:

	Fiscal Year Ended	
	June 30, 2014	**June 30, 2013**
Actual Rate of Return on Plan Assets	16.1%	5.8%

RUMC's investment objective for its Defined Benefit Plan is to achieve a total return on plan assets that meets or exceeds the return on the plan's liability over a full market cycle (generally defined as rolling 5-year periods) with consideration of the plan's current funded status. Investment risk is effectively managed through diversification of assets for a mix of capital growth and capital protection across various investment styles. The asset allocation policy reflects this objective with allocations to return generating assets (e.g. equity and limited partnerships) and interest rate hedging assets (e.g. fixed income investments).

The weighted-average asset allocation of RUMC's Defined Benefit Plan assets at June 30, 2014 and 2013, respectively, was as follows:

			Percentage Plan Assets at	
Asset Class	**Target Allocation and Range**		**June 30, 2014**	**June 30, 2013**
Fixed Income	55%	*(+/- 15%)*	61%	59%
Global Equity	25%	*(+/- 5%)*	23%	24%
World Asset Allocation	15%	*(+/- 5%)*	12%	13%
Private Equity	5%	*(+/- 5%)*	3%	3%
Cash/Money Market	--	--	1%	1%

Cash Flows

RUMC expects to contribute approximately $26 million in 2015 to the Defined Benefit Plan. In addition, RUMC expects to make the following estimated benefits payments from its Defined Benefit Plan:

Estimated Benefit Payments *(in thousands)*		
Fiscal Year 2014		70,987
Fiscal Year 2015		45,079
Fiscal Year 2016		49,347
Fiscal Year 2017		52,048
Fiscal Year 2018		55,410
Fiscal Year 2019 - 2023		322,878
Total Estimated Benefits Payments	$	595,749

Other Postretirement Benefit Plans

Both RUMC and RCMC maintain a voluntary tax-deferred retirement savings plan. Under these plans, employees may elect to contribute a percentage of their salary, which may be matched in accordance with the provisions of the plans. Other provisions of the plans may provide for employer contributions to the plans based on eligible earnings regardless of whether the employee elects to contribute to the plan. Employer contributions to these plans were $12,307 and $11,248 for the year ended June 30, 2014 and 2013, respectively.

RUMC also sponsors a noncontributory defined contribution plan covering selected employees (457(b) Plan). Contributions to the 457(b) Plan are based on a percentage of qualifying compensation up to certain limits as defined by the provisions of the 457(b) Plan. The 457(b) Plan assets and liabilities totaled $14,178 and $12,627 as of June 30, 2014 and 2013, respectively, and are subject to the claims of the general creditors of RUMC. Rush also sponsors supplemental retirement plans for certain management employees (Supplemental Plans). The Supplemental Plans are noncontributory and entirely funded by Rush. The benefit obligation for the Supplemental Plans amounted to $11,812 and $11,410 as of June 30, 2014 and 2013, respectively. These supplemental plans are currently funded at over 90% of benefits accrued. RUMC also maintains a frozen nonqualified supplemental defined benefit retirement plan for certain management employees, which is unfunded. Benefits under this plan, which were curtailed as of December 31, 2004, are paid when incurred from operating funds.

It is Rush's policy to meet the requirement of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

Note E - Long-Term Debt

Rush's long-term debt is issued under a Master Trust Indenture which established an Obligated Group comprised of RUMC and RCMC, including all subsidiaries. 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. As of June 30, 2014 and 2013, such issuances are secured by a pledge of gross receipts and a mortgage on primary healthcare facilities, as defined, of the Obligated Group members. Wells Fargo serves as Master Trustee.

A summary of the Obligated Group's long term debt as of June 30, 2014 and 2013 is as follows:

			Amount Outstanding at	
Long-term Debt *(in thousands)*	**Interest Rates**	**Final Maturity Date**	**June 30, 2014**	**June 30, 2013**
Illinois Health Facilities Authority Revenue Bonds:				
Fixed-Rate Debt:				
Series 2009 C/D	6.2% to 6.625%	November 1, 2039	$ 200,000	$ 200,000
Series 2009 A/B	5.0% to 7.25%	November 1, 2038	208,625	211,620
Series 2006B	5.0% to 5.75%	November 1, 2028	92,800	95,950
Total fixed-rate debt			501,425	507,570
Variable-Rate Debt:				
Series 2008A	Average of 0.06% and 0.17% in FY2014 and FY2013, respectively.	November 1, 2045	50,000	50,000
Series 2011, Tax-Exempt Private Placement with JP Morgan Chase Bank, N.A.	Average of 1.29% in FY2014 and 1.38% in FY2013	November 1, 2024	45,720	50,895
Total variable-rate debt			95,720	100,895
Total tax-exempt debt			597,145	608,465
Mortgage loan collateralized by fitness center	5.50%	May 2016	6,461	7,206
Total Par Value of Debt			603,606	615,671
Less current portion of long-term debt			(12,928)	(12,065)
Less unamortized premium/(discount), net			(6,225)	(6,440)
Total Long-Term Debt			$ 584,453	$ 597,166

The Obligated Group is subject to certain financial covenants, including, but not limited to, maintaining minimum historical debt service coverage and maximum annual debt service coverage ratios; maintaining minimum levels for days cash on hand; maintaining debt to capitalization at certain levels; limitations on selling, leasing, or otherwise disposing of Obligated Group property; and certain other nonfinancial covenants. **The Obligated Group was in compliance with its financial and nonfinancial covenants as of June 30, 2014 and 2013.**

Letter of Credit Arrangements

The Series 2008 Variable Rate Demand Bonds (the Series 2008A Bonds) 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 entered into a letter of credit with a commercial bank to provide funding for such repurchases as necessary, which expires February 15, 2017. Any amounts borrowed under this letter of credit as a result of a failed remarketing are due and payable more than one year from the date of such borrowing. In the absence of such an agreement, the Obligated Group would be required to replace it with a similar credit arrangement, convert the related debt from variable to fixed interest rates, or fund required repurchases from available funds. Draws are routinely made from the letter of credit to pay off principal and interest, and are reimbursed to the commercial bank on the following business day. As of both June 30, 2014 and June 30, 2013, there were outstanding draws against the letter of credit related to the Series 2008A Bonds representing interest paid to the bondholders on July 1, 2014 and July 1, 2013, respectively. Amounts were immaterial as of June 30, 2014 and 2013.

