

Rush System for Health

Consolidated Financial Statements as of and for the
Years Ended June 30, 2017 and 2016,
Supplemental Consolidating Schedules as of and
for the Year Ended June 30, 2017, and
Independent Auditors' Report



RUSH SYSTEM FOR HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush System for Health:

We have audited the accompanying consolidated financial statements of Rush System for Health and subsidiaries (the "System"), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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 the System'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 the System'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.

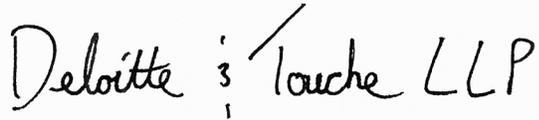
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of June 30, 2017 and 2016, 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 supplementary consolidating information for 2017 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 supplementary consolidating information is the responsibility of the System's management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 consolidated financial statements. Such supplementary consolidating information has been subjected to the auditing procedures applied in our audit of the 2017 consolidated financial statements and certain additional procedures, including comparing and reconciling such supplementary consolidating information directly to the underlying accounting and other records used to prepare the 2017 consolidated financial statements or to the 2017 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 supplementary consolidating information is fairly stated in all material respects in relation to the 2017 consolidated financial statements as a whole.

The image shows a handwritten signature in black ink on a light gray background. The signature reads "Deloitte" followed by a stylized vertical symbol consisting of a vertical line with a horizontal bar at the top and a horizontal bar at the bottom, resembling a colon or a specific logo element. To the right of this symbol is the word "Touche" followed by "LLP".

October 26, 2017

**RUSH SYSTEM FOR HEALTH
CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands)

	As of June 30,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 99,241	\$ 154,927
Accounts receivable for patient services — net of allowance for doubtful accounts of \$83,946 and \$56,545 for June 30, 2017 and 2016 respectively	309,455	277,088
Other accounts receivable — net of reserves of \$1,188 and \$4,044 as of June 30, 2017 and 2016, respectively	58,509	71,779
Self-insurance trust — current portion	25,182	26,838
Other current assets	60,409	51,705
Total current assets	552,796	582,337
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments	1,062,114	1,008,415
Limited as to use by donor or time restriction	556,234	484,440
Self-insurance trust — less current portion	116,621	103,432
Total assets limited as to use and investments	1,734,969	1,596,287
PROPERTY AND EQUIPMENT — net of accumulated depreciation of \$1,1431,026 and \$1,330,969 as of June 30, 2017 and 2016, respectively	1,467,804	1,360,635
OTHER ASSETS	61,813	42,044
TOTAL ASSETS	\$ 3,817,382	\$ 3,581,303
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 77,178	\$ 83,821
Accrued expenses	274,200	247,312
Estimated third-party settlements payable	182,817	184,263
Current portion of accrued liability under self-insurance program	36,207	38,484
Current portion of long-term debt	12,393	11,102
Total current liabilities	582,795	564,982
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance program — less current portion	194,566	197,600
Postretirement and pension benefits	68,458	138,139
Long-term debt — less current portion, net	616,412	635,710
Line of Credit	32,519	14,594
Obligations under capital lease and other financing arrangements	20,540	22,360
Other long-term liabilities	86,349	94,852
Total long-term liabilities	1,018,844	1,103,255
Total liabilities	1,601,639	1,668,237
NET ASSETS:		
Unrestricted	1,505,945	1,300,954
Temporarily restricted	438,112	346,731
Permanently restricted	271,686	265,381
Total net assets	2,215,743	1,913,066
TOTAL LIABILITIES AND NET ASSETS	\$ 3,817,382	\$ 3,581,303

See notes to the consolidated financial statements.

RUSH SYSTEM FOR HEALTH**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS***(Dollars in thousands)*

	For the Years Ended June 30,	
	2017	2016
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	\$ 2,100,771	\$ 1,980,369
Provision for uncollectible accounts	(97,999)	(64,001)
Net patient service revenue less provision for uncollectible accounts	2,002,772	1,916,368
University services:		
Tuition and educational grants	70,510	68,029
Research and other operations	113,013	102,177
Other revenue	81,503	78,308
Total revenue	2,267,798	2,164,882
EXPENSES:		
Salaries, wages, and employee benefits	1,183,691	1,107,285
Supplies, utilities, and other	672,854	647,180
Insurance	43,400	52,109
Purchased services	148,195	135,042
Depreciation and amortization	128,695	108,454
Interest expense	21,423	23,627
Total expenses	2,198,258	2,073,697
OPERATING INCOME	69,540	91,185
NONOPERATING INCOME (EXPENSE):		
Investment income and other	82,875	16,287
Unrestricted contributions	2,738	9,719
Fundraising expenses	(8,578)	(7,997)
Net gain on sale	1,501	1,501
Change in fair value of interest rate swaps	7,139	(5,050)
Loss on extinguishment of debt	-	(826)
Total non-operating income	85,675	13,634
EXCESS OF REVENUE OVER EXPENSES	\$ 155,215	\$ 104,819

See notes to the consolidated financial statements.

