# Rush University Medical Center Obligated Group

Consolidated Financial Statements as of and for the Years Ended June 30, 2011 and 2010, Supplemental Consolidating Schedules as of and for the Year Ended June 30, 2011, and Independent Auditors' Report

RUSH

**RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP**

## TABLE OF CONTENTS

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush University Medical Center:

We have audited the accompanying consolidated balance sheets of Rush University Medical Center Obligated Group (including Rush University Medical Center and Rush-Copley Medical Center) (collectively, "Rush") as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Rush's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Rush as of June 30, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating schedules for 2011 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations and changes in net assets of the individual companies, and are not a required part of the basic consolidated financial statements. These supplemental consolidating schedules are the responsibility of Rush's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2011 consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the 2011 basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

October 25, 2011

## RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
### CONSOLIDATED BALANCE SHEETS
*(Dollars in thousands)*

| | As of June 30, 2011 | As of June 30, 2010 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 154,649 | $ 168,664 |
| Short-term investments | 131,074 | 130,549 |
| Accounts receivable for patient services - net of allowance for doubtful accounts of $47,705 and $47,245 as of June 30, 2011 and 2010, respectively | 177,323 | 164,493 |
| Other accounts receivable - net of reserves of $930 and $705 as of June 30, 2011 and 2010, respectively | 55,813 | 72,057 |
| Self-insurance trust - current portion | 24,467 | 27,953 |
| Other current assets | 35,021 | 39,688 |
| Total current assets | 578,347 | 603,404 |
| ASSETS LIMITED AS TO USE AND INVESTMENTS: | | |
| Investments - less current portion | 339,802 | 305,475 |
| Limited as to use by donor or time restriction | 488,254 | 382,047 |
| Collateral proceeds received under securities lending program | - | 56,125 |
| Investments on loan under securities lending program | - | 54,348 |
| Self insurance trust - less current portion | 101,123 | 116,844 |
| Project fund | - | 60,811 |
| Debt service reserve fund | 49,287 | 50,534 |
| Total assets limited as to use and investments | 978,466 | 1,026,184 |
| PROPERTY AND EQUIPMENT - net of accumulated depreciation of $971,673 and $893,017 as of June 30, 2011 and 2010, respectively | 1,358,855 | 1,172,449 |
| OTHER ASSETS | 27,864 | 17,683 |
| TOTAL ASSETS | $ 2,943,532 | $ 2,819,720 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 133,996 | $ 134,441 |
| Accrued expenses | 138,083 | 136,315 |
| Student loan funds | 21,210 | 22,461 |
| Estimated third-party settlements payable | 140,077 | 150,603 |
| Current portion of accrued liability under self-insurance programs | 30,141 | 33,926 |
| Current portion of long-term debt | 5,216 | 9,059 |
| Total current liabilities | 468,723 | 486,805 |
| LONG-TERM LIABILITIES: | | |
| Accrued liability under self-insurance programs - less current portion | 157,867 | 180,392 |
| Postretirement and pension benefits | 138,904 | 231,228 |
| Long-term debt - less current portion, net | 615,091 | 620,034 |
| Obligation to return collateral under securities lending program | - | 56,125 |
| Obligations under capital lease and other financing arrangements | 42,884 | 46,897 |
| Other long-term liabilities | 62,987 | 59,277 |
| Total long-term liabilities | 1,017,733 | 1,193,953 |
| Total liabilities | 1,486,456 | 1,680,758 |
| NET ASSETS: | | |
| Unrestricted | 875,444 | 616,838 |
| Temporarily restricted | 347,143 | 301,089 |
| Permanently restricted | 234,489 | 221,035 |
| Total net assets | 1,457,076 | 1,138,962 |
| TOTAL LIABILITIES AND NET ASSETS | $ 2,943,532 | $ 2,819,720 |

See notes to consolidated financial statements.

**RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**
*(Dollars in thousands)*

| | For the Year Ended June 30, | |
|---|---|---|
| | **2011** | **2010** |
| REVENUE: | | |
| Net patient service revenue | $ 1,512,649 | $ 1,464,766 |
| University services: | | |
| Tuition and educational grants | 52,171 | 47,270 |
| Research and other operations | 106,754 | 105,440 |
| Other revenue | 69,525 | 67,709 |
| Total revenue | 1,741,099 | 1,685,185 |
| EXPENSES: | | |
| Salaries, wages, and employee benefits (Note 20) | 882,156 | 819,442 |
| Supplies, utilities, and other | 477,866 | 481,480 |
| Insurance | 19,404 | 38,593 |
| Purchased services | 83,775 | 85,507 |
| Depreciation and amortization | 91,997 | 86,226 |
| Provision for uncollectible accounts | 64,765 | 59,317 |
| Interest | 23,053 | 25,226 |
| Total expenses | 1,643,016 | 1,595,791 |
| OPERATING INCOME | 98,083 | 89,394 |
| NONOPERATING INCOME (EXPENSE): | | |
| Investment income and other | 30,517 | 30,948 |
| Unrestricted contributions | 7,327 | 8,332 |
| Fundraising expenses | (6,896) | (6,409) |
| Change in fair value of interest rate swaps | 2,435 | (4,749) |
| Total nonoperating income | 33,383 | 28,122 |
| EXCESS OF REVENUE OVER EXPENSES | $ 131,466 | $ 117,516 |

*(Continued)*

## RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
*(Dollars in thousands)*

| | For the Year Ended June 30, 2011 | 2010 |
|---|---|---|
| **UNRESTRICTED NET ASSETS** | | |
| Excess of revenue over expenses | $ 131,466 | $ 117,516 |
| Recovery of impaired endowment corpus | 2,446 | 3,622 |
| Net assets released from restrictions used for purchase of property and equipment and other | 34,894 | 18,876 |
| Postretirement-related changes other than net periodic postretirement cost | 89,800 | (103,106) |
| INCREASE IN UNRESTRICTED NET ASSETS | 258,606 | 36,908 |
| **RESTRICTED NET ASSETS** | | |
| TEMPORARILY RESTRICTED NET ASSETS: | | |
| Pledges, contributions, and grants | 52,714 | 37,318 |
| Net assets released from restrictions | (65,468) | (49,949) |
| Net realized and unrealized gains on investments | 58,808 | 32,757 |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | 46,054 | 20,126 |
| PERMANENTLY RESTRICTED NET ASSETS: | | |
| Pledges and contributions | 9,238 | 7,953 |
| Change in unrealized gains impacting endowment corpus | 2,555 | 4,182 |
| Replenishment of impaired endowment corpus | (2,555) | (4,182) |
| Investment gains on trustee-held investments | 4,216 | 1,245 |
| INCREASE IN PERMANENTLY RESTRICTED NET ASSETS | 13,454 | 9,198 |
| INCREASE IN NET ASSETS | 318,114 | 66,232 |
| NET ASSETS — Beginning of year | 1,138,962 | 1,072,730 |
| NET ASSETS — End of year | $ 1,457,076 | $ 1,138,962 |

See notes to consolidated financial statements.

*(Concluded)*

## RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
### CONSOLIDATED STATEMENTS OF CASH FLOWS
*(Dollars in thousands)*

| | For the Year Ended June 30, 2011 | 2010 |
|---|---|---|
| **OPERATING ACTIVITIES:** | | |
| Increase in net assets | $ 318,114 | $ 66,232 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 92,166 | 86,391 |
| Postretirement-related changes other than net periodic postretirement cost | (89,800) | 103,106 |
| Provision for uncollectible accounts | 64,765 | 59,317 |
| Change in fair value of interest rate swaps | (2,435) | 4,749 |
| Net change in unrealized and realized gains on investments | (78,897) | (54,903) |
| Restricted contributions and investment income received | (38,366) | (28,584) |
| Investment gains on trustee-held investments | (4,216) | (1,245) |
| Changes in operating assets and liabilities | | |
| Accounts receivable for patient services | (77,595) | (44,649) |
| Accounts payable and accrued expenses | (1,080) | (4,959) |
| Estimated third-party settlements payable | (10,526) | (2,432) |
| Postretirement and pension benefits | (2,601) | (10,976) |
| Accrued liability under self-insurance program | (26,310) | 9,094 |
| Other changes in operating assets and liabilities | 8,071 | (12,582) |
| Net cash provided by operating activities | 151,290 | 168,559 |
| **INVESTING ACTIVITIES:** | | |
| Additions to property and equipment | (276,752) | (287,041) |
| Purchase of investments | (792,521) | (982,066) |
| Sale of investments | 875,704 | 878,053 |
| Proceeds from sale of building (Note 21) | - | 26,079 |
| Net cash used in investing activities | (193,569) | (364,975) |
| **FINANCING ACTIVITIES:** | | |
| Proceeds from restricted contributions and investment income | 41,445 | 24,936 |
| Proceeds from issuance of long-term debt | 8,629 | 197,580 |
| Refunding of prior debt | (8,556) | (19,800) |
| Payment of bond issuance costs | - | (3,064) |
| Payment of long-term debt | (9,097) | (6,648) |
| Payment of obligations under capital lease and other financing arrangements | (4,157) | (3,415) |
| Net cash provided by financing activities | 28,264 | 189,589 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (14,015) | (6,827) |
| CASH AND CASH EQUIVALENTS — Beginning of year | 168,664 | 175,491 |
| CASH AND CASH EQUIVALENTS — End of year | $ 154,649 | $ 168,664 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest — including capitalized interest of $21,636 and $18,087 for the years ended June 30, 2011 and 2010, respectively | $ 44,173 | $ 41,288 |
| Noncash additions to property and equipment | $ 1,014 | $ 12,589 |

See notes to consolidated financial statements.

## 1. ORGANIZATION AND BASIS OF CONSOLIDATION

Rush University Medical Center Obligated Group (Obligated Group) is a multi-hospital system with operations that consist of several diverse activities with a shared mission of patient care, education, research, and community service. The Obligated Group hospitals consist of an academic medical center and two community hospitals that each serve distinct markets in the Chicago, Illinois metropolitan area. The accompanying consolidated financial statements include the accounts of Rush University Medical Center and Subsidiaries (RUMC) and Rush-Copley Medical Center and Subsidiaries (RCMC), collectively, “Rush” or the “Obligated Group.” Both RUMC and RCMC are Illinois not-for-profit corporations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

### Rush University Medical Center

RUMC, the largest member of the Obligated Group, is an academic medical center comprising Rush University Hospital (RUH) and Rush University, located in Chicago, Illinois, and Rush Oak Park Hospital (ROPH), located in Oak Park, Illinois.