Deferred Financing Costs

Debt issuance costs, net of amortization computed on a straight-line basis over the life of the related debt, are reported within other assets on the accompanying consolidated balance sheets. The straight-line basis approximates the effective interest method, which is required under GAAP. Unamortized debt issuance costs were as follows as of June 30, 2014 and June 30, 2013:

Deferred Financing Costs	**Fiscal Year Ended**	
(In thousands)	**June 30, 2014**	**June 30, 2013**
Unamortized debt issuance costs	$9,756	$10,231

Note F - Derivatives

Derivatives Policy

Rush uses derivative instruments, specifically interest rate swaps, to manage its exposure to changes in interest rates on variable rate borrowings. The use of derivative instruments exposes Rush to additional risks related to the derivative instrument, including market, credit and termination risk, and Rush has defined risk management practices to mitigate these risks, as appropriate.

Board approval is required to enter or modify any derivatives transaction. Management periodically reviews existing derivative positions as its risk tolerance and cost of capital changes over time.

Interest Rate Swap Agreements

Rush currently has two interest rate swap agreements (the Swap Agreements) outstanding, which were originally issued In connection with the issuance of the Series 2006A Bonds (refinanced during fiscal year 2009). Under the Swap Agreements, Rush makes fixed rate payments equal to 3.945% to the swap counterparties and receives variable rate payments equal to 68% of LIBOR (.155% as of June 30, 2014) from the swap counterparties, each calculated on the notional amount of the Swap Agreements. As of June 30, 2014 and June 30, 2013, the Swap Agreements had a notional amount of $92.7 million and $96.0 million outstanding, respectively ($46.35 million and $47.975 million in notional amount, respectively, with each counterparty). The counterparties to the Swap Agreements are Morgan Stanley Capital Services, Inc. and Citibank, N.A. (collectively, the Swap Counterparties), which are affiliates of Morgan Stanley & Co., Incorporated and Citigroup Global Markets. The Swap Agreements each expire on November 1, 2035 and amortize annually. The Swap Agreements are secured by obligations issued under the Master Indenture.

The refinancing of the Series 2006A Bonds during fiscal year 2009 resulted in the existing Swap Agreements no longer being associated with the Series 2006A debt. However, the Obligated Group used $50.0 million in notional amount of the Swap Agreements to synthetically fix the interest on the Series 2008A Bonds and the remaining notional amount was unhedged at June 30, 2014 and June 30, 2013, respectively. The Swap Agreements had a fair value of $(17.4) million and $(17.8) million as of June 30, 2014 and June 30, 2013, respectively, reported in other long-term liabilities in the accompanying consolidated balance sheets. The fair value of the Swap Agreements reported in Rush's balance sheets as of June 30, 2014 and June 30, 2013 includes an adjustment for the Obligated Group's credit risk and may not be indicative of the termination value that Rush would be required to pay upon early termination of the Swap Agreements.

Management has not designated the Swap Agreements as hedging instruments. Amounts recorded in the accompanying consolidated statement of operations and changes in net assets for the Swap Agreements for the fiscal year ended June 30, 2014 and 2013 were as follows:

Swap Disclosures *(In Thousands)*	**Reported As**	**Fiscal Year Ended June 30 2014**	**Fiscal Year Ended June 30, 2013**
Change in Fair Value of Interest Rate Swaps	Nonoperating Income (Expense)	$ 429	$ 7,451
Net Cash Payments on Interest Rate Swaps	Interest Expense	$ (3,594)	$ (3,597)

The Swap Agreements also require either party to post collateral in the form of cash and certain cash equivalents to secure potential termination payments. The amount of collateral that is required to be posted is based on the relevant party's long-term credit rating. Based on its current rating, the Obligated Group is required to post collateral with the Swap Counterparties in the event that the market value of the Swap Agreements exceeds $(25.0) million or $(12.5) million for each Swap Agreement. As of June 30, 2014 and June 30, 2013 the Obligated Group was not required to post any collateral with the Swap Counterparties.

Note G - Assets Limited as to Use and Investments

Assets limited as to use consist primarily of investments limited as to use by donors, unconditional promises to contribute, assets held by trustees under debt or other agreements and for self-insurance, and board designated assets set aside for a specified future use. Investments in equity and debt securities with readily determinable fair values are measured at fair value using quoted market prices or model-driven valuations.

Alternatives investments consist of limited partnerships that investment in primarily marketable securities (hedge funds), real estate, and limited partnerships that invest primarily in nonmarketable securities (private equity). Investments in hedge funds and private equity are generally not marketable and may be divested only at specified times.

Investments in hedge funds are measured at fair market value based on Rush's interest in the net asset value (NAV) of the respective fund. The estimated valuations of hedge funds are subject to uncertainty and could differ had a ready market existed for these investments. Such differences could be material.

Real estate investments are recorded at cost of $7.7 million less accumulated depreciation of $4.8 million as of June 30, 2014 and 2013, respectively. Depreciation on real estate investments is recorded annually at June 30th.

Investments in private equity funds entered into on or after July 1, 2012 are measured at fair market value based on the estimated fair values of the nonmarketable private equity partnerships in which it invests, which is equivalent to NAV, when Rush's ownership is minor (less than 5%). The estimated valuations of private equity partnerships are subject to uncertainty and could differ had a ready market existed for these investments. Investments in private equity funds entered into during fiscal year 2012 or prior years are reported at cost, adjusted for impairment losses, based on information provided by the respective partnership when Rush's ownership is minor (less than 5%). Investments in limited partnerships recorded at cost, adjusted for impairment losses, was $27.4 million and $29.3 million at June 30, 2014 and June 30, 2013, respectively. The fair value of these cost-based partnership investments, as estimated by management of the limited partnerships based on audited financial statements and other relevant factors, was $33.3 million and $38.8 million at June 30, 2014 and June 30, 2013, respectively. Investments in limited partnerships where Rush's ownership percentage is more than minor, but consolidation is not required (5% to 50%), are accounted for on the equity basis and periodically assessed for impairment. Investments in limited partnerships recorded on the equity basis amounted to $0.9 million and $0.7 million at June 30, 2014 and 2013, respectively. At June 30, 2014 and June 30, 2013, commitments for additional contributions to limited partnership funds totaled $49.6 million and $17.7 million, respectively. Rush's risk in alternative investments is limited to its capital investment and future capital commitments.