(Continued)

RUSH SYSTEM FOR HEALTH**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS***(Dollars in thousands)*

	For the Years Ended June 30,	
	2017	2016
UNRESTRICTED NET ASSETS		
Excess of revenue over expenses	\$ 155,215	\$ 104,819
Net assets released from restrictions used for purchase of property and equipment	1,654	8,757
Postretirement related changes other than net periodic postretirement cost	41,695	(79,802)
Other	<u>6,427</u>	<u>93</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>204,991</u>	<u>33,867</u>
RESTRICTED NET ASSETS		
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges, contributions, and grants	48,349	32,681
Net assets released from restrictions	(47,849)	(46,949)
Net realized and unrealized gains (losses) on investments	<u>90,881</u>	<u>(3,207)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>91,381</u>	<u>(17,475)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Pledges and contributions	2,754	4,400
Investment gains (losses) on trustee-held investments	<u>3,551</u>	<u>(1,745)</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>6,305</u>	<u>2,655</u>
INCREASE IN NET ASSETS	302,677	19,047
NET ASSETS — Beginning of year	<u>1,913,066</u>	<u>1,894,019</u>
NET ASSETS — End of year	<u>\$ 2,215,743</u>	<u>\$ 1,913,066</u>
See notes to the consolidated financial statements.		<i>(Concluded)</i>

RUSH SYSTEM FOR HEALTH
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Years Ended June 30,	
	2017	2016
OPERATING ACTIVITIES:		
Increase in net assets	\$ 302,677	\$ 19,047
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	128,695	108,454
Postretirement-related changes other than net periodic postretirement cost	(41,695)	79,802
Provision for uncollectible accounts	97,999	64,001
Change in fair value of interest rate swaps	(7,139)	5,050
Net unrealized and realized gains on investments	(176,941)	(9,527)
Restricted contributions and investment income received	(11,493)	(10,800)
Investment (gains) losses on trustee held investments	(1,264)	1,745
Gain on sale of property and equipment	(2,652)	(3,625)
Loss on extinguishment of debt	-	826
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(128,876)	(115,771)
Accounts payable and accrued expenses	(18,693)	16,900
Estimated third-party settlements payable	(1,446)	13,553
Postretirement and pension benefits	(27,986)	(57,959)
Accrued liability under self-insurance program	372	(13,813)
Other changes in operating assets and liabilities	(1,377)	(14,631)
Net cash provided by operating activities	<u>110,181</u>	<u>83,252</u>
INVESTING ACTIVITIES:		
Additions to property and equipment	(208,524)	(125,844)
Acquisition of Castle Orthopedics and Sports Medicine SC, and Castle Surgicenter	(18,000)	-
Sale of Atlas Physical Therapy	-	2,129
Proceeds from sale of equipment	1,581	-
Proceeds from settlement	-	9,000
Purchase of investments	(1,377,664)	(935,716)
Sale of investments	<u>1,419,661</u>	<u>957,459</u>
Net cash used in investing activities	<u>(182,946)</u>	<u>(92,972)</u>
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	11,493	14,189
Refunding of long-term debt	-	(50,000)
Proceeds from issuance of long-term debt	-	50,000
Proceeds from Line of Credit	17,925	14,594
Payment of bond issuance costs	-	(290)
Payment of long-term debt	(11,103)	(2,506)
Payment of obligations under capital lease and other financing arrangements	<u>(1,236)</u>	<u>(7,152)</u>
Net cash provided by financing activities	<u>17,079</u>	<u>18,835</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(55,686)	9,115
CASH AND CASH EQUIVALENTS — Beginning of year	<u>154,927</u>	<u>145,812</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 99,241</u>	<u>\$ 154,927</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest — including capitalized interest of \$767 and \$666 for the years ended June 30, 2017 and 2016, respectively	\$ 24,659	\$ 34,061
Noncash additions to property and equipment	\$ 30,027	\$ 1,641

See notes to the consolidated financial statements.

RUSH SYSTEM FOR HEALTH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Dollars in thousands)

1. ORGANIZATION AND BASIS OF CONSOLIDATION

Rush System for Health (“Rush” or “RSH”) is a multihospital system with operations that consist of several diverse activities with a shared mission of patient care, education, research, and community service. Rush consists of an academic medical center, Rush University Medical Center (“RUMC”), and two community hospitals, Rush Copley Medical Center (“RCMC”) and Rush Oak Park Hospital (“ROPH”), that each serve distinct markets in the Chicago, Illinois, metropolitan area. RUMC, RCMC, and ROPH are all Illinois not-for-profit corporations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Effective March 1, 2017, RUMC and RCMC reorganized their operations under a common corporate parent, Rush System for Health, an Illinois not-for-profit corporation, which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Previous to this reorganization, RUMC had an affiliation with RCMC that covers governance and other organization relationships. Pursuant to the Amended and Restated Master Trust Indenture dated February 1, 2015, RUMC and RCMC established an Obligated Group (the “Obligated Group”) of which both are members along with ROPH. There were no changes to the Obligated Group members as a result of the reorganization under RSH. RUMC, ROPH, and RCMC are jointly and severally liable for certain debts issued through the Illinois Finance Authority (IFA) (see Note 9).