Rush University Hospital — Consists of an acute care hospital and the Johnson R. Bowman Health Center for the Elderly, a rehabilitation and psychiatric facility, licensed in total for 739 beds. RUH also includes a faculty practice plan, Rush University Medical Group (RUMG), which employed 399 physicians as of June 30, 2011.

Rush University — A health sciences university that educates students in health-related fields. This includes Rush Medical College, the College of Nursing, the College of Health Sciences, and the Graduate College. Rush University also includes a research operation with $137,974 and $126,415 in annual research expenditures during fiscal years 2011 and 2010, respectively.

Rush Oak Park Hospital (ROPH) — A 296-licensed bed acute care, rehabilitation, and skilled nursing hospital located in Oak Park, Illinois, eight miles west of RUH, which includes an employed medical group with 40 physicians as of June 30, 2011. RUMC, through a joint venture arrangement with a third party, is responsible for the operations and management of ROPH. As a result, RUMC controls and has an economic interest in ROPH. Substantially all assets, liabilities, and net assets, as well as all revenue and expenses, of ROPH are consolidated with the financial results of RUMC.

RUMC and ROPH together own 50% of Rush Health, a network of providers whose members include the hospitals and approximately 750 physicians and 50 allied health providers who are on the medical staff of the member hospitals, with the other 50% owned by the physicians. The financial results of Rush Health are not consolidated with the financial results of RUMC and are accounted for using the equity method of accounting (see Note 18).

### Rush Copley Medical Center

RCMC is the sole corporate member of Copley Memorial Hospital, Inc., a 210-licensed bed acute care hospital located in Aurora, Illinois, which includes an employed medical group with 42 physicians as of June 30, 2011.

RUMC and RCMC are affiliated for the purpose of advancing their missions in patient care, education, research, and community service through formal affiliation agreements, which cover governance and other organizational relationships. Pursuant to the Amended and Restated Master Trust Indenture dated August 1, 2006, RUMC and RCMC established an Obligated Group of which both are members. RUMC and RCMC are jointly and severally liable for certain debt issued through the Illinois Finance Authority (IFA) (see Note 9).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying consolidated financial statements have been presented in conformity with generally accepted accounting principles in the United States of America (GAAP) as recommended in the audit and accounting guide for health care organizations published by the American Institute of Certified Public Accountants.

### Basis of Consolidation

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

The supplemental consolidating balance sheet information and consolidating statement of operations and changes in net asset information as of and for the year ended June 30, 2011, is presented for the purpose of additional analysis of Rush's basic 2011 consolidated financial statements taken as a whole. RUMC amounts included in the supplemental consolidating schedules exclude RUMC's controlling interest in RCMC.

### Use of Estimates

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

### Cash and Cash Equivalents

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 the estimated net realizable amounts from third-party payors, patients, and others for services rendered. Rush has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payors. Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Patient accounts receivable are stated at net realizable value. Rush maintains an estimated allowance 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. Accounts receivable are charged to the provision for uncollectible accounts as they are deemed uncollectible.

### 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.

### Inventory

Medical supplies, pharmaceuticals, and other inventories are stated at the lower of cost or market and are included in other current assets on the accompanying consolidated balance sheets.

### Fair Value of Financial Instruments

Financial instruments consist of primarily cash and cash equivalents, investments, derivative instruments, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and debt. The fair value of cash and cash equivalents, account receivable, accounts payable, accrued expenses, and estimated third-party settlements approximated their financial statement carrying amount as of June 30, 2011 and 2010, because of their short-term maturity. The fair value of the other instruments is disclosed in Notes 6 and 9.

### Assets Limited as to Use and Investments

Assets limited as to use consist primarily of investments limited as to use by donor or time restriction, including pledges, 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 designated as trading securities and measured at fair value using quoted market prices or model-driven valuations. Short-term investments having an original maturity greater than 90 days that are available for current operations are reported as current assets. Rush also holds an interest in a collective business trust that invests primarily in international equity and equity-related securities, which is also designated as a trading security. The trust is valued and priced daily, and liquidity is available on a daily basis.

Alternative investments, consisting of limited partnerships that invest in primarily marketable securities (hedge funds), real estate, and limited partnerships that invest in primarily nonmarketable securities (private equity), are designated as other-than-trading. 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 fund investments are subject to uncertainty and could differ had a ready market existed for these investments. Such differences could be material. Investments in private equity funds are reported at cost, adjusted for impairment losses, based on information provided by the respective partnership when Rush's ownership percentage is minor (less than 5%). Investments in private equity funds where Rush's ownership percentage is more than minor, but consolidation is not required (5% to 50%), are accounted for on the equity basis. These investments are periodically assessed for impairment. The financial statements of hedge funds and private equity funds are audited annually, generally on December 31. Investments in hedge funds and private equity funds are generally not marketable and may be divested only at specified times. Real estate investments are carried at amortized cost. Rush's risk in alternative investments is limited to its capital investment and any future capital commitments (see Note 5).

Investment income or loss (including interest, dividends, realized and unrealized gains and losses, and changes in cost based valuations) is reported within the 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 (see Note 7). 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.

### Unconditional Promises to Give

Unconditional promises to give (pledges receivable) are recorded at the net present value of their estimated future cash flows. Estimated future cash flows due after one year are discounted using interest rates commensurate with the time value of money concept. Rush maintains an estimated allowance for uncollectible pledges based upon management's assessment of historical and expected net collections considering business and economic conditions and other collection indicators. Net unconditional promises to give are reported in assets limited by donor or time restriction on the accompanying consolidated balance sheets and amounted to $60,912 and $55,396 as of June 30, 2011 and 2010, respectively (see Note 16).

### Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded in 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 settlements and 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 (see Note 10).

### Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the date of receipt. Expenditures which substantially increase the useful life of existing property and equipment are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation expense, including amortization of capital leased assets, is recognized over the estimated useful lives of the assets using the straight-line method.

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

### 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.

### Asset Impairment

Rush continually evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment. When circumstances indicate the remaining estimated useful life of long-lived assets may not be recoverable, Rush adjusts the carrying value of a long-lived asset to fair value if an estimate of the undiscounted cash flows over the remaining life is less than the carrying value of the asset.

### Asset Retirement Obligations

Rush recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, Rush capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle an asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets.

### Ownership Interests in Other Health-Related Entities

An ownership interest in another health-related entity of more than 50% in which Rush has a controlling interest is consolidated. As of June 30, 2011 and 2010, non-controlling interests in consolidated subsidiaries amounted to $4,050 and $3,063, 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 (see Note 18), 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 to the consolidated financial statements.

### Deferred Financing Costs

Debt issuance costs, net of amortization computed on the 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 amounted to $9,179 and $9,593 as of June 30, 2011 and 2010, respectively.

### Securities Lending

Rush records, as an asset, the fair value of its beneficial interest in cash collateral pools for securities loaned to third parties, as well as records a corresponding liability for the collateral received that will be paid back to the third party. Securities on loan are included within assets limited as to use and investments on the accompanying consolidated balance sheets as of June 30, 2010. During fiscal year 2011, Rush terminated all of its securities lending arrangements and no amounts were on loan as of June 30, 2011.

### Other Long-term Liabilities

Other long-term liabilities include asset retirement obligations, employee benefit plan liabilities for certain defined contribution and supplemental retirement plans other than defined benefit pension plans (see Note 12), and other long-term obligations.

### Net Assets

Resources of Rush are designated as permanent, temporary, or unrestricted. Permanently restricted net assets include the original value of contributions that are required by donors to be permanently retained, including any accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument. Temporarily restricted net assets include contributions and accumulated investment returns whose use is limited by donors for a specified purpose or time period or by interpretations of law. Unrestricted net assets include the remaining resources of Rush which are not restricted and arise from the general operations of the organization.

### Contributions

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

Rush is the beneficiary of several split-interest agreements, primarily perpetual trusts held by others. Rush recognizes its interest in these trusts based on either Rush's percentage of the fair value of the trust assets or the present value of expected future cash flows to be received from the trusts, as appropriate, based on each trust arrangement.

### Excess of Revenue over Expenses

The consolidated statements of operations and changes in net assets include excess of revenue over expenses as a performance indicator. Excess of revenue over expenses includes all changes in unrestricted net assets except for permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets, and other items that are required by GAAP to be reported separately (such as extraordinary items, the effect of discontinued operations, postretirement-related changes other than net periodic postretirement costs, and the cumulative effect of changes in accounting principle).

### Nonoperating Income (Expense)

Non-operating income (expense) includes items not directly associated with patient care or other activities not relating to the core operations of Rush. Non-operating income (expense) consists primarily of unrestricted investment returns on the endowment investment pool when appropriated for use, the difference between total investment return and amount allocated to operations for investments designated for self-insurance programs, investment income or loss (including interest, dividends, realized and unrealized gains and losses) on all other investments unless restricted by donor or interpretation of law, changes in the fair value of interest rate swaps, losses on extinguishment of debt, net gains (losses) on sales, unrestricted contributions, losses on impaired assets, and fundraising expenses.

### New Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued new guidance related to the accounting by health care entities for all or a certain portion of the amount billed or billable to patients and amounts related to deductibles and copays for which payment is highly uncertain. Specifically, this guidance requires that health care entities present bad debt expense associated with net patient service revenue, as an offset to net patient service revenue within the statement of operations and changes in net assets. Additionally, the guidance requires enhanced disclosure of the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for Rush in fiscal year 2013 and is not expected to have a material impact to the consolidated financial statements.

In August 2010, the FASB issued new guidance to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. Specifically, this guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. Furthermore, this amendment requires the disclosure of the method used to identify or determine the costs. This guidance is effective for Rush in fiscal year 2012 and is not expected to have a material impact to the consolidated financial statements.

Also in August 2010, the FASB issued new guidance related to the accounting by health care entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. Specifically, this amendment clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. This guidance is effective for Rush in fiscal year 2012 and is not expected to have a material impact on Rush's consolidated financial statements.

