

Rush University Medical Center Obligated Group

Consolidated Financial Statements as of and for the
Years Ended June 30, 2013 and 2012,
Supplemental Consolidating Schedules as of and
for the Year Ended June 30, 2013, and
Independent Auditors' Report



RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush University Medical Center:

We have audited the accompanying consolidated financial statements of Rush University Medical Center Obligated Group (including Rush University Medical Center and Rush-Copley Medical Center) (collectively, "Rush"), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Rush's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rush as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information for 2013 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and the results of operations of

the individual companies, and is not a required part of the consolidated financial statements. This information is the responsibility of Rush's management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 financial statements. Such information has been subjected to the auditing procedures applied in our audit of the 2013 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 consolidated financial statements or to the 2013 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the 2013 consolidated financial statements as a whole.

Deloitte & Touche LLP

October 28, 2013

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

	<u>As of June 30,</u>	
	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 195,751	\$ 131,044
Short-term investments	-	115,712
Accounts receivable for patient services - net of allowance for doubtful accounts of \$47,097 and \$60,855 as of June 30, 2013 and 2012, respectively (Note 2)	190,145	249,972
Other accounts receivable - net of reserves of \$2,310 and \$1,461 as of June 30, 2013 and 2012, respectively	47,385	51,765
Self-insurance trust - current portion	24,724	23,904
Other current assets	51,360	54,132
Total current assets	<u>509,365</u>	<u>626,529</u>
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments - less current portion	654,721	371,463
Limited as to use by donor or time restriction or other	476,069	444,808
Self-insurance trust - less current portion	100,497	97,255
Debt service reserve fund	48,661	48,888
Total assets limited as to use and investments	<u>1,279,948</u>	<u>962,414</u>
PROPERTY AND EQUIPMENT - net of accumulated depreciation of \$1,116,509 and \$1,062,105 as of June 30, 2013 and 2012, respectively	1,376,118	1,426,729
OTHER ASSETS	<u>39,152</u>	<u>54,779</u>
TOTAL ASSETS	<u><u>\$ 3,204,583</u></u>	<u><u>\$ 3,070,451</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 108,070	\$ 103,633
Accrued expenses	141,430	137,749
Student loan funds	22,919	20,394
Estimated third-party settlements payable	149,192	158,783
Current portion of accrued liability under self-insurance programs	35,880	38,959
Current portion of long-term debt	12,065	6,610
Total current liabilities	<u>469,556</u>	<u>466,128</u>
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance programs - less current portion	197,188	198,026
Postretirement and pension benefits	85,242	169,875
Long-term debt - less current portion, net	597,166	609,016
Obligations under capital lease and other financing arrangements	43,037	47,662
Other long-term liabilities	76,118	71,160
Total long-term liabilities	<u>998,751</u>	<u>1,095,739</u>
Total liabilities	<u>1,468,307</u>	<u>1,561,867</u>
NET ASSETS:		
Unrestricted	1,159,532	972,126
Temporarily restricted	328,127	294,338
Permanently restricted	248,617	242,120
Total net assets	<u>1,736,276</u>	<u>1,508,584</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,204,583</u></u>	<u><u>\$ 3,070,451</u></u>

See notes to consolidated financial statements.

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(Dollars in thousands)

	<u>For the Years Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,655,120	\$ 1,575,934
Provision for uncollectible accounts	<u>(62,413)</u>	<u>(65,119)</u>
Net patient service revenue less provision for uncollectible accounts	1,592,707	1,510,815
University services:		
Tuition and educational grants	62,530	56,961
Research and other operations	100,844	107,487
Other revenue	<u>81,752</u>	<u>71,397</u>
Total revenue	<u>1,837,833</u>	<u>1,746,660</u>
EXPENSES:		
Salaries, wages, and employee benefits	935,857	910,025
Supplies, utilities, and other	515,978	501,880
Insurance	39,438	35,792
Purchased services	95,780	92,307
Depreciation and amortization	132,330	107,754
Interest	<u>42,167</u>	<u>29,917</u>
Total expenses	<u>1,761,550</u>	<u>1,677,675</u>
OPERATING INCOME	<u>76,283</u>	<u>68,985</u>
NONOPERATING INCOME (EXPENSE):		
Investment income and other	17,889	10,263
Unrestricted contributions	6,884	7,135
Fundraising expenses	(6,345)	(7,229)
Change in fair value of interest rate swaps	7,451	(10,756)
Net gain on sale	8,842	-
Loss on extinguishment of debt	<u>-</u>	<u>(960)</u>
Total nonoperating income (expense)	<u>34,721</u>	<u>(1,547)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 111,004</u>	<u>\$ 67,438</u>

(Continued)

**RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS**

(Dollars in thousands)

UNRESTRICTED NET ASSETS

	For the Years Ended June 30,	
	2013	2012
Excess of revenue over expenses	\$ 111,004	\$ 67,438
Recovery (funding) of impaired endowment corpus	233	(233)
Net assets released from restrictions used for purchase of property and equipment	12,340	68,940
Postretirement related changes other than net periodic postretirement cost	62,776	(43,619)
Other	<u>1,053</u>	<u>4,156</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>187,406</u>	<u>96,682</u>

RESTRICTED NET ASSETS

TEMPORARILY RESTRICTED NET ASSETS:

Pledges, contributions, and grants	33,449	45,908
Net assets released from restrictions	(46,680)	(100,521)
Net realized and unrealized gains on investments	<u>47,020</u>	<u>1,808</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>33,789</u>	<u>(52,805)</u>

PERMANENTLY RESTRICTED NET ASSETS:

Pledges and contributions	5,462	9,580
Change in unrealized gains (losses) impacting endowment corpus	233	(233)
(Replenishment) recovery of impaired endowment corpus	(233)	233
Investment gains (losses) on trustee-held investments	<u>1,035</u>	<u>(1,949)</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>6,497</u>	<u>7,631</u>

INCREASE IN NET ASSETS

227,692 51,508

NET ASSETS — Beginning of year

1,508,584 1,457,076

NET ASSETS — End of year

\$ 1,736,276 **\$ 1,508,584**

See notes to consolidated financial statements.

(Concluded)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Years Ended June 30,	
	2013	2012
OPERATING ACTIVITIES:		
Increase in net assets	\$ 227,692	\$ 51,508
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	132,330	107,754
Postretirement-related changes other than net periodic postretirement cost	(62,776)	43,619
Provision for uncollectible accounts	62,413	65,119
Change in fair value of interest rate swaps	(7,451)	10,756
Net unrealized and realized (gains) losses on investments	(46,590)	2,921
Restricted contributions and investment income received	(21,687)	(66,559)
Investment (gains) losses on trustee-held investments	(1,035)	1,949
Loss on extinguishment of debt	-	960
Loss on disposal of equipment and other	237	4,609
Net gain on sale	(8,842)	-
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(2,586)	(137,768)
Accounts payable and accrued expenses	8,522	1,314
Estimated third-party settlements payable	(9,592)	18,706
Postretirement and pension benefits	(21,857)	(12,648)
Accrued liability under self-insurance program	(3,917)	48,977
Other changes in operating assets and liabilities	21,942	(27,755)
Net cash provided by operating activities	<u>266,803</u>	<u>113,462</u>
INVESTING ACTIVITIES:		
Additions to property and equipment	(84,054)	(203,237)
Purchase of investments	(1,974,934)	(929,717)
Sale of investments	1,818,223	934,694
Proceeds from sale of building	25,396	-
Net cash used in investing activities	<u>(215,369)</u>	<u>(198,260)</u>
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	25,096	71,085
Refunding of long-term debt	-	(56,000)
Proceeds from issuance of long-term debt	-	56,000
Payment of bond issuance costs	-	(380)
Payment of long-term debt	(6,610)	(5,215)
Payment of obligations under capital lease and other financing arrangements	(5,213)	(4,297)
Net cash provided by financing activities	<u>13,273</u>	<u>61,193</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,707	(23,605)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>131,044</u>	<u>154,649</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 195,751</u>	<u>\$ 131,044</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest — including capitalized interest of \$232 and \$13,443 for the years ended June 30, 2013 and 2012, respectively	\$ 42,358	\$ 43,511
Noncash additions to property and equipment	\$ 754	\$ 10,002

See notes to consolidated financial statements.