Rush University Medical Center

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

RUH — An acute care hospital and the Johnson R. Bowman Health Center for the Elderly, a rehabilitation and psychiatric facility, licensed in total for 715 beds. RUH also includes a faculty practice plan, Rush University Medical Group, which employed 553 physicians as of June 30, 2017.

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 \$148,845 and \$140,742 in annual research expenditures during fiscal years 2017 and 2016, respectively.

ROPH — A 296-licensed bed acute care, rehabilitation, and skilled nursing hospital located in Oak Park, Illinois, eight miles west of RUH. ROPH includes an employed medical group, which employed 46 physicians as of June 30, 2017.

Rush Health is a network of providers whose members include RUH, ROPH, and RCMC effective January 1, 2014. Rush Health has approximately 1,124 physicians and 406 allied health providers who are on the medical staff of the member hospitals. Collectively, the Rush members own 56% of Rush Health. The financial results of Rush Health are not consolidated with the financial results of Rush and are accounted for using the equity method of accounting (see Note 17).

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 88 physicians as of June 30, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Except for the matter discussed in Note 1 related to the consolidation of Rush Health, 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, 2017, are presented for the purpose of additional analysis of Rush's 2017 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, 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 collectability of accounts receivable, Rush analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate appropriate allowance for doubtful accounts and provision for uncollectible accounts. In addition, management's assessment of business and economic conditions, trends in health care coverage, and other collection

indicators are used in its analysis. Management regularly reviews data of these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, Rush analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts (for example, for expected uncollectible deductibles and 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.

The allowance for doubtful accounts for self-pay patients was 73% and 78% of self-pay accounts receivable as of June 30, 2017 and 2016, 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, 2017 and 2016, because of their short-term maturity. The fair value of the other instruments is disclosed in Notes 6, 9, and 12.

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. Real estate investments are carried at amortized cost. Rush's risk in alternative investments is limited to its capital investment and any future capital commitments (see Note 5).

Investment income or loss (including interest, dividends, realized and unrealized gains and losses, and changes in cost-based valuations) is reported within the excess of revenue over expenses, unless the income or loss is restricted by donor or interpretation of law. Investment gains and losses on Rush's endowment are recognized within temporarily restricted net assets until appropriated for use (see Note 7). Investment gains and losses on permanently restricted assets are allocated to purposes specified by the donor either as temporarily restricted or unrestricted, as applicable. Investment gains (losses) on trustee-held funds of \$1,264 and (\$1,745) are included within permanently restricted net assets for the years ended June 30, 2017 and 2016, respectively. 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 \$19,079 and \$18,451 as of June 30, 2017 and 2016, respectively (see Note 15).

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.

Capitalized Interest

Interest expense from bond proceeds, net of interest income, incurred during the construction of major projects is capitalized during the related construction period. Such capitalized interest is amortized over the depreciable life of the

related assets on a straight-line basis. Interest expense of \$767 and \$666 was capitalized during the years ended June 30, 2017 and 2016, respectively.

Long-Lived Assets and Impairment

Rush carries tangible and intangible long-lived assets, including goodwill. Rush continually evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment. No asset impairments were recorded during the years ended June 30, 2017 and 2016.

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, except for Rush Health as discussed in Note 1. As of June 30, 2017 and 2016, noncontrolling interests in consolidated subsidiaries amounted to \$11,293 and \$5,465, respectively. The amounts related to noncontrolling 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 and reported within other assets, which is not material to the consolidated financial statements.

Deferred Financing Costs

Debt issuance costs, net of amortization computed on the effective interest basis over the life of the related debt, are reported within long-term debt in the component balance sheets. Unamortized debt issuance costs amounted to \$4,442 and \$4,902 as of June 30, 2017 and 2016, respectively.

Other Assets

Other assets include investments in joint ventures accounted for on the equity basis, goodwill, insurance recoveries, and other intangible assets. During the fiscal year ended June 30, 2017, RCMC acquired an orthopedics practice and surgery center for approximately \$4,400 and \$13,600, respectively. Castle Orthopaedics and Sports Medicine SC, and Castle Surgicenter integrated with RCMC effective October 1, 2016. This integration represents an opportunity for growth and expansion of orthopedic, sports medicine, and surgical services within the greater Fox Valley area. The excess purchase price over the fair value of the assets acquired was allocated between intangibles of \$3,249 and goodwill of \$14,084. RCMC reviews goodwill for impairment annually; no impairment was recorded for the fiscal years ended June 30, 2017 and 2016.

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 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 \$2,001 and \$3,254 for the years ended

June 30, 2017 and 2016, 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, endowment investment income 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, unrestricted contributions, and fund-raising expenses.