### Consideration of Events Subsequent to the Consolidated Balance Sheet Date

Rush has evaluated events occurring subsequent to the consolidated balance sheet date through October 25, 2011, the date the consolidated financial statements were available to be issued.

## 3. NET PATIENT SERVICE REVENUE

The mix of net patient service revenue from patients and third-party payors for the years ended June 30, 2011 and 2010 was as follows:

| | 2011 | 2010 |
|---|---|---|
| Medicare | 26 % | 25 % |
| Medicaid | 10 | 11 |
| Blue Cross | 30 | 30 |
| Managed care | 24 | 23 |
| Commercial and self-pay | 10 | 11 |
| Total | 100 % | 100 % |

Changes in estimates relating to prior periods increased net patient service revenue by $12,632 and $2,245 in fiscal years 2011 and 2010, respectively. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount.

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

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

## 4. CHARITY CARE

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 65% discount to all uninsured patients 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 under 600% of the poverty level. Interest-free payment plans are also provided. These charity care records include the estimated cost of unreimbursed services provided and supplies furnished under its charity care policy and the excess of cost over reimbursement for Medicaid patients. Rush also monitors the unreimbursed cost of patient bad debts.

In December 2008, the Centers for Medicare and Medicaid Services approved the Illinois Hospital Assessment Program (the Program) 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. The net benefit to Rush from the Program was $22,906 during each of the years ended June 30, 2011 and 2010. For each of the years ended June 30, 2011 and 2010, the Medicaid payment of $56,337 was included in net patient service revenue, representing 4% of the net patient service revenue, and the tax assessment of $33,431 was included in supplies, utilities, and other expenses. The Program is approved through June 30, 2014; however, the future of the Program is uncertain.

The following table presents the level of charity care provided for the years ended June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program | $ 58,721 | $ 52,040 |
| Estimated costs and expenses incurred to provide charity care in the hospitals | 24,178 | 22,668 |
| Total | $ 82,899 | $ 74,708 |

The total number of patients that were either provided charity care directly by Rush or that were covered by the Program represented 23% and 22% of Rush's total patients in fiscal years 2011 and 2010, respectively.

Beyond the cost to provide charity care and unreimbursed services to hospital Medicaid patients, Rush also provides substantial additional benefits to the community, including educating future health care providers, supporting research into new treatments for disease, and providing subsidized medical services in response to community and health care needs as well as other volunteer services. These community services are provided free of charge or at a fee below the cost of providing them.

## 5. ASSETS LIMITED AS TO USE AND INVESTMENTS

Assets limited as to use and investments consist primarily of marketable equity and debt securities, which are held in investment pools to satisfy the investment objectives for which the assets are held or to satisfy donor restrictions. Rush also holds certain investments in alternative securities consisting of hedge funds, real estate investments, and private equity funds (see Note 2). Assets limited as to use by donor or time restriction also includes unconditional promises to give (see Note 16).

Following is a summary of the composition of assets limited as to use and investments as of June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| Marketable securities and short-term investment funds | $ 71,150 | $ 211,760 |
| Government securities | 192,273 | 113,965 |
| Corporate bonds | 100,052 | 169,095 |
| Fixed income mutual funds | 113,566 | 104,398 |
| Other fixed income, including asset backed securities | 183,259 | 127,178 |
| Equity securities and equity mutual funds | 269,032 | 255,890 |
| Equity commingled trust | 13,820 | 10,578 |
| World asset allocation mutual funds | 42,902 | - |
| Hedge fund of funds | 26,329 | 24,433 |
| Private equity | 29,702 | 28,890 |
| Real estate | 3,474 | 3,658 |
| | 1,045,559 | 1,049,845 |
| Beneficial interest in trusts | 27,536 | 23,320 |
| Interest in cash collateral pools | - | 56,125 |
| Total assets limited as to use and investments — excluding pledges receivable | 1,073,095 | 1,129,290 |
| Net pledges receivable | 60,912 | 55,396 |
| Total assets limited as to use and investments | 1,134,007 | 1,184,686 |
| Less amount reported as current assets | (155,541) | (158,502) |
| Assets limited as to use and investments — noncurrent | $ 978,466 | $ 1,026,184 |

The table above comprises all of Rush's investments, including those measured at fair value as well as certain alternative investments in private equity partnerships or real estate measured under the cost or equity method of accounting. The fair value of private equity investments, as estimated by management of the limited partnerships based on audited financial statements and other relevant factors, was $34,932 and $29,447 as of June 30, 2011 and 2010, respectively. Rush's private equity investments have diverse strategies, consisting of the following as of June 30, 2011 and 2010:

| Private Equity Fund Allocations | 2011 | 2010 |
|---|---|---|
| Buyout and growth capital | 33% | 41% |
| Distressed debt and special situations | 35 | 26 |
| Diversified private equity fund of funds | 18 | 18 |
| Venture capital | 12 | 12 |
| Direct equity | 2 | 2 |
| Co-investment private equity | - | 1 |
| | 100% | 100% |

Investments in private equity funds recorded on the equity basis amounted to $803 and $692 as of June 30, 2011 and 2010, respectively. As many factors are considered in arriving at the estimated fair value, Rush routinely monitors and assesses methodologies and assumptions used in valuing these partnerships. As of June 30, 2011 and 2010, commitments for additional contributions to private equity partnerships totaled $16,167 and $20,319, respectively.

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 in the accompanying consolidated statements of operations and changes in net assets. This allocated return, 5% for the years ended June 30, 2011 and 2010, approximates the real return that Rush expects to earn on its investments over the long-term and totaled $6,681 and $7,386 for years ended June 30, 2011 and 2010, respectively. The difference between the total investment return and the amount allocated to operations is reported in non-operating income (expense) and totaled $8,381 and $9,043 for the years ended June 30, 2011 and 2010, respectively. There is no guarantee that the investment return expected by management will be realized. For the years ended June 30, 2011 and 2010, the total annual investment return was approximately 11.8% and 11.6%, respectively.

Prior to February 1, 2011, Rush participated in a securities lending arrangement whereby Rush provided certain of its marketable securities to be loaned to independent third parties through a commercial bank. These loaned securities were collateralized against loss and/or default by a beneficial interest in various collateral pools maintained by the commercial bank. As of June 30, 2010, Rush loaned approximately $54,348 in securities and accepted cash collateral for these loans in the amount of $56,125, included in investments and long-term liabilities in the accompanying consolidated balance sheet. Of the $54,348 on loan as of June 30, 2010, $54,348 represented donor-restricted endowment funds. Cash collateral received under the program was invested in a commingled fund managed by the commercial bank. Eligible instruments for investment in the collateral pool included, but were not limited to, government securities, asset-backed and mortgage-backed securities, and corporate debt, all of which were subject to quality and liquidity guidelines established by the fund. Rush fully terminated the securities lending arrangement as of February 1, 2011, and no amounts were on loan as of June 30, 2011.

The composition and presentation of investment income and the realized and unrealized gains and losses on all investments for the years ended June 30, 2011 and 2010, are as follows:

| | 2011 | 2010 |
|---|---|---|
| Interest and dividends | $ 21,065 | $ 20,376 |
| Net realized gains on sales of securities | 26,713 | 7,749 |
| Unrealized gains — unrestricted | 14,561 | 20,616 |
| Unrealized gains — restricted | 41,853 | 28,672 |
| | $ 104,192 | $ 77,413 |
| Reported as: | | |
| Other operating revenue | $ 8,147 | $ 8,270 |
| Nonoperating income | 30,466 | 30,959 |
| Restricted net assets — net realized and unrealized gains on investments | 65,579 | 38,184 |
| | $ 104,192 | $ 77,413 |

Rush reported gains and losses on its alternative investments (designated as other-than-trading) as of June 30, 2011 and 2010, as follows:

| | 2011 | 2010 |
|---|---|---|
| Reported as: | | |
| Nonoperating income | $ 83 | $ 149 |
| Restricted net assets — net realized and unrealized gains on investments | 6,858 | 4,001 |
| | $ 6,941 | $ 4,150 |

## 6. FAIR VALUE MEASUREMENTS

As of June 30, 2011 and 2010, 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, include:

*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, 2011 and 2010:

| **Fair Value Measurements as of June 30, 2011** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
|---|---|---|---|---|
| Assets: | | | | |
| Marketable securities and short-term investments | $ 7,901 | $ 63,249 | $ - | $ 71,150 |
| Fixed income securities: | | | | |
| U.S. government securities | - | 192,273 | - | 192,273 |
| Corporate bonds | - | 100,052 | - | 100,052 |
| Fixed income mutual funds | 25,152 | 73,664 | - | 98,816 |
| Collateralized securities and other | 106 | 180,145 | - | 180,251 |
| U.S. equity securities | 191,604 | - | - | 191,604 |
| International equity securities | 25,083 | 36,959 | - | 62,042 |
| World asset allocation mutual funds | - | 36,969 | 5,933 | 42,902 |
| Moderate allocation mutual funds {a} | 43,956 | - | - | 43,956 |
| Alternative investments: | | | | |
| Hedge fund of funds | - | - | 26,329 | 26,329 |
| Accrued interest and other | - | 3,008 | - | 3,008 |
| Beneficial interest in trusts | - | - | 27,536 | 27,536 |
| Total assets at fair value | $ 293,802 | $ 686,319 | $ 59,798 | $1,039,919 |
| Liabilities: | | | | |
| Obligations under interest rate swap agreements | - | 14,505 | - | 14,505 |
| Total liabilities at fair value | $ - | $ 14,505 | $ - | $ 14,505 |

{a} This class includes investments in mutual funds that allocate assets among equity and fixed income investments, and includes $14,750 (34%) in fixed income securities and $29,206 (66%) in equity securities at June 30, 2011.

| **Fair Value Measurements as of June 30, 2010** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
|---|---|---|---|---|
| Assets: | | | | |
| Marketable securities and short-term investments | $ 7,149 | $ 204,611 | $ - | $ 211,760 |
| Fixed income securities: | | | | |
| U.S. government securities | - | 113,965 | - | 113,965 |
| Corporate bonds | 15,667 | 153,059 | 369 | 169,095 |
| Fixed income mutual funds | 20,692 | 69,518 | - | 90,210 |
| Collateralized securities and other | 108 | 124,027 | 462 | 124,597 |
| U.S. equity securities | 213,846 | 128 | | 213,974 |
| International equity securities | 20,286 | 11,921 | - | 32,207 |
| Moderate allocation mutual funds {a} | 34,475 | - | - | 34,475 |
| Alternative investments: | | | | |
| Hedge fund of funds | - | - | 24,433 | 24,433 |
| Accrued interest and other | | 2,581 | | 2,581 |
| Beneficial interest in trusts | - | - | 23,320 | 23,320 |
| Interest in cash collateral pools | - | 56,125 | - | 56,125 |
| Total assets at fair value | $ 312,223 | $ 735,935 | $ 48,584 | $1,096,742 |
| Liabilities: | | | | |
| Obligations under interest rate swap agreements | - | 16,941 | - | 16,941 |
| Obligation to return collateral under securities lending program | - | 56,125 | - | 56,125 |
| Total liabilities at fair value | $ - | $ 73,066 | $ - | $ 73,066 |

{a} This class includes investments in mutual funds that allocate assets among equity and fixed income investments, and includes $14,188 (41%) in fixed income securities and $20,287 (59%) in equity securities at June 30, 2010.