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

1. ORGANIZATION AND BASIS OF CONSOLIDATION

Rush University Medical Center Obligated Group (the "Obligated Group") is a multihospital 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"). 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 and Rush University, located in Chicago, Illinois, and Rush Oak Park Hospital, located in Oak Park, Illinois.

Rush University Hospital (RUH) — 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 731 beds. RUH also includes a faculty practice plan, Rush University Medical Group, which employed 425 physicians as of June 30, 2013.

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 \$134,525 and \$134,096 in annual research expenditures during fiscal years 2013 and 2012, respectively.

Rush Oak Park Hospital (ROPH) — A 296-bed licensed acute care, rehabilitation, and skilled nursing hospital located in Oak Park, Illinois, eight miles west of RUH, which includes an employed medical group with 41 physicians as of June 30, 2013. 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. All significant intercompany transactions have been eliminated in consolidation.

RUH and ROPH together own 50% of Rush Health, a network of providers whose members include the hospitals and approximately 818 physicians and 138 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-bed licensed acute care hospital located in Aurora, Illinois, which includes an employed medical group of 64 physicians as of June 30, 2013.

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 accounting principles generally accepted 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, 2013, are presented for the purpose of additional analysis of Rush's basic 2013 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 GAAP 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.

Rush recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. 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. For uninsured patients that do not qualify for charity care, Rush recognizes revenue based on its discounted rates. On the basis of historical experience, a significant portion of Rush's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Rush records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Patient accounts receivable are based on gross charges and stated at net realizable value. Accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payors under current reimbursement methodologies, and also by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, Rush analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate appropriate allowance for doubtful accounts and provision for uncollectible accounts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and allowance for

doubtful accounts. The allowance for doubtful accounts presented as of June 30, 2012 included charity care allowances of \$16,102.

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

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

Rush's allowance for doubtful accounts for self-pay patients increased from 68% of self-pay accounts receivable at June 30, 2012, to 70% of self-pay accounts receivable as of June 30, 2013. The increase was the result of unfavorable trends experienced in the collection of amounts from self-pay patients during fiscal year 2013. In addition, Rush's self-pay write-offs totaled \$54,095 and \$52,293 for fiscal years 2013 and 2012, respectively. Rush does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Charity Care

It is an inherent part of Rush's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue.

Inventory

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

Fair Value of Financial Instruments

Financial instruments consist of 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, accounts receivable, accounts payable, accrued expenses, and estimated third-party settlements approximated their financial statement carrying amount as of June 30, 2013 and 2012, 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 donors, unconditional promises to contribute, assets held by trustees under debt or other agreements and for self-insurance, and board-designated assets set aside for a specified future use. Investments in equity and debt securities with readily determinable fair values are measured at fair value using quoted market prices or model-driven valuations.

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

Investments in hedge funds are measured at fair market value based on Rush's interest in the net asset value (NAV) of the respective fund. The estimated valuations of hedge 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 entered into on or after July 1, 2012, are measured at fair market value based on the estimated fair values of the nonmarketable private equity partnerships in which it invests, which is equivalent to NAV, when Rush's ownership is minor (less than 5%). The estimated valuations of private equity partnerships are subject to uncertainty and could differ had a ready market existed for these investments. Investments in private equity funds entered into during fiscal year 2012 or prior years are reported at cost, adjusted for impairment losses, based on information provided by the respective partnership when Rush's ownership 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. 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 Contribute

Unconditional promises to contribute (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 contribute are reported in assets limited as to use by donor or time restriction in the accompanying consolidated balance sheets and amounted to \$34,738 and \$38,695 as of June 30, 2013 and 2012, 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 that 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. Included in depreciation expense for the year ended June 30, 2013, is an asset charge of \$9,583 related to a one-time impairment.

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. Interest expense of \$232 and \$13,443 was capitalized during the years ended June 30, 2013 and 2012, respectively.

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. During the year ended June 30, 2012, no such provision was deemed necessary. During the year ended June 30, 2013, Rush recorded a one-time impairment of \$9,583.

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

Rush has a majority ownership interest in a number of subsidiaries, which provide outpatient surgical and imaging services. An ownership interest of more than 50% in another health-related entity in which Rush has a controlling interest is consolidated. As of June 30, 2013 and 2012, non-controlling interests in consolidated subsidiaries amounted to \$5,209 and \$4,156, respectively. The amounts related to non-controlling interests are recorded in unrestricted net assets, and as the amounts are not material, they are not separately presented in the accompanying consolidated financial statements. Rush also has affiliations with and interests in other organizations that are not consolidated. These organizations primarily provide outpatient health care and managed care contracting services. 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 a straight-line basis over the life of the related debt, are reported within other assets in 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 \$10,231 and \$10,707 as of June 30, 2013 and 2012, respectively.

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), liabilities for derivative instruments, 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 that are not restricted and arise from the general operations of the organization.

Contributions

Unconditional promises to contribute 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 operations and 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.

Grants

Grants and other contracts are reflected in research and other operations revenue when the funds are expended in accordance with the specifications of the grantor or donor. Indirect costs relating to certain government grants and contracts are reimbursed at a fixed rates negotiated with government agencies.

Electronic Health Record Incentive Payments

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

Rush recognizes HITECH incentive payments as revenue when it is reasonably assured that the meaningful use objectives have been achieved. Rush recognized incentive payments totaling \$10,426 and \$9,228 for the years ended June 30, 2013 and 2012, respectively, within other revenue in the consolidated statements of operations and changes in net assets. Rush's compliance with the meaningful use criteria is subject to audit by the federal government

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)

Nonoperating income (expense) includes items not directly associated with patient care or other activities not relating to the core operations of Rush. Nonoperating 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, and 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, and fundraising expenses.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued new guidance related to the measurement of fair value and required disclosures about fair value measurements. The intent of the guidance is to improve comparability of fair value measurements and disclosures between financial statements prepared in accordance with GAAP and those prepared under International Financial Reporting Standards. Specifically, the guidance expands the existing disclosure requirements for fair value measurements, including separately presenting purchases, sales, issues, and settlements for investments categorized within Level 3 of the fair value hierarchy, and includes language clarifying the FASB's intent regarding the application of existing measurement principles and requirements. The clarifying language may change how certain fair value measurement guidance is applied. This guidance was adopted for the year ended June 30, 2013, and did not have a material impact to the consolidated financial statements.

Rush adopted FASB guidance related to the presentation and disclosure of patient service revenue, provision for uncollectible accounts, and the allowance for doubtful accounts for certain health care entities for the year ended June 30, 2012. The standard establishes accounting and disclosure requirements for health care entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entity does not assess a patient's ability to pay. Specifically, the 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 consolidated statements 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.

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. Rush adopted this guidance for the fiscal year ended June 30, 2012. The adoption of this guidance did not impact revenue recognition in the consolidated financial statements since Rush does not recognize revenue when charity care is provided.

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. Rush adopted this guidance for the fiscal year ended June 30, 2012. The adoption of this guidance resulted in an increase in insurance recovery receivable of \$33,719, with an offsetting increase in accrued liability under self-insurance programs as of June 30, 2012.

Consideration of Events Subsequent to the Consolidated Balance Sheet Date

Rush has evaluated events occurring subsequent to the consolidated balance sheet date through October 28, 2013, the date the consolidated financial statements were issued.