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires all costs incurred to issue debt to be presented as a deduction from the carrying value of the debt rather than as an asset on the balance sheet. The ASU only impacts the presentation of the balance sheet and does not change the recognition or measurement of debt issuance costs. Rush has adopted the standard in fiscal year 2017 and the 2016 component balance sheet has been restated.

In May 2014, the FASB and International Accounting Standards Board issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU's requirements related to variable consideration may affect how health care providers account for arrangements that contain significant price adjustments (e.g., contractual allowances, discounts, and concessions) and may require substantial estimation and judgment on behalf of management. The ASU's guidance on collectability may affect the timing of revenue recognition when credit risk is not assessed until after services are performed (e.g., emergency room visits). In addition to considering the ASU's potential impact on Rush's accounting policies, Rush is also beginning to assess the impact of this standard that is required to be implemented in fiscal year 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The ASU requires lessees to recognize the right-of-use assets and liabilities that arise from all leases with terms greater than 12 months. The ASU also requires repayments of operating and financing leases to be classified as operating or financing activities, respectively, on the statement of cash flows. Rush is beginning to assess the impact of the standard, which is required to be implemented in fiscal year 2020.

In August 2016, the FASB issued ASU No. 2016-04, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU requires not-for-profit entities to present on the face of the balance sheet amounts for two classifications of net assets rather than the current three classifications, as well as enhancing several qualitative and quantitative disclosures related to net assets. Rush continues to assess the impact of this standard, which is required to be implemented in fiscal year 2019.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Payments*. The ASU outlines specific guidance on eight different cash classification issues that were previously unclear or in which GAAP did not include specific guidelines. Rush is beginning to assess the impact of this standard, which is required to be implemented in fiscal year 2019.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits*. The ASU amends the disclosure requirements related to the income statement presentation of the components of net periodic benefit cost for sponsored defined benefit pension and other postretirement plans. The new disclosure requires entities to disaggregate the current service cost component from other components within the net benefit cost and present it with other current compensation costs on the income statement, as well as present the other components outside of income from operations. Rush continues to assess the impact of this standard, which is required to be implemented in fiscal year 2019.

Reclassification of Prior Year Presentations

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Consideration of Events Subsequent to the Consolidated Balance Sheet Date

Rush has evaluated events occurring subsequent to the consolidated balance sheet date through October 26, 2017, the date the consolidated financial statements were available to be issued. On October 3, 2017, RSH and Little Company of Mary Hospital and Health Care Centers (“LCMH”) signed a non-binding letter of intent for LCMH to join the Rush System. There is no assurance that this transaction will be consummated, or if consummated, what the final terms may be. There were no significant subsequent events as of the date of this report.

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, 2017 and 2016, by major payor source, was as follows:

	2017		2016	
Medicare	\$ 463,730	22.1 %	\$ 465,935	23.5 %
Medicare Managed Care	77,211	3.7	63,818	3.2
Medicaid	131,901	6.3	124,508	6.3
Medicaid Managed Care	195,398	9.3	176,101	8.9
Blue Cross	629,264	30.0	569,021	28.7
Managed care	418,219	19.8	416,149	21.0
Commercial, self-pay, and other	185,048	8.8	164,837	8.4
Total patient service revenue, net of contractual allowances and discounts (but before provision for uncollectible accounts)	\$ 2,100,771	100.0 %	\$ 1,980,369	100.0 %

Changes in estimates relating to prior periods increased net patient service revenue by \$16,752 and \$7,324 in fiscal years 2017 and 2016, 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 an additional discount is available to all patients with family income up to 400% of the federal poverty level. All uninsured patients receive a tiered discount regardless of their ability to pay. These discounts apply to patients with family income ranging from 301% to 1,000% of the federal poverty level, with discounts ranging from 33% to 68%. In addition, any uninsured patient with family income over 1,000% of the federal poverty level would still receive a 33% discount. RCMC provides free care to all patients who apply and support income and asset levels of less than 300% of the current-year poverty level and a 30% discount to all uninsured patients regardless of ability to pay, and discounts balances to patients under 600% of the 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. In fiscal year 2014, the State of Illinois approved a new enhanced assessment program providing additional funding to Rush. The net benefit to Rush from the Program was \$66,639 and \$49,122 during the years ended June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, the Medicaid payment of \$119,236 and \$94,610 was included in net patient service revenue, representing 6% and 5% of the net patient service revenue for fiscal years 2017 and 2016, respectively, and the tax assessment of \$52,597 and \$45,488, respectively, was included in supplies, utilities, and other expenses. The Program is approved through June 30, 2018; however, the future of the Program is uncertain.

The following table presents the level of charity care and Medicaid provided for the years ended June 30, 2017 and 2016:

	2017	2016
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program	\$ 97,216	\$ 90,790
Estimated costs and expenses incurred to provide charity care in the hospitals	<u>32,056</u>	<u>33,229</u>
Total	<u>\$ 129,272</u>	<u>\$ 124,019</u>

The total number of patients that were either provided charity care directly by Rush or that were covered by the Program represented 25% and 24% of Rush's total patients in 2017 and 2016, respectively.