Investment income or loss (including interest, dividends, realized and unrealized gains and losses, and changes in cost based valuations) is reported within excess of revenue over expenses unless the income or loss is restricted by donor or interpretation of law. Investment gains and losses on Rush's endowment are recognized within temporarily restricted net assets until appropriated for use. Investment gains and losses on permanently restricted assets are allocated to purposes specified by the donor either as temporarily restricted or unrestricted, as applicable. Income earned on tax-exempt borrowings for specific construction projects is offset against interest expense capitalized for such projects. The Obligated Group recognized $29.2 million and $1.4 million of unrealized gains within excess of revenue over expenses during the fiscal year ended June 30, 2014 and 2013, respectively.

Note H - Fair Value Measurements

As of June 30, 2014 and June 30, 2013, Rush held certain assets and liabilities that are required to be measured at fair value on a recurring basis including marketable securities and short-term investments, certain restricted, trusteed and other investments, derivative instruments, interest in cash collateral pools, and beneficial interests in trusts. Certain alternative investments measured using either the cost or equity method of accounting are excluded from the fair value disclosure provided herein.

Valuation Principles

Under FASB guidance on fair value measurements, fair value is defined as an exit price, representing 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. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs generally reflect market data from independent sources and are supported by market activity, while unobservable inputs are generally unsupported by market activity. The three-level valuation hierarchy, which prioritizes the inputs used in measuring fair value of an asset or liability at the measurement date, includes:

Level 1 inputs — Quoted prices (unadjusted) for identical assets or liabilities in active markets. Securities typically priced using Level 1 inputs include listed equities and exchange traded mutual funds.

Level 2 inputs — Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in non-active markets, and model-driven valuations whose inputs are observable for the asset or liability, either directly or indirectly. Securities typically priced using Level 2 inputs include government bonds (including U.S. treasuries and agencies), corporate and municipal bonds, collateralized obligations, interest rate swaps, commercial paper and currency options, and commingled funds where NAV is corroborated with observable data.

Level 3 inputs — Unobservable inputs for which there is little or no market data available and are based on the reporting entity's own judgment or estimation of the assumptions that market participants would use in pricing the asset or liability. The fair values for securities typically priced using Level 3 inputs are determined using model-driven techniques which include option pricing models, discounted cash flow models and similar methods. The Level 3 classification primarily includes Rush's interest in hedge funds and beneficial interests in trusts.

Fair Value Measurements at the Balance Sheet Date

The following tables present Rush's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and June 30, 2013:

Fair Value Measurements As of June 30, 2014	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Marketable securities and short-term investments	$ 32,458	$ 41,817	$ -	$ 74,275
Fixed income securities:				
U.S. government securities and agencies	-	192,578	-	192,578
International government securities and agencies	-	1,231	-	1,231
Corporate bonds	-	145,081	-	145,081
Fixed income mutual funds	270	287,598	-	287,868
Collateralized securities and other		84,587	-	84,587
U.S. equity securities	281,336	8,022	-	289,358
International equity securities	70,821	52,917	-	123,738
World asset allocation:				
Mutual funds	156,961	-	-	156,961
Commingled funds		18,805	7,333	26,138
Moderate allocation mutual funds {a}	21,674	-	-	21,674
Alternative investments				
Hedge fund of funds	-	-	52,495	52,495
Private equity partnerships	-	-	13,166	13,166
Accrued interest and other	-	2,378	-	2,378
Beneficial interest in trusts	-	-	28,613	28,613
Total assets at fair value	$ 563,520	$ 835,014	$ 101,607	$ 1,500,141
Liabilities:				
Obligations under interest rate swap agreements	-	17,380	-	17,380
Total liabilities at fair value	$ -	$ 17,380	$ -	$ 17,380

{a} This class includes investments in mutual funds that allocate assets among equity and fixed income investments, and includes $7,551 (35%) in fixed income securities and $14,123 (65%) in equity securities at June 30, 2014.

Fair Value Measurements As of June 30, 2013	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Marketable securities and short-term investments	$ 1,273	$ 18,072	$ -	$ 19,345
Fixed income securities:				
U.S. government securities and agencies	-	229,107	-	229,107
Corporate bonds	-	102,532	-	102,532
Fixed income mutual funds	177	272,271	-	272,448
Collateralized securities and other	71	92,935	-	93,006
U.S. equity securities	220,325	4,456	-	224,781
International equity securities	45,549	45,397	-	90,946
World asset allocation:				
Mutual funds	94,199	-	-	94,199
Commingled funds		21,478	9,983	31,461
Moderate allocation mutual funds {a}	20,409	-	-	20,409
Alternative investments				
Hedge fund of funds	-	-	27,970	27,970
Private equity partnerships	-	-	40	40
Accrued interest and other	-	2,230	-	2,230
Beneficial interest in trusts	-	-	26,622	26,622
Total assets at fair value	$ 382,003	$ 788,478	$ 64,615	$ 1,235,096
Liabilities:				
Obligations under interest rate swap agreements	-	17,808	-	17,808
Total liabilities at fair value	$ -	$ 17,808	$ -	$ 17,808

{a} This class includes investments in mutual funds that allocate assets among equity and fixed income investments, and includes $7,093 (35%) in fixed income securities and $13,316 (65%) in equity securities at June 30, 2013.

Valuation Techniques and Inputs for Level 2 and Level 3 Instruments

The Level 2 and Level 3 instruments listed in the preceding fair value tables use the following valuation techniques and inputs as of the valuation date:

Marketable Securities and Short-term Investment Funds – Marketable securities classified as Level 2 are invested in a short-term collective fund that serves as an investment vehicle for cash reserves. Fair value was determined using the calculated NAV as of the valuation date based on a constant price. These funds are invested in high-grade, short term money market instruments with daily liquidity.