There were no significant transfers to or from Levels 1 or 2 during the periods presented.

### 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 Investments* – 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. Government Securities* – The fair value of investments in U.S. 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 class encompasses collateralized bond obligations, collateralized loan obligations, collateralized mortgage obligations and any other asset backed securities, including government asset backed securities. 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 domestic and 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 Mutual Funds* - This class includes investments in fund of funds that seek to provide both capital appreciation and income by investing primarily in both traditional and alternative asset classes. The asset allocation is driven by the fund manager’s long range forecasts of asset-class real returns. Investments representing approximately 86% 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. The remaining investments in this category, which are invested in a multi-strategy hedge fund, are priced on the last business day of each calendar month. 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 NAV and liquidity restrictions, Rush classifies all hedge fund investments as Level 3.

*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 interests in such trusts are all shown in Level 3.

*Interest in Cash Collateral Pools and Obligation to Return Collateral Under Securities Lending Program* – The fair value of interests in cash collateral pools under the securities lending program and the corresponding liability to return collateral held classified as Level 2 were determined using the calculated NAV. The collateral held under this program is placed in commingled funds that invest primarily in government securities, asset-backed and mortgage-backed securities, and corporate debt, all of which are subject to quality and liquidity guidelines established by the fund. The underlying investments were valued using techniques consistent with the market approach which utilizes significant observable market inputs, such as available trades, quotes, and benchmark yield curves.

*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, is as follows:

| | Hedge Fund of Funds | Corporate Bonds | Asset Backed Securities & Other | Beneficial Interest in Trusts | Total Assets at Fair Value |
|---|---|---|---|---|---|
| Fair value — June 30, 2009 | $ 21,790 | $ 679 | $ 364 | $ 22,075 | $ 44,908 |
| Actual return on plan assets — | | | | | |
| Realized and unrealized gains | 2,643 | 129 | 294 | 1,245 | 4,311 |
| Purchases, sales, and settlements — net | - | - | (285) | - | (285) |
| Transfers in and/or out of Level 3 | - | (439) | 89 | - | (350) |
| Fair value — June 30, 2010 | 24,433 | 369 | 462 | 23,320 | 48,584 |
| Actual return on plan assets — | | | | | |
| Realized and unrealized gains | 1,948 | 15 | 89 | 4,216 | 6,268 |
| Purchases, sales, and settlements — net | 5,881 | (384) | (551) | - | 4,946 |
| Transfers in and/or out of Level 3 | - | - | - | - | - |
| Fair value — June 30, 2011 | $ 32,262 | $ - | $ - | $ 27,536 | $ 59,798 |

For the year ended June 30, 2011, realized and unrealized gains pertaining to Level 3 investments include $128 reported within excess of revenue over expenses and $1,924 and $4,216 reported within temporarily and permanently restricted net assets under investment gains, respectively. For the year ended June 30, 2010, realized and unrealized gains pertaining to Level 3 investments include $483 reported within excess of revenue over expenses and $2,583 and $1,245 reported within temporarily and permanently restricted net assets under investment gains, respectively.

### Investments in Entities that Report Fair Value Using NAV

Included within the fair value table above are investments in certain entities that report fair value using a calculated NAV or its equivalent, and are classified as Level 2 or Level 3 investments. The following table summarizes the attributes relating to the nature and risk of such investments as of June 30, 2011:

| Entities that Report Fair Value Using NAV | Fair Value (In Thousands) | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| International equity securities (equity commingled trust) | $13,820 | None | Daily | 1 – 7 days |
| World asset allocation mutual funds | $42,902 | None | Weekly; Monthly | 1 – 14 days |
| Hedge fund of funds | $26,329 | None | Quarterly | 65 – 95 days |
| Fixed income mutual funds | $73,664 | None | Daily | 1 – 7 days |

## 7. ENDOWMENT FUNDS

Rush's endowment consists of over 300 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.

### Interpretation of Relevant Law

Rush has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the original value of the gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, Rush classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of any subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable gift instrument at the time the accumulation is added to the fund. The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence under UPMIFA. In accordance with UPMIFA, Rush considers the following factors in making a determination to appropriate or accumulate donor restricted funds:

a. The duration and preservation of the fund
b. The purposes of the organization and the donor-restricted endowment fund
c. General economic conditions
d. The possible effect of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the organization
g. The investment policies of the organization

### 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 as of June 30, 2011 and 2010, are as follows:

| | Asset Allocation Targets | | Percentage of Endowment Assets | |
|---|---|---|---|---|
| **Asset Class** | **June 30, 2011** | **June 30, 2010** | **2011** | **2010** |
| Domestic equity | 30%(+/-5%) | 45%(+/-5%) | 31 % | 44 % |
| International equity | 15%(+/-5%) | 10%(+/-5%) | 14 | 8 |
| Global asset allocation | 10%(+/-5%) | None | 10 | - |
| Alternatives (Hedge Funds/Private Equity) | 15%(+/-5%) | 15%(+/-5%) | 19 | 21 |
| Fixed income | 30%(+/-5%) | 30%(+/-5%) | 26 | 27 |

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 8.8% 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.

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 was 4.0% and 3.5% for fiscal years ended June 30, 2011 and 2010, respectively, and income from the endowment fund provided $15.6 million and $14.1 million of support for Rush's programs during fiscal years ended June 30, 2011 and 2010, respectively. The spending rate is based on a three-year moving average of ending market values for pooled assets.

### Composition of Endowment Fund and Reconciliation

The endowment net asset composition by type of fund as of June 30, 2011, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 207,602 | $ 233,955 | $ 441,557 |
| Board-designated endowment funds | 4,715 | - | 534 | 5,249 |
| Total funds | $ 4,715 | $ 207,602 | $ 234,489 | $ 446,806 |

Changes in endowment net assets for fiscal year ended June 30, 2011, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets — beginning of year | $ 4,155 | $ 162,286 | $ 221,035 | $ 387,476 |
| Investment return: | | | | |
| Investment (loss) income | (103) | 6,518 | 108 | 6,523 |
| Replenishment of endowment impairment | - | - | (2,555) | (2,555) |
| Net appreciation (realized and unrealized) | 663 | 53,953 | 6,663 | 61,279 |
| Total investment return | 560 | 60,471 | 4,216 | 65,247 |
| Contributions | - | - | 9,238 | 9,238 |
| Transfer of unrestricted endowment appreciation | - | (15,155) | - | (15,155) |
| Endowment net assets — end of year | $ 4,715 | $ 207,602 | $ 234,489 | $ 446,806 |

The endowment net asset composition by type of fund as of June 30, 2010, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 162,286 | $ 220,501 | $ 382,787 |
| Board-designated endowment funds | 4,155 | - | 534 | 4,689 |
| Total funds | $ 4,155 | $ 162,286 | $ 221,035 | $ 387,476 |

Changes in endowment net assets for fiscal year ended June 30, 2010, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets — beginning of year | $ 3,054 | $ 142,841 | $ 211,837 | $ 357,732 |
| Investment return: | | | | |
| Investment (loss) income | (70) | 5,801 | 560 | 6,291 |
| Replenishment of endowment impairment | - | - | (4,182) | (4,182) |
| Net appreciation (realized and unrealized) | 271 | 27,345 | 4,867 | 32,483 |
| Total investment return | 201 | 33,146 | 1,245 | 34,592 |
| Contributions | 900 | - | 7,953 | 8,853 |
| Transfer of unrestricted endowment appreciation | - | (13,701) | - | (13,701) |
| Endowment net assets — end of year | $ 4,155 | $ 162,286 | $ 221,035 | $ 387,476 |

### Fund Deficiencies

Rush monitors the accumulated losses on permanently restricted investments to determine whether the endowment corpus has been impaired and restores these losses through unrestricted net assets as necessary. During the years ended June 30, 2011 and 2010, $2,555 and $4,182, respectively, was recovered and replenished through unrestricted net assets representing accumulated losses on permanently restricted investments incurred during fiscal years 2010 and 2009, respectively.

## 8. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2011 and 2010 consisted of the following:

| | 2011 | 2010 |
|---|---|---|
| Land and buildings | $ 1,293,260 | $ 1,243,891 |
| Equipment | 490,050 | 463,671 |
| Construction in progress | 547,218 | 357,904 |
| | 2,330,528 | 2,065,466 |
| Less accumulated depreciation | (971,673) | (893,017) |
| Property and equipment, net | $ 1,358,855 | $ 1,172,449 |

## 9. LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Rush's long-term debt is issued under a Master Trust Indenture which established an Obligated Group comprised of RUMC and RCMC. 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, 2011 and 2010, such issuances are secured by a pledge of gross receipts and a mortgage on primary healthcare facilities, as defined, of the Obligated Group members.