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

5. ASSETS LIMITED AS TO USE AND INVESTMENTS

Assets limited as to use and investments consist primarily of marketable equity and debt securities, which are held in investment pools to satisfy the investment objectives for which the assets are held or to satisfy donor restrictions. Rush also holds certain investments in alternative investments consisting of hedge funds, real estate investments, private equity funds, and private debt (see Note 2). Assets limited as to use by donor or time restriction also include unconditional promises to contribute (see Note 15).

Following is a summary of the composition of non-current assets limited as to use and investments as of June 30, 2017 and 2016:

	2017	2016
Marketable securities and short-term investments	\$ 23,309	\$ 27,912
Fixed income securities	425,291	395,098
Public equity securities	277,126	245,879
Fund investments (mutual/commingled)	833,672	752,944
Alternative investments	175,267	143,106
Other	<u>(21,456)</u>	<u>13,135</u>
Total assets limited as to use and investments	1,713,209	1,578,074
Beneficial interest in trusts	<u>27,863</u>	<u>26,599</u>
Total assets limited as to use and investments — excluding pledges and grants receivable	1,741,072	1,604,673
Net pledges and grants receivable	<u>19,079</u>	<u>18,452</u>
Total assets limited as to use and investments	1,760,151	1,623,125
Less amount reported as current assets	<u>(25,182)</u>	<u>(26,838)</u>
Assets limited as to use and investments — noncurrent	<u>\$ 1,734,969</u>	<u>\$ 1,596,287</u>

As of June 30, 2017 and 2016, commitments for additional contributions to alternative investments totaled \$94,728 and \$64,678, 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 component 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 component statements of operations and changes in net assets. This allocated return, 4% for the years ended June 30, 2017 and 2016, approximates the real return that Rush expects to earn on its investments over the long term and totaled \$5,190 and \$5,086 for the years ended June 30, 2017 and 2016, respectively. The difference between the total investment return and the amount allocated to operations is reported in nonoperating income and totaled \$5,064 and

(\$4,033) for the years ended June 30, 2017 and 2016, respectively. There is no guarantee that the investment return expected by management will be realized. For the years ended June 30, 2017 and 2016, the total annual investment return was approximately 8.4% and 0.9%, 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, 2017 and 2016, are as follows:

	2017	2016
Interest and dividends	\$ 26,809	\$ 32,300
Net realized gains on sales of securities	45,658	10,510
Unrealized gains (losses)— unrestricted	58,928	(14,174)
Unrealized gains (losses)— restricted	<u>52,052</u>	<u>(14,476)</u>
	<u>\$ 183,447</u>	<u>\$ 14,160</u>
Reported as:		
Other operating revenue	\$ 5,315	\$ 4,988
Nonoperating income	83,245	14,083
Restricted net assets — net realized and unrealized gains (losses) on investments	<u>94,887</u>	<u>(4,911)</u>
	<u>\$ 183,447</u>	<u>\$ 14,160</u>

Gains and losses on alternative investments included above as of June 30, 2017 and 2016, are as follows:

	2017	2016
Reported as:		
Nonoperating income	\$ 292	\$ 2,160
Restricted net assets — net realized and unrealized gains on investments	<u>32,119</u>	<u>6,257</u>
Total investment income and realized/unrealized gains and losses on alternative investments	<u>\$ 32,411</u>	<u>\$ 8,417</u>

6. FAIR VALUE MEASUREMENTS

As of June 30, 2017 and 2016, 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 nonactive 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 US treasuries and agencies), corporate and municipal bonds, collateralized obligations, interest rate swaps, commercial paper and currency options.

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 includes 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, 2017 and 2016:

Fair Value Measurements as of June 30, 2017	Level 1	Level 2	Level 3	Valued @ NAV	Total Fair Value
Marketable securities and short-term investment	\$ 1,711	\$ 1,191	\$ -	\$ 20,407	\$ 23,309
Fixed Income Securities:					
U.S. Government and Agency securities	-	197,511	-	-	197,511
Corporate Bonds	-	180,338	-	-	180,338
Asset Backed Securities and Other	-	47,442	-	-	47,442
Public Equity Securities	277,126	-	-	-	277,126
Fund Investments (Mutual/Commingled):					
Fixed Income Funds	239,494	-	-	-	239,494
Public Equity Funds	196,943	-	-	182,576	379,519
Multi Asset Class Funds	203,712	-	-	10,947	214,659
Alternative Investments:					
Hedge Funds	-	-	-	89,282	89,282
Private Equity Partnerships	-	-	-	48,142	48,142
Private Debt	-	-	-	37,843	37,843
Other:					
Derivative Assets	-	212	-	-	212
Trustee-held Investments	-	-	27,863	-	27,863
Pending Transactions	-	(45,587)	-	-	(45,587)
Total investments	<u>\$ 918,986</u>	<u>\$ 381,107</u>	<u>\$ 27,863</u>	<u>\$ 389,197</u>	<u>\$ 1,717,153</u>
Obligations under interest rate swap agreements	\$ -	\$ (16,002)	\$ -	\$ -	\$ (16,002)
Other derivative liabilities	-	(213)	-	-	(213)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ (16,215)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,215)</u>

At the beginning of fiscal year 2017, \$25.1 million of securities were transferred from Level 2 to NAV due to a reclassification of an underlying holding.