U.S. and International Government and Agency Securities – The fair value of investments in U.S. and foreign government and agency securities classified as Level 2 was primarily determined using techniques consistent with the market approach, including matrix pricing. Significant observable inputs to the market approach include institutional bids, trade data, broker and dealer quotes, discount rates, issuer spreads and benchmark yield curves.

Corporate Bonds and Fixed Income Mutual Funds – The fair value of investments in corporate bonds of U.S .and international issuers including mutual and commingled funds that invest primarily in such bonds, classified as Level 2 was primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yield curves, reported trades, observable broker or dealer quotes, issuer spreads and security specific characteristics. Significant unobservable inputs may be used including bid or ask/offer quotes that are uncorroborated, which results in a Level 3 classification.

Collateralized Securities and Other – This group encompasses collateralized bond obligations, collateralized loan obligations, collateralized mortgage obligations and any other asset backed securities, including government asset backed securities. This class also includes international government securities and agencies, municipal bonds, convertible equity, real estate funds, and some commercial paper. The fair value of collateralized obligations classified as Level 2 was determined using techniques consistent with the market and income approach such as discounted cash flows and matrix pricing. Significant observable inputs include prepayment spreads, discount rates, reported trades, benchmark yield curves, volatility measures and quotes. Significant unobservable inputs may be used including bid or ask/offer quotes that are uncorroborated, which results in a Level 3 classification.

U.S. and International Equity Securities – The fair value of U.S. and foreign equity securities classified as Level 2 was primarily determined using the calculated NAV at the valuation date under a market approach. This includes investments in commingled funds that invest primarily in foreign equity securities whose underlying values are based on Level 1 inputs. The NAV is often corroborated through ongoing redemption or subscription activity. Certain common and preferred stocks held by Rush under this classification may not have available current market quotes and were primarily valued using techniques consistent with the market approach utilizing significant observable inputs such as mid, bid and ask or offer quotes.

World Asset Allocation Funds - This category includes investments in fund of funds that seek to provide both capital appreciation and income by investing primarily in both traditional and alternative asset funds. The asset allocation is driven by the fund manager's long range forecasts of asset-class real returns. Investments representing the majority of the fair value in this category, which are invested in mutual funds, are priced as of the New York Stock Exchange (NYSE) close on each day the NYSE is open. Investments In this category classified as Level 2 are held in a commingled fund which invests primarily in global equity and bond mutual funds. The fair value of this commingled fund is based upon the calculated NAV at the valuation date under a market approach (Level 2 inputs). Investments in this category classified as Level 3, which are invested in a multi-strategy hedge fund, are priced on the last business day of each calendar month. The values for underlying investments are estimated based on many factors, including operating performance, balance sheet indicators, growth, and other market and business fundamentals (Level 3 inputs). The underlying investment strategies can include long-short, global macro, fixed income and currency hedges and other tactical opportunity related strategies. Redemption proceeds for approximately 50% of these investments is daily. Redemption proceeds for the remaining 50% of these investments is monthly and requires at least 14 business days advance notice.

Hedge Fund of Funds – This class includes diversified investments in hedge fund of funds with diverse strategies, including equity long/short, credit long/short, event-driven, relative value, global opportunities and other multi-strategy funds. Hedge fund of funds investments are valued based on Rush's ownership interest in the NAV of the respective fund as estimated by the general partner, which approximates fair value. Rush routinely monitors and assesses methodologies and assumptions used in valuing these interests. The values for underlying investments are estimated either internally or by an external fund manager based on many factors including operating performance, balance sheet indicators, growth, and other market and business fundamentals. Hedge fund investments also include certain liquidity restrictions that may require 65 to 95 days advance notice for redemptions. Due to significant unobservable inputs used in estimating the net asset value and liquidity restrictions, Rush classifies all hedge fund investments as Level 3.

Private Equity Partnerships – Effective July 1, 2012, Rush elected to measure all new private equity partnerships entered into on or after July 1, 2012 at fair value (as described further in Note G on pages 35-36 of this Quarterly Report). Private equity partnerships are valued based on the estimated fair values of the nonmarketable private equity partnerships in which it invests (Level 3 inputs), which is an equivalent of NAV. The partnerships' privately held investments are restricted and are not actively traded and may invoke significant redemption restrictions, which vary per partnership agreement.

Beneficial Interest in Trusts – The fair value of beneficial interests in perpetual and charitable trusts classified as Level 3 was determined using an income approach based on the present value of expected future cash flows to be received from the trust or based on Rush's beneficial interest in the investments held in the trust measured at fair value. Since Rush is unable to liquidate the funds held and benefits only from the distributions generated off of such investments, the interest in such trusts are all shown in Level 3.

Obligations Under Interest Rate Swap Agreements – The fair value of Rush's obligations under interest rate swap agreements classified as Level 2 are valued using a market approach. The valuation is based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs such as interest rate curves. The fair value of the obligation reported in Rush's consolidated balance sheets includes an adjustment for the Obligated Group's credit risk, but may not be indicative of the value Rush would be required to pay upon early termination of the swap agreements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Rush believes that its methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 Rollforward

A rollforward of the amounts in the consolidated balance sheets for financial instruments classified by Rush within Level 3 of the fair value hierarchy, are as follows:

Fair Value Measurements Level 3 Rollforward	Hedge Fund of Funds	Private Equity Partnerships	Beneficial Interest in Trusts	Total Assets at Fair Value
Fair value — June 30, 2013	$ 37,953	$ 40	$ 26,622	$ 64,615
Actual return on investments —				
Realized and unrealized gains (losses)	4,268	(684)	1,991	5,575
Purchases, sales, and settlements — net	17,607	13,810	-	31,417
Fair value — June 30, 2014	$ 59,828	$ 13,166	$ 28,613	$ 101,607

For the year ended June 30, 2014, realized and unrealized gains (losses) pertaining to Level 3 investments include $66 reported within excess of revenue over expenses and $3,518 and $1,991 reported within temporarily and permanently restricted net assets under investment gains, respectively.

Note I - Endowment Funds

Rush adopted FASB guidance on net asset classification of funds subject to an enacted version of UPMIFA (codified as ASC 954-205) during fiscal year 2009. As a result of the passage of UPMIFA, beginning July 1, 2009 Rush recognizes the investment gains and losses on its endowment within temporarily restricted net assets until appropriated for use.