3. NET PATIENT SERVICE REVENUE

The mix of patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended June 30, 2013 and 2012, by major payor source, was as follows:

	<u>2013</u>		<u>2012</u>	
Medicare	\$ 435,311	26 %	\$ 407,449	26 %
Medicaid	209,656	13	226,890	14
Blue Cross	487,069	30	456,565	29
Managed care	367,554	22	358,848	23
Commercial, self-pay, and other	<u>155,530</u>	<u>9</u>	<u>126,182</u>	<u>8</u>
Total patient service revenue	<u>\$ 1,655,120</u>	<u>100 %</u>	<u>\$ 1,575,934</u>	<u>100 %</u>

Changes in estimates relating to prior periods increased net patient service revenue by \$22,083 and \$8,719 in fiscal years 2013 and 2012, 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 health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by health care 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 68% discount to all uninsured patients (increased from 65% for the period July 1, 2011 to March 31, 2012) regardless of ability to pay, and provides further discounts for patients with a family income up to 400% of the federal poverty level. RCMC provides free care to all patients whose family income is less than 300% of the federal poverty level and a 30% discount to all uninsured patients regardless of ability to pay, and discounts balances to patients under 600% of the federal poverty level. Interest-free payment plans are also provided. Charity care includes the estimated cost of unreimbursed services provided and supplies furnished under its charity care policy and the excess of cost over reimbursement for Medicaid patients. The estimated cost of charity care provided is determined using a ratio of cost to gross charges and multiplying that ratio by the gross unreimbursed charges associated with providing care to charity patients.

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 \$20,935 and \$22,906 during the years ended June 30, 2013 and 2012, respectively. For the years ended June 30, 2013 and 2012, the Medicaid payment of \$54,366 and \$56,337 was included in net patient service revenue, representing 3% and 4%, respectively, 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 December 31, 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, 2013 and 2012:

	2013	2012
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program	\$ 75,023	\$ 66,548
Estimated costs and expenses incurred to provide charity care in the hospitals	<u>45,881</u>	<u>35,423</u>
Total	<u>\$ 120,904</u>	<u>\$ 101,971</u>

The total number of patients that were either provided charity care directly by Rush or that were covered by the Program represented 24% of Rush's total patients in each of the fiscal years 2013 and 2012.

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 include unconditional promises to contribute (see Note 16).

Following is a summary of the composition of assets limited as to use and investments as of June 30, 2013 and 2012:

	2013	2012
Marketable securities and short-term investment funds	\$ 19,345	\$ 96,103
Fixed-income securities, including commingled funds	706,416	552,569
Equity securities, including commingled funds	329,043	272,375
World asset allocation mutual funds	125,660	56,198
Hedge fund of funds	27,970	25,416
Private equity partnerships	29,510	31,797
Real estate	<u>3,106</u>	<u>3,290</u>
	1,241,050	1,037,748
Beneficial interest in trusts	<u>26,622</u>	<u>25,587</u>
Total assets limited as to use and investments — excluding pledges receivable	1,267,672	1,063,335
Net pledges and grants receivable	<u>37,000</u>	<u>38,695</u>
Total assets limited as to use and investments	1,304,672	1,102,030
Less amount reported as current assets	<u>(24,724)</u>	<u>(139,616)</u>
Assets limited as to use and investments — noncurrent	<u>\$ 1,279,948</u>	<u>\$ 962,414</u>

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 \$38,774 and \$37,724 as of June 30, 2013 and 2012, respectively. Rush's private equity investments have diverse strategies, consisting of the following as of June 30, 2013 and 2012:

Private Equity Fund Allocations	2013	2012
Buyout and growth capital	21 %	23 %
Distressed debt and special situations	29	34
Diversified private equity fund of funds	29	24
Venture capital	18	16
Direct equity	2	2
Co-investment private equity	1	1
	<u>100 %</u>	<u>100 %</u>

Investments in private equity funds recorded on the equity basis amounted to \$669 and \$921 as of June 30, 2013 and 2012, 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, 2013 and 2012, commitments for additional contributions to private equity partnerships totaled \$17,717 and \$13,158, 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, 2013 and 2012, approximates the real return that Rush expects to earn on its investments over the long term

and totaled \$5,950 and \$6,074 for years ended June 30, 2013 and 2012, respectively. The difference between the total investment return and the amount allocated to operations is reported in nonoperating income (expense) and totaled \$1,070 and \$810 for the years ended June 30, 2013 and 2012, respectively. There is no guarantee that the investment return expected by management will be realized. For the years ended June 30, 2013 and 2012, the total annual investment return was approximately 6.3% and 5.9%, respectively.

The composition and presentation of investment income and the realized and unrealized gains and losses on all investments for the years ended June 30, 2013 and 2012, are as follows:

	2013	2012
Interest and dividends	\$ 36,338	\$ 22,140
Net realized gains on sales of securities	23,185	12,378
Unrealized gains (losses) — unrestricted	1,710	(9,061)
Unrealized gains (losses) — restricted	<u>22,699</u>	<u>(8,308)</u>
	<u>\$ 83,932</u>	<u>\$ 17,149</u>
Reported as:		
Other operating revenue	\$ 17,755	\$ 7,333
Nonoperating income	17,889	10,190
Restricted net assets — net realized and unrealized gains (losses) on investments	<u>48,288</u>	<u>(374)</u>
	<u>\$ 83,932</u>	<u>\$ 17,149</u>

Rush reported gains and losses on its alternative investments as of June 30, 2013 and 2012, as follows:

	2013	2012
Reported as:		
Nonoperating income	\$ 66	\$ 28
Restricted net assets — net realized and unrealized gains on investments	<u>5,538</u>	<u>2,349</u>
	<u>\$ 5,604</u>	<u>\$ 2,377</u>

6. FAIR VALUE MEASUREMENTS

As of June 30, 2013 and 2012, 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, trustee and other investments, derivative instruments, and beneficial interests in trusts. Certain alternative investments measured using either the cost or equity method of accounting are excluded from the fair value disclosure provided herein.

Valuation Principles

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

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

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

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

Fair Value Measurements at the Consolidated 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, 2013 and 2012:

Fair Value Measurements as of June 30, 2013	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Marketable securities and short-term investments	\$ 1,273	\$ 18,072	\$ -	\$ 19,345
Fixed-income securities:				
U.S. government and agency securities	-	229,107	-	229,107
Corporate bonds	-	102,532	-	102,532
Fixed-income mutual funds	177	272,271	-	272,448
Collateralized securities and other	71	92,935	-	93,006
U.S. equity securities	220,325	4,456	-	224,781
International equity securities	45,549	45,397	-	90,946
World asset allocation funds	94,199	21,478	9,983	125,660
Moderate allocation mutual funds {a}	20,409	-	-	20,409
Alternative investments:				
Hedge fund of funds	-	-	27,970	27,970
Private equity partnerships	-	-	40	40
Accrued interest and other	-	2,230	-	2,230
Beneficial interest in trusts	-	-	26,622	26,622
Total assets at fair value	<u>\$ 382,003</u>	<u>\$ 788,478</u>	<u>\$ 64,615</u>	<u>\$ 1,235,096</u>
Liabilities:				
Obligations under interest rate swap agreements	\$ -	\$ 17,808	\$ -	\$ 17,808
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 17,808</u>	<u>\$ -</u>	<u>\$ 17,808</u>

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

Fair Value Measurements as of June 30, 2012	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Marketable securities and short-term investments	\$ 1,549	\$ 94,554	\$ -	\$ 96,103
Fixed-income securities:				
U.S. government and agency securities	-	177,392	-	177,392
Corporate bonds	-	49,166	-	49,166
Fixed-income mutual funds	621	156,230	-	156,851
Collateralized securities and other	78	160,059	-	160,137
U.S. equity securities	166,716	3,872	-	170,588
International equity securities	46,033	42,501	-	88,534
World asset allocation funds	33,775	16,121	6,302	56,198
Moderate allocation mutual funds {a}	20,240	-	-	20,240
Alternative investments:				
Hedge fund of funds	-	-	25,416	25,416
Accrued interest and other	-	2,036	-	2,036
Beneficial interest in trusts	-	-	25,587	25,587
Total assets at fair value	<u>\$ 269,012</u>	<u>\$ 701,931</u>	<u>\$ 57,305</u>	<u>\$ 1,028,248</u>
Liabilities:				
Obligations under interest rate swap agreements	\$ -	\$ 25,261	\$ -	\$ 25,261
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 25,261</u>	<u>\$ -</u>	<u>\$ 25,261</u>

{a} This class includes investments in mutual funds that allocate assets among equity and fixed-income investments, and includes \$6,987 (35%) in fixed-income securities and \$13,253 (65%) in equity securities at June 30, 2012.