Fair Value Measurements as of June 30, 2016	Level 1	Level 2	Level 3	Valued @ NAV	Total Fair Value
Marketable securities and short-term investment	\$ 1,544	\$ 26,368	\$ -	\$ -	\$ 27,912
Fixed Income Securities:					
U.S. Government and Agency securities	-	169,801	-	-	169,801
Corporate Bonds	-	171,458	-	-	171,458
Asset Backed Securities and Other	-	53,839	-	-	53,839
Public Equity Securities	245,879	-	-	-	245,879
Fund Investments (Mutual/Commingled):					
Fixed Income Funds	225,398	-	-	-	225,398
Public Equity Funds	168,017	-	-	151,290	319,307
Multi Asset Class Funds	115,014	-	-	93,224	208,238
Alternative Investments:					
Hedge Funds	-	-	-	86,771	86,771
Private Equity Partnerships	137	-	-	27,153	27,290
Private Debt	-	-	-	29,045	29,045
Other:					
Derivative Assets	-	71	-	-	71
Trustee-held Investments	-	-	26,599	-	26,599
Other Investments	-	-	-	1,000	1,000
Pending Transactions	-	(15,571)	-	-	(15,571)
Total investments	<u>\$ 755,989</u>	<u>\$ 405,966</u>	<u>\$ 26,599</u>	<u>\$ 388,483</u>	<u>\$ 1,577,037</u>
Obligations under interest rate swap agreements	\$ -	\$ (23,141)	\$ -	\$ -	\$ (23,141)
Other derivative liabilities	-	(558)	-	-	(558)
Total liabilities at fair value	<u>\$ -</u>	<u>\$ (23,699)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,699)</u>

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 and short-term money market instruments with daily liquidity.

Fixed Income Securities – Fixed income securities consist primarily of U.S. government and agency securities, corporate bonds, and asset backed securities, all of which are classified as Level 2. The fair value of investments in U.S. government and agency securities and corporate bonds was primarily determined using techniques consistent with the market approach, including matrix pricing and significant observable inputs of institutional bids, trade data, broker and dealer quotes, discount rates, issues spreads, and benchmark yield curves. The asset backed securities encompass collateralized bond obligations, collateralized loan and mortgage obligations, and any other asset backed securities. The fair value of these securities was determined using techniques consistent with the market and income approach, such as discounted cash flows and matrix pricing.

Beneficial Interest in Trusts – The fair value of beneficial interests in perpetual and charitable trusts classified as Level 3 was determined using an income approach based on the present value of expected future cash flows to

be received from the trust or based on Rush's beneficial interest in the investments held in the trust measured at fair value. Since Rush is unable to liquidate the funds held and benefits only from the distributions generated off of such investments, the interest in such trusts are all shown in Level 3.

Obligations Under Interest Rate Swap Agreements – The fair value of Rush's obligations under interest rate swap agreements classified as Level 2 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:

	Beneficial Interest in Trusts
Fair value — June 30, 2015	\$ 28,344
Actual return on investments —	
Realized and unrealized losses	(1,745)
Purchases	-
Sales	-
	<hr/>
Fair value — June 30, 2016	26,599
Actual return on investments —	
Realized and unrealized gains	1,264
Purchases	-
Sales	-
	<hr/>
Fair value — June 30, 2017	<u>\$ 27,863</u>

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. These investments consist of hedge fund of funds, private equity partnerships, and private debt within alternative investments. The NAV instruments listed in the fair value measurement tables use the following valuation techniques and inputs as of the valuation date:

Fund Investments – Investments within this category consist of public equity funds and multi-asset funds. The fair value of public equity funds classified at NAV are 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 have a readily determinable market value or based on a net asset value. Multi-asset funds include investments in fund of funds that seek to provide both capital appreciation and income by investing 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 NAV are held in a commingled fund that invests primarily in global equity and bond mutual funds. Included in this category is a multistrategy hedge fund, 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. The underlying investment strategies can include long-short, global macro, fixed income and currency hedges, and other tactical opportunity-related strategies.

Alternative Investments – Investments within this category consist primarily of hedge fund of funds, private equity partnerships, and private debt. The hedge fund of funds consist of diversified investments, including equity long/short, credit long/short, event-drive, 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. 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, which is an equivalent of NAV.

The following table summarizes the attributes relating to the nature and risk of such investments as of June 30, 2017:

Entities that Report Fair Value Using NAV	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Fund Investments (Mutual/Commingled)	None	Daily/Monthly	1-15 days
Alternative Investments:			
Hedge Funds	None	Quarterly	65-95 days
Private Equity Partnerships	\$ 49,350	Not currently redeemable	N/A
Private Debt	\$ 45,378	Not currently redeemable	N/A

7. ENDOWMENT FUNDS

Rush’s endowment consists of more than 400 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 16% and 22% of Rush's endowment is available for general purposes for the years ended June 30, 2017 and 2016, respectively.