Rush’s endowment consists of over 380 individual funds, which are established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. RUMC’s endowment accounts for $521.8 million and $475.7 million of Rush’s endowment net assets at June 30, 2014 and June 30, 2013, respectively.

Endowment Investment and Spending Policies

Rush has adopted endowment investment and spending policies to preserve purchasing power over the long-term and provide stable annual support to the programs supported by the endowment, including professorships, research and education, free care and student financial aid, scholarships and fellowships. Approximately 18% of Rush’s endowment is available for general purposes.

The Investment Committee of the Board is responsible for defining and reviewing the investment policy to determine an appropriate long-term asset allocation policy. The asset allocation policy reflects the objective with allocations structured for capital growth and inflation protection over the long-term.

The current asset allocation targets and ranges as well as the asset allocation at June 30, 2014 and 2013 are as follows:

Asset Class	Target Allocation and Range		Percentage Plan Assets at June 30, 2014	Percentage Plan Assets at June 30, 2013
Global Equity	40%	*(+/- 5%)*	43%	40%
Private Equity	10%	*(+/- 5%)*	9%	8%
Real Estate	5%	*(+/- 5%)*	4%	5%
Fixed Income	25%	*(+/- 5%)*	23%	28%
Multi Asset Fund	20%	*(+/- 5%)*	21%	0%
World Asset Allocation	--	--	0%	13%
Hedge Funds	--	--	0%	6%

To achieve its long-term rate of return objectives, Rush relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The expected long-term rate of return target of the endowment given its current asset allocation structure is approximately 7.5% based on historical returns. Actual returns in any given year may vary from this amount. Rush has established market-related benchmarks to evaluate the endowment fund's performance on an ongoing basis. Actual returns for the fiscal years ended June 30, 2014 and 2013 were as follows:

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Actual Rate of Return on Endowment	13.1%	12.0%

The Finance Committee of the Board approves the annual spending policy for program support. In establishing the annual spending policy, Rush's main objectives are to provide for intergenerational equity over the long-term, the concept that future beneficiaries will receive the same level of support as current beneficiaries on an inflation adjusted basis, and to maximize annual support to the programs supported by the endowment. The spending rate is based on a 5-year moving average of ending market values for pooled assets with an inflation component to provide more consistent spending growth. The spending rate and level of income from the endowment fund provided to support Rush's programs was as follows for the fiscal years ended June 30, 2014 and 2013:

(In thousands)	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Endowment Spending Rate	4%	4%
Income From Endowment Fund	$16,574	$16,386

Fund Deficiencies

Rush monitors the accumulated losses on permanently restricted investments to determine whether the endowment corpus has been impaired. During the year ended June 30, 2013, $0.2 million was recovered and replenished through unrestricted net assets. During the year ended June 30, 2014, no additional funding was required and no amounts were recovered and replenished through unrestricted net assets.

Note J – Net Patient Service Revenue

The mix of patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended June 30, 2014 and 2013, by major payor source, was as follows:

Net Patient Service Revenue Mix	Fiscal Year Ended	
By Payor	June 30, 2014	June 30, 2013
Medicare	25%	26%
Medicaid	14%	13%
Blue Cross of Illinois	29%	30%
Managed Care - non Blue Cross	24%	22%
Commercial and Self Pay	8%	9%
Total	100%	100%

Note K - Joint Venture and Other Affiliations

Significant numbers of affiliations, joint ventures, acquisitions and divestitures occur in the health care industry each year, and these transactions are accelerating in the greater Chicago area. The Obligated Group continually considers opportunities for affiliations, joint ventures, acquisitions and divestitures, and is currently in discussions related to potential acquisition, divestiture and joint venture opportunities. It also continues to consider expansion and development opportunities. If any such affiliations, expansions, acquisitions, divestitures or joint ventures are completed, they may have a significant impact on the financial condition of the Obligated Group. There is no assurance that any affiliations, expansions, acquisitions, divestitures or joint ventures currently being considered will be pursued or completed, and if so, under what terms or conditions.

Rush has investments in a number of health related joint ventures. Several of these joint ventures provide core operations such as outpatient surgery, imaging and other services on the main campuses of all of the hospitals. Others have been determined to be non-core and are reviewed on a regular basis for financial performance and alignment with achieving Rush's long-term financial goals. An ownership interest of more than 50% in another health-related entity in which Rush has a controlling interest is consolidated. As of June 30, 2014 and June 30, 2013, non-controlling interests in consolidated subsidiaries amounted to $4,809 and $5,208, respectively. The amounts related to non-controlling interest are not material, and accordingly, are not separately presented in the accompanying consolidated financial statements. An ownership interest in another health related entity of at least 20% but not more than 50% in which Rush has the ability to exercise significant influence over the operating and financial decisions of the investee is accounted for on the equity basis, and the income (loss) is reflected in other revenue. An ownership interest in a health-related entity of less than 20%, in which Rush does not have the ability to exercise significant influence over the operating and financial decisions of the investee, is carried at cost or estimated net realizable value, which is not material.

Note L – Significant Accounting Policies

The Obligated Group considers significant accounting policies to be those that require the highest level of judgment and estimation in the preparation of the financial statements. Significant accounting policies are as follows:

Cash and Investments

Cash and investments having an original maturity of 90 days or less when purchased are considered to be cash and cash equivalents. These securities are so near maturity that they present insignificant risk of changes in value.

Net Patient Service Revenue, Patient Accounts Receivable and Allowance for Doubtful Accounts

Net patient service revenue is reported at estimated net realizable amounts from third-party payors, patients and others for services rendered. Rush derives nearly all of its revenue from the Medicare and Medicaid programs and from managed care companies, all of which pay less than billed charges. For Medicare and Medicaid revenues, adjustments are made to reduce charges to estimated receipts based upon the programs' principles of reimbursement. Final settlement under the Medicare program is subject to administrative review and audit, and provisions are made to current revenue for adjustments that may occur. Payments made by managed care companies are determined by contractual arrangements and adjustments are made to reduce charges to estimated receipts. Management monitors historical collection rates, changes in law and changes in contract terms to determine the appropriate adjustments to revenue.
For uninsured patients that do not qualify for charity care, Rush recognizes revenue based on its discounted rates. On the basis of historical experience, a significant portion of Rush's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Rush records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Patient accounts receivable are based on gross charges and stated at net realizable value. Accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payors under current reimbursement methodologies, and also by an allowance for doubtful accounts. The collection of receivables from third party payors and from patients is the Obligated Group's primary source of cash and critical to operating performance. Primary collection risks relate to uninsured patient accounts and patient accounts for which the third party payor has paid but a payment that is the patient responsibility remains. In evaluating the collectability of accounts receivable, Rush analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate appropriate allowance for doubtful accounts and provision for uncollectible accounts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, Rush analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third party coverage exists for part of the bill), Rush records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible.