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 and Agency 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. This class also includes international government securities and agencies, municipal bonds, convertible equity, real estate funds, and some commercial paper. The fair value of collateralized and other 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 international 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 Funds - This category includes investments in fund of funds that seek to provide both capital appreciation and income by investing primarily in both traditional and alternative asset funds. The asset allocation is driven by the fund manager's long-range forecasts of asset-class real returns. Investments in this category classified as Level 2 are held in a commingled fund that invests primarily in global equity and bond mutual funds. The fair value of this commingled fund is based upon the calculated NAV at the valuation date under a market approach (Level 2 inputs). Investments in this category classified as Level 3, which are invested in a multistrategy hedge fund, are priced on the last business day of each calendar month. The values for underlying investments are estimated based on many factors, including operating performance, balance sheet indicators, growth, and other market and business fundamentals (Level 3 inputs). The underlying investment strategies can include long-short, global macro, fixed-income and currency hedges, and other tactical opportunity-related strategies.

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 multistrategy 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.

Private Equity Partnerships – Effective July 1, 2012, Rush elected to measure all new private equity partnerships entered into on or after July 1, 2012, at fair value (see Note 2). Private equity partnerships are valued based on the estimated fair values of the nonmarketable private equity partnerships in which it invests (Level 3 inputs), which is an equivalent of NAV. The partnerships' privately held investments are restricted and are not actively traded and may invoke significant redemption restrictions, which vary per partnership agreement.

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

Obligations Under Interest Rate Swap Agreements – The fair value of Rush's obligations under interest rate swap agreements classified as Level 2 is 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 & Private Equity Partnerships	Beneficial Interest in Trusts	Total Assets at Fair Value
Fair value — June 30, 2011	\$ 32,262	\$ 27,536	\$ 59,798
Actual return on investments —			
Realized and unrealized losses	(538)	(1,949)	(2,487)
Purchases	453	-	453
Sales	(459)	-	(459)
Fair value — June 30, 2012	31,718	25,587	57,305
Actual return on investments —			
Realized and unrealized gains	2,983	1,035	4,018
Purchases	3,317	-	3,317
Sales	(25)	-	(25)
Fair value — June 30, 2013	<u>\$ 37,993</u>	<u>\$ 26,622</u>	<u>\$ 64,615</u>

For the year ended June 30, 2013, realized and unrealized losses pertaining to Level 3 investments include \$31 reported within excess of revenue over expenses and \$2,952 and \$1,035 reported within temporarily and permanently restricted net assets, respectively. For the year ended June 30, 2012, realized and unrealized losses pertaining to Level 3 investments include \$9 reported within excess of revenue over expenses and \$528 and \$1,949 reported within temporarily and permanently restricted net assets, 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, 2013:

Entities that Report Fair Value Using NAV	Fair Value 2013 (In Thousands)	Fair Value 2012 (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Short-term collective funds (marketable securities and short-term investments)	\$18,072	\$94,275	None	Daily	None
Fixed-income mutual funds	272,271	156,230	None	Daily	1–7 days
Domestic equity commingled funds	4,456	3,872	None	Monthly	30 days
International equity commingled funds	45,397	42,501	None	Daily/Monthly	1–30 days
World asset allocation commingled funds	31,461	22,423	None	Monthly	1–14 days
Hedge fund of funds	27,970	25,416	None	Quarterly	65–95 days
Private equity partnerships	40	0	\$6,916	Not currently redeemable	N/A

7. ENDOWMENT FUNDS

Rush's endowment consists of more than 380 individual funds, which are established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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, student financial aid, scholarships, and fellowships. Approximately 17% 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, 2013 and 2012, are as follows:

Asset Class	Target Allocation and Range		Percentage of Endowment Assets	
	June 30, 2013	June 30, 2012	2013	2012
Global equity	40%(+/-5%)	40%(+/-5%)	40 %	41 %
World asset allocation	10%(+/-5%)	10%(+/-5%)	13	10
Hedge funds	5%(+/-5%)	5%(+/-5%)	6	6
Private equity	10%(+/-5%)	10%(+/-5%)	8	9
Real estate	5%(+/-5%)	5%(+/-5%)	5	5
Fixed income	30%(+/-5%)	30%(+/-5%)	28	29

To achieve its long-term rate of return objectives, Rush relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The expected long-term rate of return target of the endowment given its current asset allocation structure is approximately 7.5%. 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% for the fiscal years ended June 30, 2013 and 2012, respectively, and income from the endowment fund provided \$16,386 million and \$16,014 million of support for Rush's programs during the fiscal years ended June 30, 2013 and 2012, respectively. The spending rate for fiscal year 2011 was based on a three-year moving average of ending market values for pooled assets. Effective September 30, 2011, Rush changed the spending policy to lengthen the smoothing period from a three-year moving average to a five-year moving average and also added an inflation component to provide more consistent spending growth.

Composition of Endowment Fund and Reconciliation

The endowment net asset composition by type of fund as of June 30, 2013, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 229,057	\$ 248,083	\$ 477,140
Board-designated endowment funds	<u>4,898</u>	<u>-</u>	<u>534</u>	<u>5,432</u>
Total funds	<u>\$ 4,898</u>	<u>\$ 229,057</u>	<u>\$ 248,617</u>	<u>\$ 482,572</u>

Changes in endowment net assets for the fiscal year ended June 30, 2013, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	<u>\$ 4,427</u>	<u>\$ 196,142</u>	<u>\$ 242,120</u>	<u>\$ 442,689</u>
Investment return:				
Investment (loss) income	(101)	6,864	621	7,384
Recovery of endowment impairment	-	-	(233)	(233)
Net appreciation (realized and unrealized)	<u>447</u>	<u>42,101</u>	<u>1,268</u>	<u>43,816</u>
Total investment return	346	48,965	1,656	50,967
Contributions	125	-	5,462	5,587
Transfer of unrestricted endowment appreciation	<u>-</u>	<u>(16,050)</u>	<u>(621)</u>	<u>(16,671)</u>
Endowment net assets — end of year	<u>\$ 4,898</u>	<u>\$ 229,057</u>	<u>\$ 248,617</u>	<u>\$ 482,572</u>

The endowment net asset composition by type of fund as of June 30, 2012, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 196,142	\$ 241,586	\$ 437,728
Board-designated endowment funds	<u>4,427</u>	<u>-</u>	<u>534</u>	<u>4,961</u>
Total funds	<u>\$ 4,427</u>	<u>\$ 196,142</u>	<u>\$ 242,120</u>	<u>\$ 442,689</u>

Changes in endowment net assets for the fiscal year ended June 30, 2012, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$ 4,715	\$ 207,602	\$ 234,489	\$ 446,806
Investment return:				
Investment (loss) income	(92)	7,752	324	7,984
Funding of endowment impairment	-	-	233	233
Net depreciation (realized and unrealized)	<u>(71)</u>	<u>(3,555)</u>	<u>(2,507)</u>	<u>(6,133)</u>
Total investment return	(163)	4,197	(1,950)	2,084
Contributions	(125)	-	9,581	9,456
Transfer of unrestricted endowment appreciation	<u>-</u>	<u>(15,657)</u>	<u>-</u>	<u>(15,657)</u>
Endowment net assets — end of year	<u>\$ 4,427</u>	<u>\$ 196,142</u>	<u>\$ 242,120</u>	<u>\$ 442,689</u>

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 year ended June 30, 2013, \$233 was recovered and replenished through unrestricted net assets. During the year ended June 30, 2012, funding of \$233 was required to restore the endowment corpus balance.

8. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2013 and 2012, consisted of the following:

	2013	2012
Land and buildings	\$ 1,906,997	\$ 1,897,009
Equipment	549,283	570,370
Construction in progress	<u>36,347</u>	<u>21,455</u>
	2,492,627	2,488,834
Less accumulated depreciation	<u>(1,116,509)</u>	<u>(1,062,105)</u>
Property and equipment, net	<u>\$ 1,376,118</u>	<u>\$ 1,426,729</u>

Property and equipment, net, includes \$69,802 and \$72,493 in leased buildings and equipment as of June 30, 2013 and 2012, respectively. Accumulated depreciation on leased property and equipment amounted to \$36,292 and \$33,575 as of June 30, 2013 and 2012, respectively.

9. LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Rush's long-term debt is issued under a Master Trust Indenture, which established an Obligated Group composed 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, 2013 and 2012, such issuances are secured by a pledge of gross receipts and a mortgage on primary health care facilities, as defined, of the Obligated Group members.

A summary of Rush's long-term debt as of June 30, 2013 and 2012, is as follows:

	Interest Rates	Final Maturity Date	Amount Outstanding at June 30,	
			2013	2012
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, 2035	95,950	96,750
Total fixed-rate debt			<u>507,570</u>	<u>508,370</u>
Variable-rate revenue bonds :				
Series 2008A	Average of 0.17% and 0.13% in FY2013 and FY2012, respectively.	November 1, 2045	50,000	50,000
Series 2011, Tax-Exempt Private Placement with a commercial bank	Average of 1.38% in FY2013 and 1.41% in FY2012	November 1, 2024	<u>50,895</u>	<u>56,000</u>
Total variable rate debt			<u>100,895</u>	<u>106,000</u>
Total tax-exempt debt			608,465	614,370
Mortgage loan, collateralized by fitness center	5.50%	May 2016	<u>7,206</u>	<u>7,910</u>
Total par value of debt			615,671	622,280
Less current portion of long-term debt			(12,065)	(6,610)
Net discount			(6,440)	(6,654)
Long-term debt			<u>\$ 597,166</u>	<u>\$ 609,016</u>
Estimated fair value based on quoted market prices and other relevant information (Level 2 classification)			<u>\$ 659,913</u>	<u>\$ 689,902</u>

The fair value of Rush's long-term debt is estimated by an independent third party using a pricing scale based on spreads to MMD of comparable transactions that price in the market as well as secondary market trades for comparable credits. Since such amounts are estimates based on limited available market information and do not acknowledge certain restrictions that may exist, the actual fair market values for these obligations may differ significantly from what is provided herein or upon settlement of the obligation.

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, 2013 and 2012.

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

Years Ending June 30	
2014	\$ 11,320
2015	12,140
2016	6,320
2017	8,805
2018	9,975
Thereafter	<u>559,905</u>
Total	<u>\$ 608,465</u>

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. The letter of credit related to the Series 2008A Variable Rate Demand Bonds (the "Series 2008A Bonds") expires in February 2015. Any amounts borrowed under these letters of credit are due and payable more than one year from the date of such borrowing. 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, 2013 and 2012, there were outstanding draws against the letter of credit related to the Series 2008A Bonds representing interest paid to the bondholders on July 1, 2013 and 2012, of \$3 and \$7, respectively.

Recent Financing Activity

On December 16, 2011, the IFA issued \$56 million of revenue-refunding bonds on behalf of the Obligated Group (the "Series 2011 bonds"). The Series 2011 bonds were purchased by a commercial bank in a tax-exempt private placement, the proceeds of which were lent to Rush and used to redeem all outstanding Series 1998A bonds. The Series 2011 bonds mature on November 1, 2024, and bear interest at a tax-exempt variable rate for a 10-year period, which resets monthly. Rush is party to an additional covenants agreement with the commercial bank relating to the Series 2011 bonds. This agreement requires various reporting, operating, and financial covenants to be maintained. During the year ended June 30, 2012, RUMC recognized a loss on debt extinguishment of \$960 related to the Series 1998A bonds' redemption.

Lines of Credit Arrangements

The Obligated Group also had a \$100 million short-term line of credit with a bank as of June 30, 2013 and 2012, which matures on December 31, 2015. Any borrowings on this short-term line of credit are due and payable in 180 days. As of June 30, 2013 and 2012, 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, credit, and termination, 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. 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 London InterBank Offered Rate (0.195% as of June 30, 2013, and 0.246% as of June 30, 2012) from the swap counterparties, each calculated on the notional amount of the Swap Agreements. As of June 30, 2013 and 2012, the Swap Agreements had a notional amount of \$95,950 and \$96,750, respectively (\$47,975 and \$48,375 in notional amount, respectively, with each counterparty). 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 each expire on November 1, 2035, and amortize annually commencing in November 2012. The Swap Agreements are secured by obligations issued under the Master Trust Indenture.

The Swap Agreements also require either party to post collateral in the form of cash and certain cash equivalents to secure potential termination payments. The amount of collateral that is required to be posted is based on the relevant party's long-term credit rating. Based on its current rating, the Obligated Group is required to post collateral with the Swap Counterparties in the event that the market value of the Swap Agreements exceeds \$(25,000) or \$(12,500) for each Swap Agreement. As of June 30, 2013, the Obligated Group had no collateral posted under Swap Agreements.

The fair value of the Swap Agreements was as follows as of June 30, 2013 and 2012:

		June 30	
		2013	2012
	Reported As		
Obligations under Swap Agreements	Other long-term liabilities	\$ (17,808)	\$ (25,261)
Collateral posted under Swap Agreements	Other current assets	-	3,570
Obligations under Swap Agreements, net		<u>\$ (17,808)</u>	<u>\$ (21,691)</u>

The fair value of the Swap Agreements reported in Rush's balance sheets as of June 30, 2013 and 2012, 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 allocated to Rush for the fiscal years ended June 30, 2013 and 2012, were as follows:

		Fiscal Years Ended	
		June 30	
Reported As		2013	2012
Change in fair value of interest rate swaps	Nonoperating income (expense)	\$ 7,451	\$ (10,756)
Net cash payments on interest rate swaps	Interest expense	(3,597)	(3,654)

11. OBLIGATIONS UNDER CAPITAL LEASE AND DEFERRED FINANCING ARRANGEMENTS

Rush is party to certain capital lease and long-term financing arrangements relating to medical and office equipment and buildings. Expiration of leases ranges from 2013 to 2026. Annual interest expense under these lease agreements was \$3,644 and \$3,531 for the years ended June 30, 2013 and 2012, respectively. Assets acquired under capital lease and long-term financing arrangements are included in property and equipment, net in the accompanying consolidated balance sheets.

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

Years Ending June 30	
2014	\$ 8,026
2015	13,795
2016	6,679
2017	7,921
2018	5,005
Thereafter	<u>21,410</u>
Total minimum payments	62,836
Less amount representing interest	<u>(15,208)</u>
Net present value of obligations under capital lease and other financing arrangements	47,628
Less current portions included in accounts payable	<u>(4,591)</u>
Long-term portion of obligations under capital lease and other financing arrangements	<u>\$ 43,037</u>

12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

Prior to January 1, 2012, Rush had 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. Plan assets and obligations are measured as of June 30 (the "Measurement Date") each year.

Effective as of the close of business on December 31, 2011, the Pension Plan, representing certain union employees, was 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. Also, effective December 31, 2011, the Pension Plan was merged into the Retirement Plan with all accrued benefits of the Pension Plan participants preserved as part of the merger. Effective January 1, 2012, the Retirement Plan was amended to include eligible union members previously covered by the Pension Plan.

In addition to the pension programs, Rush also provides postretirement health care 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 Plan(s) 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, 2013 and 2012.