The Investment Committee of the Board of Trustees 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, 2017 and 2016, are as follows:

Asset Class	Target Allocation and Range	Percentage of Endowment Assets	
		2017	2016
Global equity	55% (+/- 5%)	56 %	49 %
Multi Asset Fund	15% (+/- 5%)	19	21
Private equity	15% (+/- 5%)	14	12
Fixed income	15% (+/- 5%)	11	12
Real estate	--	--	5
Cash	--	--	1

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 7.0%. 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 of Trustees 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, 2017 and 2016, and income from the endowment fund provided \$18,217 and \$17,792 of support for Rush's programs during the fiscal years ended June 30, 2017 and 2016, respectively.

Composition of Endowment Fund and Reconciliation

The endowment net asset composition by type of fund as of June 30, 2017, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 317,550	\$ 271,152	\$ 588,702
Board-designated endowment funds	<u>7,218</u>	<u>1,973</u>	<u>534</u>	<u>9,725</u>
Total funds	<u>\$ 7,218</u>	<u>\$ 319,523</u>	<u>\$ 271,686</u>	<u>\$ 598,427</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 30, 2016	\$ 5,023	\$ 243,907	\$ 265,381	\$ 514,311
Investment return:				
Investment income	854	6,548	290	7,692
Net appreciation (realized and unrealized)	<u>(159)</u>	<u>86,207</u>	<u>3,551</u>	<u>89,599</u>
Total investment return	<u>695</u>	<u>92,755</u>	<u>3,841</u>	<u>97,291</u>
Contributions	1,500	873	2,754	5,127
Transfer of endowment appreciation	<u>-</u>	<u>(18,012)</u>	<u>(290)</u>	<u>(18,302)</u>
Endowment net assets — June 30, 2017	<u>\$ 7,218</u>	<u>\$ 319,523</u>	<u>\$ 271,686</u>	<u>\$ 598,427</u>

The endowment net asset composition by type of fund as of June 30, 2016, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 242,948	\$ 264,847	\$ 507,795
Board-designated endowment funds	<u>5,023</u>	<u>959</u>	<u>534</u>	<u>6,516</u>
Total funds	<u>\$ 5,023</u>	<u>\$ 243,907</u>	<u>\$ 265,381</u>	<u>\$ 514,311</u>

Changes in endowment net assets for the fiscal year ended June 30, 2016, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — July 1	\$ 5,220	\$ 262,026	\$ 262,726	\$ 529,972
Investment return:				
Investment (loss) income	(89)	7,071	88	7,070
Recovery of endowment impairment				
Net appreciation (realized and unrealized)	<u>(108)</u>	<u>(7,620)</u>	<u>(1,745)</u>	<u>(9,473)</u>
Total investment return	<u>(197)</u>	<u>(549)</u>	<u>(1,657)</u>	<u>(2,403)</u>
Contributions	-	163	4,400	4,563
Transfer of unrestricted endowment appreciation	<u>-</u>	<u>(17,733)</u>	<u>(88)</u>	<u>(17,821)</u>
Endowment net assets — June 30	<u>\$ 5,023</u>	<u>\$ 243,907</u>	<u>\$ 265,381</u>	<u>\$ 514,311</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. No additional funding was required and no amounts were recovered and replenished through unrestricted net assets during the years ended June 30, 2017 and 2016.

8. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2017 and 2016, consisted of the following:

	2017	2016
Land and buildings	\$ 2,119,394	\$ 1,978,347
Equipment	738,244	680,959
Construction in progress	<u>41,192</u>	<u>32,298</u>
Total	2,898,830	2,691,604
Less accumulated depreciation	<u>(1,431,026)</u>	<u>(1,330,969)</u>
Property and equipment, net	<u>\$ 1,467,804</u>	<u>\$ 1,360,635</u>

Property and equipment, net includes \$39,581 and \$38,000 in leased buildings and equipment as of June 30, 2017 and 2016, respectively. Accumulated depreciation on leased property and equipment amounted to \$21,879 and \$20,931 as of June 30, 2017 and 2016, respectively.

Rush continues to make campus improvements and has a number of construction projects planned with a Master Facility Plan that began in fiscal year 2017. As of June 30, 2017 and 2016, Rush had construction commitments outstanding of \$79,788 and \$61,769, respectively.

9. LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Rush's long-term debt is issued under a Master Trust Indenture, which established the 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, 2017 and 2017, such issuances are secured by a pledge of gross receipts, as defined, of the Obligated Group members.