A summary of Rush's long-term debt as of June 30, 2011 and 2010, is as follows:

| | | | Amount Outstanding at June 30, | |
|---|---|---|---|---|
| | Interest Rates | Final Maturity Date | 2011 | 2010 |
| Illinois Finance Authority Revenue Bonds: | | | | |
| Fixed rate revenue bonds: | | | | |
| 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 | 211,620 | 211,620 |
| Series 2006B | 5.0% to 5.75% | November 1, 2028 | 96,750 | 96,750 |
| Series 1998A | 5.0% to 5.25% | November 1, 2024 | 60,550 | 60,550 |
| Total fixed rate debt | | | 568,920 | 568,920 |
| Variable rate revenue bonds : | | | | |
| Series 2008A | Average of 0.22% and 0.25% in FY2011 and FY2010, respectively. | November 1, 2045 | 50,000 | 50,000 |
| Series 1989A | Average of 0.26% and 0.25% in FY2011 and FY2010, respectively. | October 1, 2010 | - | 4,600 |
| Series 1985 C, D, and F | Average of 1.58% and 1.59% in FY2011 and FY2010, respectively. | February 28, 2010 | - | 4,266 |
| Total variable rate debt | | | 50,000 | 58,866 |
| Total tax-exempt debt | | | 618,920 | 627,786 |
| Mortgage loan, collateralized by fitness center | 6.03% | May 2017 | 8,576 | 8,734 |
| Total par value of debt | | | 627,496 | 636,520 |
| Less current portion of long-term debt | | | (5,216) | (9,059) |
| Net discount and premium | | | (7,189) | (7,427) |
| Long-term debt | | | $ 615,091 | $ 620,034 |
| Estimated fair value based on quoted market prices and other relevant information | | | $ 666,255 | $ 718,853 |

Under its various indebtedness agreements, the Obligated Group is subject to certain financial covenants, including maintaining a minimum historical debt service coverage and maximum annual debt service coverage ratios; maintaining minimum levels of 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 debt covenants as of June 30, 2011 and 2010.

Annual maturities of outstanding long-term debt, adjusted to reflect the refinancing of the amounts borrowed on a taxable line of credit (described below), are as follows:

| **Years Ending June 30** | |
|---|---|
| 2012 | $ 5,215 |
| 2013 | 6,610 |
| 2014 | 12,065 |
| 2015 | 12,928 |
| 2016 | 11,993 |
| Thereafter | 578,685 |
| Total | $ 627,496 |

### Letters of Credit Arrangements

The Obligated Group's variable rate revenue 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 letters of credit with commercial banks to provide funding for such repurchases, as necessary. Any amounts borrowed under these letters of credit are due and payable more than one year from the date of such borrowing. The letters of credit related to the Series 1989A variable rate revenue bonds and the Series 1985 C, D, and F pool loans expired during fiscal year 2011 when the final principal payment was made on each series. The letter of credit related to the Series 2008A Variable Rate Demand Bonds (the "Series 2008A Bonds") expires in December 2012. In the absence of such agreement, the Obligated Group would be required to replace it with a similar credit arrangement, convert the related debt from variable to fixed interest rate, 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 June 30, 2011 and 2010, there were outstanding draws against the letter of credit related to the Series 2008A Bonds representing interest paid to the bondholders on July 1, 2011 and 2010, of $6 and $10, respectively.

### Recent Financing Activity

On July 29, 2009, the IFA issued $173,800 of Series 2009C Fixed Rate Revenue Bonds, allocated to RUMC, and $26,200 of Series 2009D Fixed Rate Revenue Bonds, allocated to RCMC, on behalf of the Obligated Group (collectively, the "Series 2009C/D Bonds"). Proceeds from the Series 2009C/D Bonds were used to reimburse the Obligated Group for capital expenditures, establish a project fund for RUMC, refinance $19,800 in borrowings under a taxable line of credit used to reimburse RCMC for prior capital expenditures, and provide financing for costs of issuance and a debt service reserve fund. The Series 2009C/D Bonds are due on November 1, 2039, and are secured by a mortgage on certain real property and a pledge of the gross receipts of the Obligated Group.

### Lines of Credit Arrangements

The Obligated Group had a $50 million short-term line of credit with a bank as of June 30, 2011 and 2010. This line of credit was extended, during fiscal year 2011, through December 2012. As of June 30, 2011, the Obligated Group had no amounts outstanding on this line of credit.

The Obligated Group also had a $100 million short-term line of credit with a bank as of June 30, 2011 and 2010. This line of credit was extended, during fiscal year 2011, through December 2013. Any borrowings on this short-term line of credit are due and payable in 180 days. As of June 30, 2011 and 2010, the Obligated Group had no amounts outstanding on this line of credit.

## 10. DERIVATIVES

### Derivatives Policy

The Obligated Group 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 the Obligated Group to additional risks related to the derivative instrument, including market risk, credit risk, and termination risk, as described below, and the Obligated Group has defined risk management practices to mitigate these risks.

Market risk represents the potential adverse effect on the fair value and cash flow of a derivative instrument due to changes in interest rates or rate spreads. Market risk is managed through ongoing monitoring of interest rate exposure based on set parameters regarding the type and degree of market risk that the Obligated Group will accept. Credit risk is the risk that the counterparty on a derivative instrument may be unable to perform its obligations during the term of the contract. When the fair value of a derivative contract is positive (an asset to the Obligated Group), the counterparty owes the Obligated Group which creates credit risk. Credit risk is managed by setting stringent requirements for qualified counterparties at the date of execution of a derivative transaction and requiring counterparties to post collateral in the event of a credit rating downgrade or if the fair value of the derivative contract exceeds a negotiated threshold. Termination risk represents the risk that the Obligated Group may be required to make a significant payment to the counterparty if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to the Obligated Group's ability to meet its debt or liquidity covenants.

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

The Obligated Group has two interest rate swap agreements (the "Swap Agreements"), which were designed to synthetically fix the interest payments on the Series 2006A Bonds, which were later refinanced. Under the Swap Agreements, the Obligated Group makes fixed rate payments equal to 3.945% to the swap counterparties and receives variable rate payments equal to 68% of LIBOR (0.186% as of June 30, 2011 and 0.237% as of June 30, 2010) from the swap counterparties, each calculated on the notional amount of the Swap Agreements. As of June 30, 2011 and 2010, the Swap Agreements had a notional amount of $96,750 outstanding ($48,375 in notional amount with each counterparty). The Swap Agreements each expire on November 1, 2035, and amortize annually commencing in 2012. The Swap Agreements are secured by obligations issued under the Master Trust Indenture.

Following the refinancing of the Series 2006A Bonds, the Obligated Group used $50,000 in notional amount of the Swap Agreements to synthetically fix the interest on the Series 2008A Bonds. The Swap Agreements had a fair value of $(14,505) and $(16,941) as of June 30, 2011 and 2010, respectively, reported in other long-term liabilities in the accompanying consolidated balance sheets. The fair value of the Swap Agreements reported in Rush's consolidated balance sheets as of June 30, 2011 and 2010 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 statements of operations and changes in net assets for the Swap Agreements for the fiscal years ended June 30, 2011 and 2010, were as follows:

| | | Fiscal Year Ended June 30 | |
|---|---|---|---|
| | **Reported As** | **2011** | **2010** |
| Change in fair value of interest rate swaps | Nonoperating income (expense) | $ 2,435 | $ (4,749) |
| Net cash payments on interest rate swaps | Interest expense | (3,648) | (3,641) |

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 was not required to post any collateral as of June 30, 2011.

## 11. OBLIGATIONS UNDER CAPITAL LEASE AND DEFERRED FINANCING ARRANGEMENTS

Rush is a party to certain long-term deferred financing arrangements with respect to facilities, equipment, and services with unrelated third parties. RUMC is party to an arrangement with a third party to lease a medical office building adjacent to ROPH for a remaining period of 13 years. Under the terms of this arrangement, the annual expense, excluding maintenance and repairs, taxes, and other operating expenses was approximately $4,122 and $4,012 for the years ended June 30, 2011 and 2010, respectively, and increases each year by 2.75%.

In September 2005, RUMC entered into a long-term contract with a vendor for the licensing, implementation, and maintenance of a clinical, patient management, and patient accounting system. Under terms of the contract, Rush pays licensing fees over an initial 6.25-year term, and, at the end of the initial term, RUMC has the right to convert the arrangement to a perpetual license for a fee. The arrangement has been treated in the manner of a capital lease, with the present value of future license payments included in property and equipment and the related obligation included in obligations under capital lease on the accompanying consolidated balance sheets. The asset has a net book value of approximately $3,224 and $4,473 as of June 30, 2011 and 2010, respectively. In addition to licensing fees, RUMC pays maintenance fees for support services received under terms of the agreement, which are recognized as expenses when incurred. Maintenance fees were not significant to the consolidated financial statements during the years ended June 30, 2011 and 2010.

In June 2005, RCMC, through a subsidiary, sold land and two separate medical office buildings to an unrelated third party and simultaneously entered into agreements to lease back portions of each building. For one building, the lease term is 10 years, with an approximate monthly rent of $31 and an annual 2.5% escalation increase. The other building is leased under a four-year lease agreement for approximately $10 per month, with a 2.5% annual escalation increase. These transactions have been accounted for as financings rather than sale-leaseback transactions under GAAP. As of June 30, 2011 and 2010, the carrying amount of the land and buildings was $9,079, less accumulated depreciation of $4,639 and $4,366, respectively. As of June 30, 2011 and 2010, $6,405 and $6,355, respectively, was reported in obligations under capital lease and other financing arrangements.

Rush is also party to certain capital lease arrangements relating to medical and office equipment. Expiration of leases ranges from 2009 to 2013. Assets acquired under capital lease arrangements are included in property and equipment, net on the accompanying consolidated balance sheets.

Future minimum lease payments under noncancelable capital leases and other financing arrangements are as follows:

| Years Ending June 30 | |
|---|---|
| 2012 | $ 7,405 |
| 2013 | 6,705 |
| 2014 | 6,088 |
| 2015 | 11,857 |
| 2016 | 4,741 |
| Thereafter | 31,286 |
| Total minimum payments | 68,082 |
| Less amount representing interest | (21,232) |
| Net present value of obligations under capital lease and other financing arrangements | 46,850 |
| Less current portions included in accounts payable | (3,966) |
| Long-term portion of obligations under capital lease and other financing arrangements | $ 42,884 |

## 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Rush and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and other postretirement benefit plans that together cover substantially all of Rush's employees.