Obligations and Funded Status	Defined Benefit Pension Plan(s)		Postretirement Healthcare Plans	
	2013	2012	2013	2012
Actuarial present value of benefit obligations — accumulated benefit obligation	<u>\$878,769</u>	<u>\$932,358</u>	<u>\$ 8,003</u>	<u>\$ 9,350</u>
Change in projected benefit obligations:				
Projected benefit obligation — beginning of measurement period	\$933,774	\$797,320		
Service costs	16,386	18,825		
Interest costs	42,112	42,980		
Plan settlements	(370)	-		
Actuarial (gains) losses	(53,433)	106,648		
Benefits paid	<u>(55,158)</u>	<u>(31,999)</u>		
Projected benefit obligation — end of measurement period	<u>\$883,311</u>	<u>\$933,774</u>		
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	\$772,343	\$666,327	\$ -	\$ -
Actual return on plan assets	42,640	101,037	-	-
Employer contributions	45,870	36,978	361	442
Plan participant contributions	-	-	581	575
Benefits paid	<u>(55,528)</u>	<u>(31,999)</u>	<u>(942)</u>	<u>(1,017)</u>
Fair value of plan assets — end of measurement period	<u>\$805,325</u>	<u>\$772,343</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued benefit liability	<u>\$ 77,986</u>	<u>\$161,431</u>	<u>\$ 8,003</u>	<u>\$ 9,350</u>

The actuarial cost method used to compute the Defined Benefit Pension Plan(s) liabilities and expenses is the projected unit credit method.

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	
	2013	2012	2013	2012
Net periodic pension cost comprised the following:				
Service cost	\$ 16,386	\$ 18,825	\$ 172	\$ 168
Interest cost on projected benefit obligation	42,112	42,980	409	458
Expected return on plan assets	(54,749)	(51,282)	-	-
Amortization of prior service cost and other actuarial amounts	(2,074)	(2,265)	(294)	(294)
Recognized actuarial loss (gain)	22,385	16,994	(173)	(724)
Recognized settlement loss	<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net periodic pension cost (credit)	<u>\$ 24,101</u>	<u>\$ 25,252</u>	<u>\$ 114</u>	<u>\$ (392)</u>

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 health care plans are included as a separate increase (decrease) to unrestricted net assets and total \$62,776 and \$(43,619) for

fiscal years 2013 and 2012, respectively. For fiscal year 2013, this amount includes actuarial gains arising during fiscal year 2013 of \$42,891 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2013 of \$19,885. For fiscal year 2012, this amount includes actuarial losses arising during fiscal year 2012 of \$(57,330) and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2012 of \$13,711.

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

Accrued Benefit Liability	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2013	2012	2013	2012
Accrued benefit liability — beginning of year	\$ 161,431	\$ 130,992	\$ 9,351	\$ 8,730
Fiscal year activity:				
Net periodic pension cost	24,101	25,252	114	(392)
Employer contributions	(45,870)	(36,978)	(361)	(442)
Postretirement-related changes other than net periodic postretirement cost:				
Actuarial losses (gains)	(41,324)	56,894	(1,568)	436
Reclassification adjustment for losses reflected in periodic expense	(20,352)	(14,729)	467	1,018
Accrued benefit liability — end of year	<u>\$ 77,986</u>	<u>\$ 161,431</u>	<u>\$ 8,003</u>	<u>\$ 9,350</u>
Recognized in the consolidated balance sheets as follows:				
Accrued expenses	\$ -	\$ -	\$ 747	\$ 906
Noncurrent liabilities	77,986	161,431	7,256	8,444
	<u>\$ 77,986</u>	<u>\$ 161,431</u>	<u>\$ 8,003</u>	<u>\$ 9,350</u>

In accordance with FASB ASC Topic 715 *Compensation—Retirement Benefits*, all previously unrecognized actuarial losses are reflected in the consolidated balance sheets. The pension plan and postretirement benefit plan items not yet recognized as a component of periodic pension and postretirement medical plan expense, but included within unrestricted net assets, as of and for the years ended June 30, 2013 and 2012, are as follows:

	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2013	2012	2013	2012
Unrecognized prior service credit	\$ 10,487	\$ 12,561	\$ 719	\$ 1,013
Unrecognized net actuarial (loss) gain	(203,788)	(267,536)	1,441	46
Total	<u>\$ (193,301)</u>	<u>\$ (254,975)</u>	<u>\$ 2,160</u>	<u>\$ 1,059</u>

An estimated \$2,051 in prior service credit and (\$16,855) in net actuarial loss will be included as components of periodic pension expense in fiscal year 2014. An estimated \$287 in prior service credit and \$542 in net actuarial gain will be included as components of periodic postretirement expense in fiscal year 2014.

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		Postretirement Healthcare Plans	
	2013	2012	2013	2012
Discount rate — benefit obligation	5.20 %	4.60 %	5.20 %	4.60 %
Discount rate — pension expense	4.60	5.50	4.60	5.50
Rate of increase in compensation levels	5.35	5.38	-	-
Expected long-term rate of return on plan assets	7.00	7.50	-	-
Health care cost trend rate (initial)	-	-	7.70	7.80

* 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. Rush uses this yield curve and the estimated payouts of the Plans to develop an aggregate discount rate. The estimated payouts are the sum of the payouts under the Defined Benefit Pension Plan(s) and the Postretirement Healthcare Plans. For fiscal years 2013 and 2012, the discount rate was estimated under a bond model approach, which is based on a hypothetical bond portfolio whose cash flow from coupons and maturities match the year-by-year Plans' cash flows using bonds rated AA or better.

For the years ended June 30, 2013 and 2012, the actual rate of return on plan assets was 5.8% and 15.7%, respectively.

Plan Assets

Rush'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 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. Due to significant unobservable inputs used in estimating the NAV of private equity limited partnerships, Rush classifies all such investments as Level 3.

The fair value of the Defined Benefit Pension Plan assets as of June 30, 2013 and 2012, is as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Fair Value Measurements as of June 30, 2013				
Cash, cash equivalents, and short-term investments	\$ 17,450	\$ 13,349	\$ -	\$ 30,799
Fixed-income securities:				
U.S. government securities and agencies	-	149,563	-	149,563
International government securities	-	12,662	-	12,662
Corporate bonds	-	240,768	-	240,768
Collateralized securities and other	-	42,433	-	42,433
U.S. equity securities	134,623	-	-	134,623
International equity securities	-	54,879	-	54,879
World asset allocation funds	64,592	30,617	14,187	109,396
Alternative investments:				
Private equity partnerships {a}	-	-	24,868	24,868
Accrued interest and other	-	5,724	(390)	5,334
	<u>\$ 216,665</u>	<u>\$ 549,995</u>	<u>\$ 38,665</u>	<u>\$ 805,325</u>
Total plan assets				
Fair Value Measurements as of June 30, 2012				
Cash, cash equivalents, and short-term investments	\$ 2,275	\$ 19,624	\$ -	\$ 21,899
Fixed-income securities:				
U.S. government securities and agencies	-	129,167	-	129,167
International government securities	-	16,941	-	16,941
Corporate bonds	-	258,943	-	258,943
Collateralized securities and other	-	48,181	-	48,181
U.S. equity securities	133,951	-	-	133,951
International equity securities	-	53,287	-	53,287
World asset allocation funds	39,333	28,651	11,202	79,186
Alternative investments:				
Private equity partnerships {a}	-	-	25,418	25,418
Accrued interest and other	1,125	4,178	67	5,370
	<u>\$ 176,684</u>	<u>\$ 558,972</u>	<u>\$ 36,687</u>	<u>\$ 772,343</u>
Total plan assets				

{a} This class includes investments in funds with diverse strategies, including approximately 20% in buyout and growth capital, 38% in diversified fund of funds, 15% in distressed debt and special situations, 24% in venture capital, and 3% in co-investment private equity funds.