Rush's allowance for doubtful accounts for self-pay patients decreased from 70% of self-pay accounts receivable at June 30, 2013, to 67% of self-pay accounts receivable as of June 30, 2014. The decrease is a result of lower self-pay volumes and an increase in write-offs in fiscal year 2014. Rush's self-pay write-offs totaled $60,868 and $54,095 for the year ended June 30, 2014 and 2013, respectively. Rush does not maintain a material allowance for doubtful accounts from third-party payors, nor does it have significant write-offs from third-party payors.

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 net patient service revenue. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for uncollectible accounts.

Professional and General Liability

Rush maintains insurance programs, including both self-insured and purchased insurance arrangements, for professional and general liability claims. Self-insured risks are retained in varying amounts according to policy year and entity. 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 their estimated present value. RUMC accounts for 80% of the self-insurance liability. It is Rush's policy to record the liability at the 75th percentile confidence level (with a minimum confidence level of 60th percentile and maximum confidence level of 90th percentile) that losses will not exceed the amount of liability recorded. On an annual basis, Rush engages an outside actuary to review the adequacy of the recorded liability.

RUMC accounted for 75% of Rush's malpractice and other insurance expense in the year ended June 30, 2014. RUMC is located in Cook County, Illinois, considered one of the worst counties in the United States for jury awards in malpractice cases. RUMC insures this risk with a $20 million self-insured retention on the first case, $15 million self insured retention on the second case and $10 million on any additional cases. RUMC maintains excess liability insurance coverage with combined limits of $80 million per occurrence and in the aggregate. RUMC has an established irrevocable trust fund to pay claims and related costs.

RCMC accounted for 25% of the Obligated Group's malpractice and other insurance expense in the year ended June 30, 2014. Since October 1986, RCMC had been insured for professional liability claims through the Chicago Hospital Risk Pooling Program (CHRPP). CHRPP is a pooled insurance program in which claims are paid out of pooled funds of several hospitals. Effective January 1, 2010, RCMC converted from CHRPP to a self insured model for malpractice liabilities. RCMC insures this risk with self insured retention of $2 million per occurrence and $10 million in the aggregate. RCMC also maintains excess liability insurance coverage with limits of $35 million per occurrence and in the aggregate. Amounts above self insured limits are insured through policies that are purchased on a claims-made basis. RCMC has an established separate account to pay claims and related costs.

Self Insurance Total Return

It is Rush's intent to maintain a long-term investment portfolio to support its self-insurance program. Accordingly, 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 income statement line items. 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 insurance expense. This allocated return approximates the real return that Rush expects to earn on its investments over the long-term. The difference between the total investment return and the amount allocated to operations is reported in non-operating income (expense). There is no guarantee the investment return expected by management will be realized. The allocated return, real return and amount allocated to nonoperating income (expense) during the fiscal year ended June 30, 2014 and 2013 were as follows:

Self Insurance Total Return	**Fiscal Year Ended**	
(In thousands)	**June 30, 2014**	**June 30, 2013**
Allocated Return	5%	5%
Amount Allocated to Operations	$6,105	$5,950
Amount Allocated to Non-operating Income (Expense)	$2,253	$1,070

Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded on the consolidated balance sheets as either assets or liabilities at their respective fair values. The change in the fair value of derivative instruments is reflected in nonoperating income (expense) in the accompanying consolidated statements of operations and changes in net assets. Net cash settlement payments, representing the realized changes in the fair value of the interest rate swaps, are included in interest expense in the accompanying consolidated statements of operations and changes in net assets and as operating cash flows in the accompanying consolidated statements of cash flows.

Capitalized Interest

Interest expense from bond proceeds, net of interest income, incurred during the construction of major projects 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 amounted to the following during the fiscal year ended June 30, 2014 and 2013:

	Fiscal Year Ended	
(In thousands)	**June 30, 2014**	**June 30, 2013**
Capitalized Interest	$1,292	$232

Note M – Financial Reporting Controls

Independent Audit Committees of the Boards of Trustees are established at all Obligated Group members, and the RUMC Audit Committee has the responsibility for oversight of the Obligated Group financial reporting and bondholder disclosures. Obligated Group management has implemented a formal disclosure process for financial reporting and bondholder disclosure, and a management certification resulting from this process is provided to the RUMC Audit Committee. The RUMC Audit Committee approves all external reporting and bondholder disclosure materials before they are released.

Note N – Consideration of Subsequent Events at the Balance Sheet Date

The Obligated Group has evaluated events occurring subsequent to the balance sheet date through August 19, 2014, the date the financial statements were issued.

During July 2014, Rush University Medical Center (Rush) has sold Rush's royalties relating to worldwide sales of Ampyra® to a private equity fund for approximately $42 million. Ampyra® is marketed by Acorda, within the United States, and by Acorda's licensee, Biogen IDEC, internationally.

During July 2014, Rush opened a new state-of-the-art radiation therapy center at Rush Oak Park Hospital, which offers patients the same advanced radiation therapy services as Rush University Medical Center in a community hospital setting. The total cost of the project was $4 million.