RUMC has two defined benefit pension plans, the Retirement Plan and the Pension Plan (collectively, the "Defined Benefit Pension Plans"), covering substantially all of its employees. Benefits are based on the years of service and the employee's final average earnings, as defined. The Defined Benefit Pension Plans' assets and obligations are measured as of June 30 (the "Measurement Date") each year. Employer contributions were $34,427 and $35,144 during fiscal years 2011 and 2010, respectively. The actuarial cost method used to compute the Defined Benefit Pension Plans' liabilities and expenses is the projected unit credit method. Effective December 31, 2011, the Pension Plan, representing certain union employees, will be amended to freeze benefit accruals for all participants. No additional benefits will accrue, and no additional individuals will become plan participants in the Pension Plan as of January 1, 2012. Effective January 1, 2012, the Retirement Plan will be amended to include eligible union members previously covered by the Pension Plan. The amendments were signed on August 1, 2011.

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

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation, and the change in the plan assets of the Defined Benefit Pension Plans and Postretirement Healthcare Plans (collectively, the "Plans"). The table also reflects the funded status of the Plans as of the Measurement Date and amounts recognized in Rush's consolidated balance sheets as of June 30, 2011 and 2010, respectively.

| Obligations and Funded Status | Defined Benefit Pension Plans | | Postretirement Healthcare Plans | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Actuarial present value of benefit obligations — accumulated benefit obligation | $ 796,003 | $ 780,775 | $ 8,730 | $ 9,049 |
| **Change in projected benefit obligations:** | | | | |
| Projected benefit obligation — beginning of measurement period | $ 798,568 | $ 614,299 | | |
| Service costs | 17,648 | 13,636 | | |
| Interest costs | 42,732 | 41,089 | | |
| Plan amendments | (14,657) | - | | |
| Actuarial (gains) losses | (18,599) | 154,181 | | |
| Benefits paid | (28,372) | (24,637) | | |
| Projected benefit obligation — end of measurement period | $ 797,320 | $ 798,568 | | |
| **Change in plan assets:** | | | | |
| Fair value of plan assets — beginning of measurement period | $ 575,670 | $ 483,624 | $ - | $ - |
| Actual return on plan assets | 84,603 | 81,539 | - | - |
| Employer contributions | 34,427 | 35,144 | 459 | 529 |
| Plan participant contributions | - | - | 560 | 555 |
| Benefits paid | (28,372) | (24,637) | (1,019) | (1,084) |
| Fair value of plan assets — end of measurement period | $ 666,328 | $ 575,670 | $ - | $ - |
| Accrued benefit liability | $ 130,992 | $ 222,898 | $ 8,730 | $ 9,049 |

The components of net periodic pension cost for the Plans were as follows:

| Components of Net Periodic Pension Cost Year Ended June 30 | Defined Benefit Pension Plans | | Postretirement Healthcare Plans | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net periodic pension cost comprised the following: | | | | |
| Service cost | $ 17,648 | $ 13,636 | $ 159 | $ 101 |
| Interest cost on projected benefit obligation | 42,732 | 41,089 | 474 | 608 |
| Expected return on plan assets | (47,408) | (40,156) | - | - |
| Amortization of prior service cost and other actuarial amounts | (165) | (165) | (294) | (294) |
| Recognized actuarial loss (gain) | 20,390 | 11,390 | (1,075) | (1,703) |
| Net periodic pension cost (credit) | $ 33,197 | $ 25,794 | $ (736) | $ (1,288) |

In accordance with FASB guidance regarding accounting for defined benefit pension and other postretirement plans, all previously unrecognized actuarial losses and prior service costs are reflected in the consolidated balance sheets. The postretirement related charges other than net periodic benefit cost related to the pension and postretirement healthcare plans are included as a separate charge to unrestricted net assets and total $89,800 and $(103,106) for fiscal years 2011 and 2010, respectively. For fiscal year 2011, this amount includes actuarial gains arising during fiscal year 2011 of $56,286, unrecognized prior service cost of $14,657 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2011 of $18,857. For fiscal year 2010, this amount includes actuarial losses arising during fiscal year 2010 of $(112,336) and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2010 of $9,230.

The table below sets forth the change in the accrued benefit liability of the Plans.

| Accrued Benefit Liability | Defined Benefit Pension Plans 2011 | Defined Benefit Pension Plans 2010 | Postretirement Healthcare Plans 2011 | Postretirement Healthcare Plans 2010 |
|---|---|---|---|---|
| Accrued benefit liability — beginning of year | $ 222,898 | $ 130,675 | $ 9,049 | $ 9,333 |
| Fiscal year activity: | | | | |
| Net periodic pension cost | 33,197 | 25,794 | (736) | (1,288) |
| Employer contributions | (34,427) | (35,144) | (459) | (529) |
| Unrecognized prior service cost | (14,657) | - | - | - |
| Postretirement-related changes other than net periodic postretirement cost: | | | | |
| Actuarial (gains) losses | (55,794) | 112,799 | (492) | (463) |
| Reclassification adjustment for losses reflected in periodic expense | (20,225) | (11,226) | 1,368 | 1,996 |
| Accrued benefit liability — end of year | $ 130,992 | $ 222,898 | $ 8,730 | $ 9,049 |
| Recognized in the consolidated balance sheets as follows: | | | | |
| Accrued expenses | $ - | $ - | $ 818 | $ 719 |
| Noncurrent liabilities | 130,992 | 222,898 | 7,912 | 8,330 |
| | $ 130,992 | $ 222,898 | $ 8,730 | $ 9,049 |

## Assumptions

The actuarial assumptions used to determine benefit obligations at the measurement date and net periodic benefit cost for the Plans are as follows:

| Assumptions Used to Determine Benefit Obligations and Net Periodic Benefit Cost | Defined Benefit Pension Plans 2011 | Defined Benefit Pension Plans 2010 | Postretirement Healthcare Plans 2011 | Postretirement Healthcare Plans 2010 |
|---|---|---|---|---|
| Discount rate — benefit obligation | 5.50 % | 5.45 % | 5.50 % | 5.45 % |
| Discount rate — pension expense | 5.45 | 6.85 | 5.45 | 6.85 |
| Rate of increase in compensation levels | 5.38/4.89* | 5.47/4.95* | - | - |
| Expected long-term rate of return on plan assets | 7.75 | 7.75 | - | - |
| Health care cost trend rate (initial) | - | - | 8.00 | 8.10 |

* Represents rate of increase in compensation levels on the Retirement Plan and Pension Plan, respectively.

The discount rate used is based on a spot interest rate yield curve based on a broad group of corporate bonds rated AA or better as of the Measurement Date. RUMC 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 Pension Plans and the Postretirement Healthcare Plans.

RUMC's overall expected long-term rate of return on assets is 7.75% for 2011 and 2010. The expected long-term rate of return is based on the total portfolio of the Defined Benefit Pension Plans' investments rather than the accumulation of returns on individual asset categories. For the years ended June 30, 2011 and 2010, the actual rate of return on plan assets was 15.3% and 17.6%, respectively.

### Plan Assets

RUMC's investment objective for its Defined Benefit Pension Plans 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 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 alternative investments, consisting of hedge funds and limited partnerships) and interest rate hedging assets (e.g. fixed income securities).

All of the plan's assets are measured at fair value, including alternative investments. Fair value methodologies used to assign plan assets to levels of FASB's valuation hierarchy are consistent with the inputs described in Note 6. Fair value methodologies used to value interests in private equity limited partnerships that hold restricted securities and are not publicly traded are based on RUMC's ownership interest in the NAV of the respective fund as estimated by the general partner, which approximates fair value. RUMC routinely monitors and assesses methodologies and assumptions used in valuing these interests. Due to significant unobservable inputs used in estimating the net asset value of private equity limited partnerships, RUMC classifies all such investments as Level 3.

The fair value of the Defined Benefit Pension Plan assets as of June 30, 2011 and 2010 are as follows:

| **Fair Value Measurements as of June 30, 2011** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
|---|---|---|---|---|
| Cash, cash equivalents, and short-term investments | $ 3,675 | $ 5,562 | $ - | $ 9,237 |
| Fixed income securities: | | | | |
| U.S. government securities | - | 127,183 | - | 127,183 |
| International government securities | - | 17,228 | - | 17,228 |
| Corporate bonds | - | 205,958 | 1,868 | 207,826 |
| Collateralized securities and other | - | 28,496 | - | 28,496 |
| U.S. equity securities | 129,192 | - | - | 129,192 |
| International equity securities | 16,389 | 48,716 | - | 65,105 |
| World asset allocation mutual funds | | 18,847 | 7,119 | 25,966 |
| Alternative investments: | | | | |
| Hedge fund of funds | - | - | 28,434 | 28,434 |
| Private equity partnerships {a} | - | - | 22,795 | 22,795 |
| Accrued interest and other | 1,060 | 3,795 | 11 | 4,866 |
| Total plan assets | $ 150,316 | $ 455,785 | $ 60,227 | $ 666,328 |
| | | | | |
| **Fair Value Measurements as of June 30, 2010** | | | | |
| Cash, cash equivalents, and short-term investments | $ - | $ 4,022 | $ - | $ 4,022 |
| Fixed income securities: | | | | |
| U.S. government securities | - | 29,005 | - | 29,005 |
| International government securities | - | 18,694 | | 18,694 |
| Corporate bonds | - | 270,899 | 479 | 271,378 |
| Collateralized securities and other | - | 8,018 | - | 8,018 |
| U.S. equity securities | 140,091 | 16,019 | - | 156,110 |
| International equity securities | 20,960 | 14,457 | - | 35,417 |
| Alternative investments: | | | | |
| Hedge fund of funds | - | - | 26,390 | 26,390 |
| Private equity partnerships {a} | - | - | 21,106 | 21,106 |
| Accrued interest and other | 1,455 | 4,075 | | 5,530 |
| Total plan assets | $ 162,506 | $ 365,189 | $ 47,975 | $ 575,670 |

{a} This class includes investments in funds with diverse strategies, including approximately 42% in buyout and growth capital, 24% in diversified fund of funds, 17% in distressed debt and special situations, 16% in venture capital, and 1% in co-investment private equity funds.