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

Rollforward of Level 3 Investments	Corporate Bonds, Accrued Interest, and Other	Hedge Fund of Funds	Private Equity Partnerships	Total Assets at Fair Value
Fair value at June 30, 2011	\$ 1,879	\$ 35,553	\$ 22,795	\$ 60,227
Actual return on plan assets:				
Realized and unrealized gains (losses)	27	(6,359)	1,452	(4,880)
Purchases	69	3,971	3,520	7,560
Sales	(40)	(13,533)	-	(13,573)
Settlements	-	(8,430)	(2,349)	(10,779)
Transfers out of Level 3	(1,868)	-	-	(1,868)
Fair value at June 30, 2012	67	11,202	25,418	36,687
Actual return on plan assets:				
Realized and unrealized (losses) gains	(18)	2,242	1,891	4,115
Purchases	11	743	2,150	2,904
Sales	(450)	-	(4,591)	(5,041)
Settlements	-	-	-	-
Transfers out of Level 3	-	-	-	-
Fair value at June 30, 2013	\$ (390)	\$ 14,187	\$ 24,868	\$ 38,665

Cash Flows

Rush 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 2014	\$ 31,165	\$ 745
Estimated Benefit Payments		
2014	\$ 70,987	\$ 746
2015	45,079	765
2016	49,347	776
2017	52,048	758
2018	55,410	775
2019 through 2023	322,878	3,324
Total	\$ 595,749	\$ 7,144

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 \$11,248 and \$13,932 for the years ended June 30, 2013 and 2012, 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 \$12,627 and \$10,497 as of June 30, 2013 and 2012, respectively, and are included in investments – less current portion and other long-term liabilities in 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 \$11,410 and \$13,115 as of June 30, 2013 and 2012, respectively, and are included in investments – less current portion in the accompanying consolidated balance sheets. These supplemental retirement plans are currently funded at 87% 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, 2013 and 2012, was as follows:

	2013	2012
Medicare	13 %	10 %
Medicaid	15	31
Managed care	55	46
Commercial	3	4
Self-pay	<u>14</u>	<u>9</u>
Total	<u>100 %</u>	<u>100 %</u>

Products sponsored by Blue Cross Blue Shield of Illinois, the largest health insurer in the market, accounted for 35% of managed care net patient accounts receivable and 19% of net patient accounts receivable of the Obligated Group for fiscal year ended June 30, 2013.

During fiscal year 2012 and the first half of fiscal year 2013, Rush and other Illinois hospitals experienced a significant delay in payment by the State of Illinois for amounts due under Medicaid and other state-funded programs, which has improved during the second half of fiscal year 2013. Rush experienced a substantial increase in Medicaid net patient accounts receivable from June 30, 2011 to June 30, 2012, which has improved by June 30, 2013. Collections of non-Medicaid receivables have been strong to offset any continuing payment delays on Medicaid receivables.

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, 2013 and 2012, RUMC retained self-insured risk of \$20 million on the first case, \$15 million on the second case, and \$10 million on any additional cases. RUMC also maintains excess liability insurance coverage with combined limits of \$80 million 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 million per occurrence and \$3 million annual aggregate, with excess coverage limits of \$10 million per occurrence and \$20 million 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 million per claim and \$10 million annual aggregate with a \$1,000 per claim and \$1,000 aggregate buffer. 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 million 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 irrevocable trust fund, and RCMC has an established 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 \$233,068 and \$236,985 as of June 30, 2013 and 2012, respectively, are recorded as noncurrent and current liabilities in 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 \$32,964 and \$29,920 higher than the amounts recorded in the consolidated balance sheets as of June 30, 2013 and 2012, respectively. The discount rates used in calculating the present value by organization was 4% for fiscal years ended June 30, 2013 and 2012. As of June 30, 2013 and 2012, insurance recoveries are presented separately within noncurrent and current assets in the accompanying consolidated balance sheets, as appropriate.

During fiscal years 2012 and 2013, actual experience on Rush's self-insurance claims was as projected.

Rush is subject to various other regulatory investigations, legal proceedings, and claims that 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.

Obligations under Operating Leases

Rush is party to various noncancelable operating leases with third parties. Rental expense was approximately \$23,714 and \$20,423 for the years ended June 30, 2013 and 2012, respectively, and was included in supplies, utilities, and other expenses in the accompanying consolidated statements of operations and changes in net assets. Total minimum payments under noncancelable operating leases as of June 30, 2013, are as follows:

Years Ending June 30	
2014	\$ 13,193
2015	10,306
2016	8,880
2017	8,358
2018	6,896
Thereafter	<u>26,945</u>
Total	<u>\$ 74,578</u>

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 \$1.1 billion to complete over a 13-year period (fiscal year 2004 to fiscal year 2016). As of June 30, 2013, \$1.0 billion has been spent on the campus redevelopment plan, and construction commitments outstanding were \$18.8 million.

16. PROMISES TO CONTRIBUTE

Included in assets limited by donor or time restriction are the following unconditional promises to contribute as of June 30, 2013 and 2012.

	2013	2012
Capital campaign	\$ 36,791	\$ 39,956
Restricted to future periods	<u>162</u>	<u>1,887</u>
Unconditional promises to contribute before unamortized discount and allowance for uncollectibles	36,953	41,843
Less unamortized discount	(1,506)	(1,878)
Less allowance for uncollectibles	<u>(709)</u>	<u>(1,270)</u>
Net unconditional promises to contribute	<u>\$ 34,738</u>	<u>\$ 38,695</u>
Amounts due in:		
Less than one year	\$ 12,321	\$ 13,677
One to five years	18,732	22,266
More than five years	<u>5,900</u>	<u>5,900</u>
Total unconditional promises to contribute	<u>\$ 36,953</u>	<u>\$ 41,843</u>

In addition, Rush has received conditional promises to contribute that are not recognized as assets in the consolidated balance sheet as of June 30, 2013. The total is not considered material to the consolidated financial statements as of June 30, 2013.

17. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes as of June 30, 2013 and 2012:

	2013	2012
Temporarily Restricted Net Assets:		
Construction and purchase of equipment	\$ 9,826	\$ 11,516
Health education	9,798	9,659
Research, charity, and other	260,852	230,835
Unappropriated endowment appreciation available for operations	47,651	42,328
Total temporarily restricted net assets	<u>\$ 328,127</u>	<u>\$ 294,338</u>
Permanently Restricted Net Assets, income from which is expendable to support:		
Health education	\$ 150,312	\$ 148,614
Research, charity, and other	61,182	56,556
Operations	37,123	36,950
Total permanently restricted net assets	<u>\$ 248,617</u>	<u>\$ 242,120</u>

During fiscal years 2013 and 2012, net assets were released from donor restrictions for purchasing property and equipment of \$12,340 and \$68,940, respectively, and incurring expenses of \$34,340 and \$31,581, 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

Investments in unconsolidated joint ventures, accounted for on the equity method, totaled \$6,153 and \$4,595 as of June 30, 2013 and 2012, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income recognized from these joint ventures, reported in other revenue, was \$2,339 and \$217 during the years ended June 30, 2013 and 2012, respectively.

19. FUNCTIONAL EXPENSES

Expenses related to the patient care, education, and research services provided by Rush for the years ended June 30, 2013 and 2012, were as follows:

	2013	2012
Health care	\$ 1,408,491	\$ 1,340,927
University services, including research	195,159	191,822
General and administrative	124,469	111,495
Illinois Medicaid hospital assessment	<u>33,431</u>	<u>33,431</u>
Total	<u>\$ 1,761,550</u>	<u>\$ 1,677,675</u>

20. FICA TAX REFUND SETTLEMENT

Rush has historically paid FICA tax on medical residents as if they were employees. In March 2010, the Internal Revenue Service (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 is reported in other assets in the accompanying consolidated balance sheets as of June 30, 2012. During the year ended June 30, 2013, Rush received \$62,901 from the IRS representing a refund of FICA taxes previously paid of \$19,986, \$10,571 in settlement interest and \$32,344 for the resident portion to be distributed to the residents. Rush recognized the interest component of the FICA refund of \$10,571 as a reduction in salaries, wages, and benefit expense. The resident portion was paid out to the residents during the year and is not included in the accompanying consolidated balance sheet as of June 30, 2013.

21. SIGNIFICANT TRANSACTIONS

During fiscal year 2013, Copley Memorial Hospital sold a professional office building to an unrelated third party for net proceeds of \$25,396, resulting in a net gain of \$22,189, and signed operating lease agreements to rent back approximately 90% of the rentable square footage with initial lease terms ranging from five to ten years. A gain on sale of \$8,842 was recognized within nonoperating income in the accompanying consolidated statement of operations for the year ended June 30, 2013, with a deferred gain of \$13,347 recorded within other liabilities in the accompanying consolidated balance sheet as of June 30, 2013. The remaining deferred gain will be recognized over the life of the initial lease terms.