Appendices

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
Consolidating Balance Sheet Information
As of June 30, 2014
(Dollars in thousands)

	Rush University Medical Center	Rush-Copley Medical Center	Elimination Entries	June 30, 2014 Obligated Group
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 115,854	$ 23,536	$ -	$ 139,390
Accounts receivable for patient services—net of allowance for doubtful accounts of $36,475 and $10,396 for RUMC and RCMC, respectively	166,300	45,069	-	211,369
Other accounts receivable	51,652	-	(1,532)	50,120
Self-insurance trust — current portion	27,404	-	-	27,404
Other current assets	35,406	14,089	-	49,495
Total current assets	396,616	82,694	(1,532)	477,778
ASSETS LIMITED AS TO USE AND INVESTMENTS:				
Investments — less current portion	643,145	233,663	-	876,808
Limited as to use by donor or time restriction	502,913	11,717	-	514,630
Self-insurance trust - less current portion	98,808	-	-	98,808
Debt service reserve trust	39,581	9,073	-	48,654
Total assets limited as to use and investments	1,284,447	254,453	-	1,538,900
PROPERTY AND EQUIPMENT—At cost:				
Land and buildings	1,716,058	253,160	-	1,969,218
Equipment	466,249	124,924	-	591,173
Construction in progress	20,783	5,905	-	26,688
	2,203,090	383,989	-	2,587,079
Less accumulated depreciation	(1,008,632)	(215,335)	-	(1,223,967)
Net property and equipment	1,194,458	168,654	-	1,363,112
OTHER ASSETS	37,406	26,116	(7,313)	56,209
TOTAL	$ 2,912,927	$ 531,917	$ (8,845)	$ 3,435,999
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	$ 114,903	$ 18,926	$ -	$ 133,829
Accrued expenses	132,471	23,721	(1,532)	154,660
Student loan funds	23,489	-	-	23,489
Estimated third-party settlements payable	116,022	39,630	-	155,652
Current portion of accrued liability under self-insurance programs	37,870	7,526	-	45,396
Current portion of long-term debt	12,140	788	-	12,928
Total current liabilities	436,895	90,591	(1,532)	525,954
LONG-TERM LIABILITIES:				
Accrued liability under self-insurance programs— less current portion	163,594	38,720	-	202,314
Postretirement and pension benefits	54,703	-	-	54,703
Long-term debt— less current portion	489,170	95,283	-	584,453
Other long-term liabilities	63,383	22,813	(7,313)	78,883
Obligations under capital lease and deferred financing arrangements	32,238	6,553	-	38,791
Total long-term liabilities	803,088	163,369	(7,313)	959,144
Total liabilities	1,239,983	253,960	(8,845)	1,485,098
NET ASSETS:				
Unrestricted	1,057,948	266,026	-	1,323,974
Temporarily restricted for specific purposes	364,574	5,082	-	369,656
Permanently restricted endowments:	250,422	6,849	-	257,271
Total net assets	1,672,944	277,957	-	1,950,901
TOTAL	$ 2,912,927	$ 531,917	$ (8,845)	$ 3,435,999

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
Consolidating Statement of Operations and Changes in Net Assets Information
For the Year Ended June 30, 2014
(Dollars in thousands)

	Rush University Medical Center	Rush-Copley Medical Center	Elimination Entries	June 30, 2014 Obligated Group
REVENUE:				
Patient service revenue (net of contractual allowances and discounts)	$ 1,417,155	$ 370,186	$ -	$ 1,787,341
Provision for uncollectible accounts	(25,974)	(41,691)	-	(67,665)
Net patient service revenue	1,391,181	328,495	-	1,719,676
University services:				
Tuition and educational grants	62,563	-	-	62,563
Research and other operations	99,594	-	-	99,594
Other revenue	73,185	14,620	-	87,805
Total revenue	1,626,523	343,115	-	1,969,638
EXPENSES:				
Salaries, wages and employee benefits	817,821	170,560	-	988,381
Supplies, utilities and other	495,128	87,780	-	582,908
Insurance	32,248	12,066	-	44,314
Purchased services	74,375	35,747	-	110,122
Depreciation and amortization	101,257	19,771	-	121,028
Interest and fees	32,685	7,655	-	40,340
Total expenses	1,553,514	333,579	-	1,887,093
OPERATING INCOME	73,009	9,536	-	82,545
NON-OPERATING INCOME (EXPENSE):				
Investment income/(loss) and other	18,584	32,172	-	50,756
Unrestricted contributions	3,724	236	-	3,960
Fundraising expenses	(6,157)	(587)	-	(6,744)
Net gain on sale	-	1,501	-	1,501
Change in fair value of interest rate swaps	608	(179)	-	429
Total non-operating income (expense)	16,759	33,143	-	49,902
EXCESS OF REVENUE OVER EXPENSES	$ 89,768	$ 42,679	$ -	$ 132,447
SUPPLEMENTAL DISCLOSURES OF OPERATING INFORMATION:				
Operating Margin	4.5%	2.8%		4.2%
Operating Cash Flow (EBIDA) Margin	12.7%	10.8%		12.4%

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
Consolidating Statement of Operations and Changes in Net Assets Information
For the Year Ended June 30, 2014
(Dollars in thousands)

	Rush University Medical Center	Rush-Copley Medical Center	Elimination Entries	June 30, 2014 Obligated Group
UNRESTRICTED NET ASSETS				
Excess of revenue over expenses	$ 89,768	$ 42,679	$ -	$ 132,447
Net assets released from restrictions used for the purchase of property and equipment	24,834	61	-	24,895
Other	7,086	14	-	7,100
INCREASE IN UNRESTRICTED NET ASSETS	121,688	42,754	-	164,442
RESTRICTED NET ASSETS				
TEMPORARILY RESTRICTED NET ASSETS:				
Pledges, contributions and grants	48,773	1,083	-	49,856
Net assets released from restrictions	(59,280)	(623)	-	(59,903)
Investment gains (losses)	31,475	-	-	31,475
Change in unrealized gains (losses) on investments	19,887	214	-	20,101
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	40,855	674	-	41,529
PERMANENTLY RESTRICTED NET ASSETS:				
Pledges and contributions	6,567	96	-	6,663
Investment gains on trustee-held investments	1,991	-	-	1,991
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	8,558	96	-	8,654
INCREASE IN NET ASSETS	171,101	43,524	-	214,625
NET ASSETS—Beginning of year	1,501,843	234,433	-	1,736,276
NET ASSETS—End of year	$ 1,672,944	$ 277,957	$ -	$ 1,950,901

(Concluded)

Financial Results Compared to Budget for the Year Ended June 30, 2014

The Boards of Trustees of each organization are required to approve an annual budget that is aligned with strategic plans approved by the system governance boards. The budget remains in effect the entire fiscal year. An actual to budget comparison and analysis is presented monthly in the interim financial statements, and the information for the year ended June 30, 2014 is presented below.