A rollforward of the amounts in the Plans for financial instruments classified by RUMC within Level 3 of the fair value hierarchy, is as follows:

| Rollforward of Level 3 Investments | Corporate Bonds and Accrued Interest and Other | Asset-Backed Securities & Other | Hedge Fund of Funds | Private Equity Partnerships | Total Assets at Fair Value |
|---|---|---|---|---|---|
| Fair value at June 30, 2009 | $ 993 | $ 1,387 | $ 23,541 | $ 17,018 | $ 42,939 |
| Actual return on plan assets: | | | | | |
| Realized and unrealized gains | 189 | 40 | 2,849 | 2,636 | 5,714 |
| Purchases, sales, and settlements | 466 | (1,427) | - | 1,452 | 491 |
| Transfers in and/or out of Level 3 | (1,169) | - | - | - | (1,169) |
| Fair value at June 30, 2010 | 479 | - | 26,390 | 21,106 | 47,975 |
| Actual return on plan assets: | | | | | |
| Realized and unrealized gains | 182 | - | 2,106 | 648 | 2,936 |
| Purchases, sales, and settlements | - | - | 7,057 | 1,041 | 8,098 |
| Transfers in and/or out of Level 3 | 1,218 | - | - | - | 1,218 |
| Fair value at June 30, 2011 | $ 1,879 | $ - | $ 35,553 | $ 22,795 | $ 60,227 |

## Cash Flows

RUMC expects to make estimated contributions to and benefit payments from its Defined Benefit Pension Plans and Postretirement Healthcare Plans, for the years ending June 30 as follows:

| | Defined Benefit Pension Plans | Postretirement Healthcare Plans |
|---|---|---|
| Expected contributions in 2012 | $ 38,151 | $ 818 |
| **Estimated Benefit Payments** | | |
| Estimated benefit payments: | | |
| 2012 | $ 31,722 | $ 818 |
| 2013 | 35,297 | 888 |
| 2014 | 38,708 | 898 |
| 2015 | 43,185 | 894 |
| 2016 | 47,330 | 868 |
| 2017 through 2021 | 282,031 | 3,746 |
| Total | $ 478,273 | $ 8,112 |

### Other Postretirement Benefit Plans

Both RUMC and RCMC maintain a voluntary tax-deferred retirement savings plan. Under these defined contribution 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. Maximum annual contributions are limited by federal regulations. Employer contributions to these Plans were $12,184 and $11,265 in the years ended June 30, 2011 and 2010, 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 $9,586 and $7,090 as of June 30, 2011 and 2010, respectively, and are included in investments – less current portion and other long-term liabilities on the accompanying consolidated balance sheets. The assets of the 457(b) Plan 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 annual benefits are credited to each participant's account based on a percentage of qualifying compensation as defined by the provisions of the plan. Assets set aside to fund the Supplemental Plans amounted to $13,921 and $10,605 as of June 30, 2011 and 2010, respectively, and are included in investments – less current portion on the accompanying consolidated balance sheets. These supplemental retirement plans are currently funded at 100% of benefits accrued.

RUMC also maintains a frozen nonqualified supplemental defined benefit retirement plan for certain management employees, which is unfunded. Benefits under the supplemental defined benefit 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.

## 13. CONCENTRATION OF CREDIT RISK

Rush grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable from patients and third-party payors as of June 30, 2011 and 2010, was as follows:

| | 2011 | 2010 |
|---|---|---|
| Medicare | 12 % | 11 % |
| Medicaid | 13 | 13 |
| Managed care | 59 | 58 |
| Commercial | 5 | 6 |
| Self-pay | 11 | 12 |
| Total | 100 % | 100 % |

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 36.9% of managed care net patient accounts receivable and 21.7% of net patient accounts receivable of the Obligated Group for fiscal year ended June 30, 2011.

## 14. COMMITMENTS AND CONTINGENCIES

### Professional Liability

Rush maintains insurance programs, including both self-insured and purchased insurance arrangements, for certain professional liability claims. Self-insured risks are retained in varying amounts according to policy year and entity. For the years ended June 30, 2011 and 2010, RUMC retained self-insured risk of $20,000 on the first case, $15,000 on the second case, and $10,000 on any additional cases. RUMC also maintains excess liability insurance coverage with combined limits of $80,000 per occurrence and in the aggregate. From October 1986 through December 2009, RCMC participated in a retrospectively rated pooled insurance program (Chicago Hospital Risk Pooling Program (CHRPP)) and retained self-insured risk to $1,000 per occurrence and $3,000 annual aggregate, with excess coverage limits of $10,000 per occurrence and $20,000 annual aggregate. Starting on January 1, 2010, RCMC maintains a self-insurance program for claims not covered under the CHRPP plan and retained self-insured risk of $2,000 per claim and $10,000 annual aggregate. Under the terms of the CHRPP arrangement, RCMC can be charged retrospective premiums if actuarially determined funding for the group insurance program in which it participates proves inadequate. RCMC also maintains excess liability insurance coverage with combined limits of $35,000 per claim and in the aggregate. Amounts above the specified self-insured limits are insured through purchased insurance policies. Insurance is purchased on a claims made basis. RUMC has an established trust fund, and RCMC has established a separate account to pay claims and related costs.

Rush has employed an independent actuary to estimate the ultimate costs of claim settlements. Self-insured liabilities are based on the actuarial estimate of losses using Rush's actual payout patterns and various other assumptions. Rush's self-insured liabilities of $188,008 and $214,318 as of June 30, 2011 and 2010, respectively, are recorded as noncurrent and current liabilities on the accompanying consolidated balance sheets, as appropriate, and based on the estimated present value of self-insured claims that will be settled in the future. If the present value method was not used, Rush's liability for self-insured claims would be approximately $32,608 and $45,775 higher than the amounts recorded on the consolidated balance sheets as of June 30, 2011 and 2010, respectively. The discount rates used in calculating the present value by organization was 4% for fiscal years ended June 30, 2011 and 2010.

During fiscal years 2011 and 2010, actual experience on Rush's self-insured claims was better than projected. Rush has experienced significant reserve adjustments in its self-insurance liability each fiscal year since 2006 as a result of favorable claims experience. The amount of the reserve adjustments were $29,297 and $6,412 in the years ended June 30, 2011 and 2010, respectively, which reduced insurance expense in the consolidated statements of operations and changes in net assets in each respective year.

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

### Self-Funded Medical Benefit Plans

Effective January 1, 2005, Rush began sponsoring self-funded medical benefit plans covering substantially all of their employees and their dependents. The medical benefit expense is based on actual medical and prescription claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. As of June 30, 2011 and 2010, the estimated liability for unpaid and unreported claims was $9,255 and $8,390, respectively, and included in accrued expenses on the accompanying consolidated balance sheets. The medical benefit expense was $63,948 and $56,172 for the years ended June 30, 2011 and 2010, respectively, and included in salaries, wages, and employee benefits in the accompanying consolidated statements of operations and changes in net assets.

### Obligations under Operating Leases

Rush is party to various noncancelable operating leases with third parties. Rental expense was approximately $18,668 and $19,398 for the years ended June 30, 2011 and 2010, respectively, and was included in supplies, utilities, and other expenses in the accompanying statements of operations and changes in net assets. Total minimum payments under noncancelable operating leases as of June 30, 2011, are as follows:

| Years Ending June 30 | |
|---|---|
| 2012 | $ 11,405 |
| 2013 | 9,049 |
| 2014 | 6,345 |
| 2015 | 4,775 |
| 2016 | 3,405 |
| Thereafter | 15,941 |
| Total | $ 50,920 |

## 15. CAMPUS TRANSFORMATION COMMITMENTS

In fiscal year 2004, RUMC began a Campus Transformation project that currently includes the addition of new facilities, including a new hospital and the renovation of existing facilities. The project is driven by a redesign of patient care processes to improve efficiency and patient safety and to provide a more inviting environment to physicians, patients, and visitors. The project is estimated to cost approximately $1,139,000 to complete over a 13-year period (fiscal year 2004 to fiscal year 2016). As of June 30, 2011, $822,435 has been spent on the campus redevelopment plan, and construction commitments outstanding were $102,452.

## 16. PROMISES TO CONTRIBUTE

Included in assets limited by donor or time restriction are the following unconditional promises to give which are discounted at rates of 0.02% and 0.12% applied to new pledges given during the years ended June 30, 2011 and 2010, respectively:

| | 2011 | 2010 |
|---|---|---|
| Capital campaign | $ 65,556 | $ 61,699 |
| Restricted to future periods | 1,887 | 2,054 |
| Unconditional promises to give before unamortized discount and allowance for uncollectibles | 67,443 | 63,753 |
| Less unamortized discount | (4,808) | (6,747) |
| Less allowance for uncollectibles | (1,723) | (1,610) |
| Net unconditional promises to give | $ 60,912 | $ 55,396 |
| Amounts due in: | | |
| Less than one year | $ 27,241 | $ 14,480 |
| One to five years | 22,695 | 29,207 |
| More than five years | 17,507 | 20,066 |
| Total unconditional promises to give | $ 67,443 | $ 63,753 |

In addition, Rush has received conditional promises to contribute that are not recognized as assets in the consolidated balance sheet as of June 30, 2011. The total is not considered material to the consolidated financial statements as of June 30, 2011.

## 17. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes as of June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| Temporarily Restricted Net Assets: | | |
| Construction and purchase of equipment | $ 30,020 | $ 42,051 |
| Health education | 6,649 | 4,801 |
| Research, charity, and other | 266,420 | 217,958 |
| Unappropriated endowment appreciation available for operations | 44,054 | 36,279 |
| Total temporarily restricted net assets | $ 347,143 | $ 301,089 |
| Permanently Restricted Net Assets, income from which is expendable to support: | | |
| Health education | $ 141,246 | $ 139,140 |
| Research, charity, and other | 55,590 | 46,063 |
| Operations | 37,653 | 35,832 |
| Total permanently restricted net assets | $ 234,489 | $ 221,035 |

During fiscal years 2011 and 2010, net assets were released from donor restrictions for purchasing property and equipment of $34,894 and $18,876, respectively, and incurring expenses of $30,574 and $31,073, respectively, both of which satisfied the restricted purposes of the donors. Net assets released from restriction used in operations are included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

## 18. JOINT VENTURES AND OTHER AFFILIATIONS

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

Investments in unconsolidated joint ventures, accounted for on the equity method, totaled $4,875 and $15,022 as of June 30, 2011 and 2010, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income recognized from these joint ventures, reported in other revenue, was $747 and $1,212 during the years ended June 30, 2011 and 2010, respectively.