22. SUBSEQUENT EVENTS

Rush recently became the sole corporate member of ROPH pursuant to a change in membership interest. Historically, corporate sponsorship of ROPH had been shared by Rush and by an affiliate of the Wheaton Franciscans, which is a Roman Catholic organization of vowed women. Due to this shared corporate sponsorship, ROPH had been operating as a Catholic hospital. This change in membership, under which ROPH will operate as a secular hospital, received the approval of the Illinois Health Facilities and Services Review Board and related corporate approvals, and was finalized on October 25, 2013, upon receiving approval from the Vatican, which is required under Canon law.

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SUPPLEMENTAL CONSOLIDATING SCHEDULES

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
CONSOLIDATING BALANCE SHEET INFORMATION
AS OF JUNE 30, 2013
(Dollars in thousands)

SCHEDULE I

	<u>RUMC</u>	<u>RCMC</u>	<u>Eliminations</u>	<u>Obligated Group</u>
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 172,627	\$ 23,124	\$ -	\$ 195,751
Short-term investments	-	-	-	-
Accounts receivable for patient services — net of allowance for doubtful accounts of \$40,394 and \$6,703 for RUMC and RCMC, respectively	152,281	37,864	-	190,145
Other accounts receivable, net	47,378	-	7	47,385
Self-insurance trust — current portion	24,724	-	-	24,724
Other current assets	37,085	14,275	-	51,360
Total current assets	<u>434,095</u>	<u>75,263</u>	<u>7</u>	<u>509,365</u>
ASSETS LIMITED AS TO USE AND INVESTMENTS:				
Investments — less current portion	460,527	194,194	-	654,721
Limited as to use by donor or time restriction	465,376	10,693	-	476,069
Self-insurance trust — less current portion	100,497	-	-	100,497
Debt service reserve fund	39,642	9,019	-	48,661
Total assets limited as to use and investments	<u>1,066,042</u>	<u>213,906</u>	<u>-</u>	<u>1,279,948</u>
PROPERTY AND EQUIPMENT — net of accumulated depreciation of \$918,954 and \$197,555 for RUMC and RCMC, respectively	1,210,874	165,244	-	1,376,118
OTHER ASSETS	<u>15,923</u>	<u>30,362</u>	<u>(7,133)</u>	<u>39,152</u>
TOTAL ASSETS	<u><u>\$ 2,726,934</u></u>	<u><u>\$ 484,775</u></u>	<u><u>\$ (7,126)</u></u>	<u><u>\$ 3,204,583</u></u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 93,747	\$ 14,323	\$ -	\$ 108,070
Accrued expenses	119,770	21,653	7	141,430
Student loan funds	22,919	-	-	22,919
Estimated third-party settlements payable	107,466	41,726	-	149,192
Current portion of accrued liability under self-insurance programs	31,160	4,720	-	35,880
Current portion of long-term debt	11,320	745	-	12,065
Total current liabilities	<u>386,382</u>	<u>83,167</u>	<u>7</u>	<u>469,556</u>
LONG-TERM LIABILITIES:				
Accrued liabilities under self-insurance programs — less current portion	155,773	41,415	-	197,188
Postretirement and pension benefits	85,242	-	-	85,242
Long-term debt — less current portion, net	501,165	96,001	-	597,166
Obligations under capital lease and other financing arrangements	36,250	6,787	-	43,037
Other long-term liabilities	60,279	22,972	(7,133)	76,118
Total long-term liabilities	<u>838,709</u>	<u>167,175</u>	<u>(7,133)</u>	<u>998,751</u>
Total liabilities	<u>1,225,091</u>	<u>250,342</u>	<u>(7,126)</u>	<u>1,468,307</u>
NET ASSETS:				
Unrestricted	936,260	223,272	-	1,159,532
Temporarily restricted	323,719	4,408	-	328,127
Permanently restricted	241,864	6,753	-	248,617
Total net assets	<u>1,501,843</u>	<u>234,433</u>	<u>-</u>	<u>1,736,276</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,726,934</u></u>	<u><u>\$ 484,775</u></u>	<u><u>\$ (7,126)</u></u>	<u><u>\$ 3,204,583</u></u>

See notes to consolidated financial statements.

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE II

(Dollars in thousands)

	<u>RUMC</u>	<u>RCMC</u>	<u>Eliminations</u>	<u>Obligated Group</u>
UNRESTRICTED NET ASSETS				
REVENUE:				
Patient service revenue (net of contractual allowances and discounts)	\$ 1,318,596	\$ 336,524	\$ -	\$ 1,655,120
Provision for uncollectible accounts	(32,565)	(29,848)	-	(62,413)
Net patient service revenue less provision for uncollectible accounts	<u>1,286,031</u>	<u>306,676</u>	<u>-</u>	<u>1,592,707</u>
University services:				
Tuition and educational grants	62,530	-	-	62,530
Research and other operations	100,844	-	-	100,844
Other revenue	68,485	13,267	-	81,752
Total revenue	<u>1,517,890</u>	<u>319,943</u>	<u>-</u>	<u>1,837,833</u>
EXPENSES:				
Salaries, wages, and employee benefits	775,810	160,047	-	935,857
Supplies, utilities, and other	442,713	73,265	-	515,978
Insurance	28,316	11,122	-	39,438
Purchased services	64,367	31,413	-	95,780
Depreciation and amortization	112,578	19,752	-	132,330
Interest expense	34,155	8,012	-	42,167
Total expenses	<u>1,457,939</u>	<u>303,611</u>	<u>-</u>	<u>1,761,550</u>
OPERATING INCOME	<u>59,951</u>	<u>16,332</u>	<u>-</u>	<u>76,283</u>
NONOPERATING INCOME (EXPENSE):				
Investment income and other	5,529	12,360	-	17,889
Unrestricted contributions	6,639	245	-	6,884
Fundraising expenses	(5,792)	(553)	-	(6,345)
Change in fair value of interest rate swaps	4,124	3,327	-	7,451
Net gain on sale	-	8,842	-	8,842
Total nonoperating income (expense)	<u>10,500</u>	<u>24,221</u>	<u>-</u>	<u>34,721</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 70,451</u>	<u>\$ 40,553</u>	<u>\$ -</u>	<u>\$ 111,004</u>

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

SCHEDULE II

(Dollars in thousands)

	<u>RUMC</u>	<u>RCMC</u>	<u>Eliminations</u>	<u>Obligated Group</u>
UNRESTRICTED NET ASSETS				
Excess of revenue over expenses	\$ 70,451	\$ 40,553	\$ -	\$ 111,004
Recovery of impaired endowment corpus	233	-	-	233
Net assets released from restrictions used for purchase of property and equipment	11,856	484	-	12,340
Postretirement related changes other than net periodic postretirement cost	62,776	-	-	62,776
Other	847	206	-	1,053
INCREASE IN UNRESTRICTED NET ASSETS	<u>146,163</u>	<u>41,243</u>	<u>-</u>	<u>187,406</u>
RESTRICTED NET ASSETS				
TEMPORARILY RESTRICTED NET ASSETS:				
Pledges, contributions, and grants	32,468	981	-	33,449
Net assets released from restrictions	(45,524)	(1,156)	-	(46,680)
Net realized and unrealized gains on investments	46,815	205	-	47,020
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>33,759</u>	<u>30</u>	<u>-</u>	<u>33,789</u>
PERMANENTLY RESTRICTED NET ASSETS:				
Pledges and contributions	5,462	-	-	5,462
Change in unrealized losses impacting endowment corpus	233	-	-	233
Replenishment of impaired endowment corpus	(233)	-	-	(233)
Investment losses on trustee-held investments	1,035	-	-	1,035
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>6,497</u>	<u>-</u>	<u>-</u>	<u>6,497</u>
INCREASE IN NET ASSETS	186,419	41,273	-	227,692
NET ASSETS — Beginning of year	<u>1,315,424</u>	<u>193,160</u>	<u>-</u>	<u>1,508,584</u>
NET ASSETS — End of year	<u>\$ 1,501,843</u>	<u>\$ 234,433</u>	<u>\$ -</u>	<u>\$ 1,736,276</u>

See notes to consolidated financial statements.

(Concluded)