Operations Summary	**Fiscal Year Ended June 30, 2014**		**Actual vs. Budget**	
(In thousands)	**Actual**	**Budget**	**Comparison**	
Net patient service revenue	$ 1,719,676	$ 1,675,348	$ 44,328	2.6%
Other operating revenue	249,962	244,955	5,007	2.0%
Total operating revenue	1,969,638	1,920,303	49,335	2.6%
Salaries, wages and employee benefits	988,381	997,874	(9,493)	-1.0%
Supplies, utilities and other	582,908	537,112	45,796	8.5%
Purchased services	110,122	105,740	4,382	4.1%
Depreciation and amortization	121,028	122,944	(1,916)	-1.6%
Malpractice and other insurance	44,314	42,707	1,607	3.8%
Interest	40,340	42,054	(1,714)	-4.1%
Total operating expenses	1,887,093	1,848,431	38,662	2.1%
Operating income	82,545	71,872	10,673	14.9%
Nonoperating income/(expense)	49,902	23,665	26,237	110.9%
Excess of revenue over expenses	$ 132,447	$ 95,537	$ 36,910	38.6%

The Obligated Group reported an excess of revenues over expenses of $132.4 million for the year ended June 30, 2014 compared to a budgeted excess of revenue over expenses of $89.4 million. Operating income was $82.5 million, which exceeded budget by $10.7 million or 14.9%.

The Obligated Group experienced several operating trends that impacted performance during the year ended June 30, 2014 compared to budget:

- Net patient service revenue (NPSR) exceeded budget by $44.3 million or 2.6%. NPSR exceeded budget despite volumes under budget, with the exception of emergency department visits which were on budget. Admissions were under budget by 4.6%; patient days by 5.1%; and total surgeries by 2.5%. The favorable NPSR variances were primarily due to increased hospital outpatient net revenue and prior year Enhanced Hospital Assessment Program revenue of $25.0 million, and enhanced Medicaid payments from the state of Illinois related to fiscal year 2013 services under the Medicaid/Medicare parity provision of $2.8 million, which were unbudgeted. These enhanced payments are described in further detail under 'Reimbursement Environment and Payor Mix' on page 13 of this Quarterly Report.

- Other operating revenue exceeded budget by $5.0 million or 2.0% primarily driven by the receipt of Medicaid interest payments of $7.7 million, which were unbudgeted.

- Operating expenses were over budget by $38.7 million or 2.1% with the following key variances noted: supplies, utilities and other expenses were $45.8 million or 8.5% over budget driven by additional Medicaid tax expense related to the Enhanced Hospital Assessment Program for prior years of $12.8 million, increased building repairs expense and equipment purchases at RUMC, and increased medical supply and drug expenses at all hospitals due to higher than anticipated utilization. Purchased Services were also over budget by $4.4 million or 4.1% due to increased consulting and legal services at RUMC. Salaries, wages and employee benefits were under budget by $9.5 million or 1.0% driven by volumes under budget at RUMC.

- Nonoperating income was $49.9 million versus a budget of $23.7 million, which is a favorable variance of $26.2 million. The variance was mainly driven by investment returns of $26.3 million better than budget, self insurance trust gains of $2.3 million, offset by fundraising income under budget.

The following calculations are pursuant to the financial covenants expressed in the Amended and Restated Master Trust Indenture dated August 1, 2006 and the First Supplemental Master Trust Indenture dated August 1, 2006 for the Rush University Medical Center Obligated Group.

(Dollars in Thousands)

I. MAXIMUM ANNUAL DEBT SERVICE COVERAGE RATIO:

Net income, excluding net gains and losses on sales [1]			$	101,285
Add: Depreciation expense				121,028
Add: Interest expense				40,340
Revenues available for debt service			$	262,653
Maximum annual debt service			$	56,931
Revenues available for debt service	$	262,653		4.61
Maximum annual debt service	$	56,931		
Ratio exceeds 1.20	(please check)			X

II. DAYS CASH ON HAND:

Unrestricted cash and cash equivalents			$	139,390
Add: Unrestricted marketable securities				876,808
Unrestricted cash and marketable securities			$	1,016,198
Number of days in period				365
Unrestricted cash and marketable securities x 365			$	370,912,270
Total operating expenses			$	1,887,093
Less: Depreciation expense				(121,028)
Total operating expenses - depreciation expense			$	1,766,065
Unrestricted cash and marketable securities x 365	$	370,912,270		210
Total operating expenses - depreciation expense	$	1,766,065		
Days exceed 75	(please check)			X

[1] Maximum annual and historical debt service coverage ratios are calculated based on revenues available for debt service of the Obligated Group and exclude the change in fair value of interest rate swaps and unrealized gains and losses on unrestricted investments. Revenues available for debt service also excludes net gains and losses on sales, a component of nonoperating income.

(Dollars in Thousands)

III. DEBT TO CAPITALIZATION:

Long-term debt			$	597,381
Add: Obligations under capital leases				6,876
Add: Obligations under other financing arrangements				36,125
Add: Guarantees				-
Total debt			$	640,382
Total debt			$	640,382
Add: Unrestricted net assets				1,323,974
Total capitalization			$	1,964,356
Total debt	$	640,382		33%
Total capitalization	$	1,964,356		
Ratio below 65%	(please check)			X

IV. HISTORICAL DEBT SERVICE COVERAGE RATIO:

Net income, excluding net gains and losses on sales [1]			$	101,285
Add: Depreciation expense				121,028
Add: Interest expense				40,340
Revenues available for debt service			$	262,653
Payments of debt			$	17,094
Add: Interest expense				40,340
Annual debt service			$	57,434
Revenues available for debt service	$	262,653		4.57
Annual debt service	$	57,434		
Ratio exceeds 1.10	(please check)			X

[1] Maximum annual and historical debt service coverage ratios are calculated based on revenues available for debt service of the Obligated Group and exclude the change in fair value of interest rate swaps and unrealized gains and losses on unrestricted investments. Revenues available for debt service also excludes net gains and losses on sales, a component of nonoperating income.