RML Health Providers, Limited Partnership (RML) was a limited partnership between RUMC and Loyola University Medical Center (Loyola) that operated RML Specialty Hospital, a 174-licensed bed, long-term acute care hospital in Hinsdale, Illinois. Both RUMC and Loyola owned a 49.5% limited partnership interest in RML. RMLHP Corporation (RMLHP) held a 1% interest as the general partner of RML, and RUMC and Loyola were equal members of RMLHP. RUMC received a $560 annual distributions from RML Specialty Hospital during fiscal year 2010. Effective July 1, 2010, Advocate Health and Hospitals Corporation (Advocate) purchased limited partnership interests from RUMC and Loyola resulting in Advocate, Loyola, and RUMC each holding 33% limited partnership interests in RML. Advocate also became a member of RMLHP. As a result, RML then became the operator of both RML Specialty Hospital and Advocate Bethany Hospital. Effective August 1, 2010, RUMC recognized an option to sell its remaining partnership share in RML and received a $6,617 promissory note. This promissory note was received on August 1, 2011.

## 19. FUNCTIONAL EXPENSES

Expenses related to the patient care, education, and research services provided by Rush for the years ended June 30, 2011 and 2010, were as follows:

| | 2011 | 2010 |
|---|---|---|
| Healthcare | $ 1,306,702 | $ 1,279,273 |
| University services, including research | 193,474 | 175,935 |
| General and administrative | 109,409 | 107,152 |
| Illinois Medicaid hospital assessment | 33,431 | 33,431 |
| Total | $ 1,643,016 | $ 1,595,791 |

## 20. FICA TAX REFUND SETTLEMENT

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. As of June 30, 2010, Rush recorded a FICA tax receivable of $19,690, representing the recovered cost of FICA taxes previously paid and expensed, which was reported in other accounts receivable as of June 30, 2010, since the amount was expected to be collectible within one year. As of June 30, 2011, no amounts were received related to the FICA refund and the receivable of $19,690 was reclassified to other assets in the accompanying consolidated balance sheets, since Rush no longer expects that the receivable will be collectible within one year. The FICA refund was reported in salaries, wages, and employee benefits in the accompanying consolidated statement of operations and changes in net assets during fiscal year 2010.

Rush has elected not to record any income related to the interest component of the FICA refund and will recognize the interest when received.

## 21. ASSET SALES

During fiscal year 2010, RUMC completed construction of a new ambulatory building designed to house the orthopedic practices at RUMC and certain hospital support functions. A portion of this building was sold to a private physician practice for $26,079.

* * * * * *

## SUPPLEMENTAL SCHEDULES

## RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

**SCHEDULE I**

### CONSOLIDATING BALANCE SHEET INFORMATION AS OF JUNE 30, 2011

*(Dollars in thousands)*

| | RUMC | RCMC | Eliminations | Obligated Group |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | $ 127,797 | $ 26,852 | - | $ 154,649 |
| Short-term investments | 115,613 | 15,461 | - | 131,074 |
| Accounts receivable for patient services — net of allowance for doubtful accounts of $42,035 and $5,670 for RUMC and RCMC, respectively | 136,511 | 40,812 | - | 177,323 |
| Other accounts receivable, net | 55,850 | - | (37) | 55,813 |
| Self-insurance trust — current portion | 24,467 | - | - | 24,467 |
| Other current assets | 27,035 | 7,986 | - | 35,021 |
| Total current assets | 487,273 | 91,111 | (37) | 578,347 |
| ASSETS LIMITED AS TO USE AND INVESTMENTS: | | | | |
| Investments — less current portion | 263,659 | 76,143 | - | 339,802 |
| Limited as to use by donor or time restriction | 478,561 | 9,693 | - | 488,254 |
| Self-insurance trust — less current portion | 101,123 | - | - | 101,123 |
| Debt service reserve fund | 40,119 | 9,168 | - | 49,287 |
| Total assets limited as to use and investments | 883,462 | 95,004 | - | 978,466 |
| PROPERTY AND EQUIPMENT — net of accumulated depreciation of $789,273 and $182,400 for RUMC and RCMC, respectively | 1,187,178 | 171,677 | - | 1,358,855 |
| OTHER ASSETS | 25,635 | 7,368 | (5,139) | 27,864 |
| TOTAL ASSETS | $ 2,583,548 | $ 365,160 | $ (5,176) | $ 2,943,532 |
| **LIABILITIES AND NET ASSETS** | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | $ 122,270 | $ 11,726 | - | $ 133,996 |
| Accrued expenses | 121,448 | 16,672 | (37) | 138,083 |
| Student loan funds | 21,210 | - | - | 21,210 |
| Estimated third-party settlements payable | 106,076 | 34,001 | - | 140,077 |
| Current portion of accrued liability under self-insurance programs | 29,773 | 368 | - | 30,141 |
| Current portion of long-term debt | 4,550 | 666 | - | 5,216 |
| Total current liabilities | 405,327 | 63,433 | (37) | 468,723 |
| LONG-TERM LIABILITIES: | | | | |
| Accrued liabilities under self-insurance programs — less current portion | 143,674 | 14,193 | - | 157,867 |
| Postretirement and pension benefits | 138,904 | - | - | 138,904 |
| Long-term debt — less current portion, net | 517,779 | 97,312 | - | 615,091 |
| Obligations under capital lease and other financing arrangements | 34,627 | 8,257 | - | 42,884 |
| Other long-term liabilities | 61,612 | 6,514 | (5,139) | 62,987 |
| Total long-term liabilities | 896,596 | 126,276 | (5,139) | 1,017,733 |
| Total liabilities | 1,301,923 | 189,709 | (5,176) | 1,486,456 |
| NET ASSETS: | | | | |
| Unrestricted | 710,641 | 164,803 | - | 875,444 |
| Temporarily restricted for specific purposes | 343,248 | 3,895 | - | 347,143 |
| Permanently restricted endowments | 227,736 | 6,753 | - | 234,489 |
| Total net assets | 1,281,625 | 175,451 | - | 1,457,076 |
| TOTAL LIABILITIES AND NET ASSETS | $ 2,583,548 | $ 365,160 | $ (5,176) | $ 2,943,532 |

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

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2011**

*(Dollars in thousands)*

| | RUMC | RCMC | Eliminations | Obligated Group |
|---|---|---|---|---|
| **UNRESTRICTED NET ASSETS** | | | | |
| REVENUE: | | | | |
| Net patient service revenue | $ 1,221,455 | $ 291,194 | - | $ 1,512,649 |
| University services: | | | | |
| Tuition and educational grants | 52,171 | - | - | 52,171 |
| Research and other operations | 106,754 | - | - | 106,754 |
| Other revenue | 60,841 | 8,684 | - | 69,525 |
| Total revenue | 1,441,221 | 299,878 | - | 1,741,099 |
| EXPENSES: | | | | |
| Salaries, wages, and employee benefits | 747,988 | 134,168 | - | 882,156 |
| Supplies, utilities, and other | 413,128 | 64,738 | - | 477,866 |
| Insurance | 10,932 | 8,472 | - | 19,404 |
| Purchased services | 58,869 | 24,906 | | 83,775 |
| Depreciation and amortization | 73,023 | 18,974 | - | 91,997 |
| Provision for uncollectible accounts | 38,768 | 25,997 | - | 64,765 |
| Interest expense | 15,015 | 8,038 | - | 23,053 |
| Total expenses | 1,357,723 | 285,293 | - | 1,643,016 |
| OPERATING INCOME | 83,498 | 14,585 | - | 98,083 |
| NONOPERATING INCOME (EXPENSE): | | | | |
| Investment income and other | 18,999 | 11,518 | - | 30,517 |
| Unrestricted contributions | 7,093 | 234 | - | 7,327 |
| Fundraising expenses | (6,395) | (501) | - | (6,896) |
| Change in fair value of interest rate swaps | 1,442 | 993 | - | 2,435 |
| Total nonoperating income | 21,139 | 12,244 | - | 33,383 |
| EXCESS OF REVENUE OVER EXPENSES | $ 104,637 | $ 26,829 | $ - | $ 131,466 |

*(Continued)*

## RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

**SCHEDULE II**

**CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION**
**FOR THE YEAR ENDED JUNE 30, 2011**
*(Dollars in thousands)*

| | RUMC | RCMC | Eliminations | Obligated Group |
|---|---|---|---|---|
| **UNRESTRICTED NET ASSETS** | | | | |
| Excess of revenue over expenses | $ 104,637 | $ 26,829 | $ - | $ 131,466 |
| Recovery of impaired endowment corpus | 2,446 | - | - | 2,446 |
| Net assets released from restrictions used for purchase of property and equipment and other | 34,870 | 24 | - | 34,894 |
| Postretirement-related changes other than net periodic postretirement cost | 89,800 | - | - | 89,800 |
| INCREASE IN UNRESTRICTED NET ASSETS | 231,753 | 26,853 | - | 258,606 |
| **RESTRICTED NET ASSETS** | | | | |
| TEMPORARILY RESTRICTED NET ASSETS: | | | | |
| Pledges, contributions, and grants | 50,882 | 1,832 | - | 52,714 |
| Net assets released from restrictions | (64,268) | (1,200) | - | (65,468) |
| Net realized and unrealized gains on investments | 58,665 | 143 | - | 58,808 |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | 45,279 | 775 | - | 46,054 |
| PERMANENTLY RESTRICTED NET ASSETS: | | | | |
| Pledges and contributions | 9,238 | - | - | 9,238 |
| Change in unrealized gains impacting endowment corpus | 2,446 | 109 | - | 2,555 |
| Replenishment of impaired endowment corpus | (2,446) | (109) | - | (2,555) |
| Investment gains on trustee-held investments | 4,216 | - | - | 4,216 |
| INCREASE IN PERMANENTLY RESTRICTED NET ASSETS | 13,454 | - | - | 13,454 |
| INCREASE IN NET ASSETS | 290,486 | 27,628 | - | 318,114 |
| NET ASSETS — Beginning of year | 991,139 | 147,823 | - | 1,138,962 |
| NET ASSETS — End of year | $ 1,281,625 | $ 175,451 | $ - | $ 1,457,076 |

*(Concluded)*