A summary of Rush's long-term debt as of June 30, 2017 and 2016, is as follows:

	Interest Rates	Final Maturity Date	Amount Outstanding at June 30,	
			2017	2016
Illinois Finance Authority Revenue Bonds:				
Fixed-rate revenue bonds:				
Series 2015 A/B	5.00%	November 15, 2039	\$ 474,855	\$ 482,730
Variable-rate revenue bonds:				
Series 2016	Average of 1.29% and 1.11% in FY2017 and FY2016,	June 28, 2026	50,000	50,000
Series 2011, tax-exempt Private Placement with a commercial bank	Average of 1.67% and 1.36% in FY2017 and FY2016, respectively	November 1, 2024	37,605	39,935
Total variable rate debt			<u>87,605</u>	<u>89,935</u>
Total tax-exempt debt			562,460	572,665
Other Debt:				
Mortgage loan, collateralized by fitness center	4.40%	May 2021	3,924	4,821
Line of Credit	2.02%	December 31, 2019	32,519	14,594
Total par value of debt			598,903	592,080
Less current portion of long-term debt			(12,393)	(11,102)
Deferred Financing Costs			(4,442)	(4,902)
Less unamortized premium/(discount), net			66,863	74,228
Long-term debt			<u>\$ 648,931</u>	<u>\$ 650,304</u>
Estimated fair value based on quoted market prices and other relevant information (Level 2 classification)			\$ 620,635	\$ 687,158

In June 2016, Rush issued Series 2016 revenue bonds through the Illinois Finance Authority in the amount of \$50,000. The proceeds of the Series 2016 bonds were used to refund the Series 2008A bonds and to pay certain costs of issuing the Series 2016 bonds. A loss on extinguishment of debt of \$826 was recorded as a result of the refunding and is recorded within nonoperating expenses in the accompanying consolidated statement of operations and changes in net assets. The 2016 revenue bond agreement includes a June 28, 2026, refinancing requirement that will extend the due date to the full term of November 1, 2045. If the refinancing does not occur, the debt outstanding would be due that date or converted to another available debt instrument.

The fair value of Rush's long-term debt is estimated by an independent third party using a pricing scale based on spreads to municipal market data 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; limitations on selling, leasing, or otherwise disposing of Obligated Group property; and certain other nonfinancial covenants. Management believes the Obligated Group was in compliance with its financial covenants as of June 30, 2017 and 2016.

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

Years Ending June 30

2018	\$ 12,393
2019	13,105
2020	46,789
2021	15,121
2022	15,740
Thereafter	<u>495,755</u>
Total	<u>\$ 598,903</u>

Letters of Credit Arrangements

On June 28, 2016, Rush converted the Series 2008A variable-rate bonds to a direct placement loan (Series 2016 revenue bonds). The refinancing removed the letter of credit related to the Series 2008A variable-rate bonds. Prior to the refinancing, the Obligated Group's variable-rate revenue bonds were subject to repurchase the bonds if they cannot be sold to a third party. The Obligated Group entered into letters of credit with commercial banks to provide funding for such repurchases, as necessary. Any amounts borrowed under these letters of credit were due and payable more than one year from the date of such borrowing. In 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.

Lines of Credit Arrangements

The Obligated Group also had a \$100 million short-term line of credit with a bank as of June 30, 2017 and 2016, which matures on December 31, 2019. Any borrowings on this short-term line of credit are due and payable in 180 days. As of June 30, 2017 and 2016, the Obligated Group had \$32,519 and \$14,594 outstanding, respectively, 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 its 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 (0.835% and 0.317% as of June 30, 2017 and 2016, respectively) from the swap counterparties, each calculated on the notional amount of the Swap Agreements. As of June 30, 2017 and 2016, the Swap Agreements had a notional amount of \$82,750 and \$86,100, respectively (\$41,375 and \$43,050 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, 2017 and 2016, the Obligated Group had no collateral posted under Swap Agreements.

The fair value of the Swap Agreements was as follows as of June 30, 2017 and 2016:

		<u>June 30</u>	
		2017	2016
	Reported As		
Obligations under Swap Agreements	Other long-term liabilities	\$ (16,002)	\$ (23,141)
Collateral posted under Swap Agreements	Other current assets	<u>-</u>	<u>-</u>
Obligations under Swap Agreements, net		<u>\$ (16,002)</u>	<u>\$ (23,141)</u>

The fair value of the Swap Agreements reported in Rush’s consolidated balance sheets as of June 30, 2017 and 2016, 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, 2017 and 2016, were as follows:

		<u>Fiscal Years Ended June 30</u>	
		2017	2016
	Reported As		
Change in fair value of interest rate swaps	Nonoperating expense	\$ 7,139	\$ (5,050)
Net cash payments on interest rate swaps	Interest expense	(2,807)	(3,310)

11. OBLIGATIONS UNDER CAPITAL LEASE AND OTHER FINANCING ARRANGEMENTS

RUMC is party to certain capital lease and long-term financing arrangements relating to medical and office equipment and buildings. Expiration of leases ranges from 2016 to 2024. Annual interest expense under these lease agreements was \$2,154 and \$2,495 for the years ended June 30, 2017 and 2016, 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	
2018	\$ 5,280
2019	5,688
2020	16,272
2021	275
2022	275
Thereafter	<u>479</u>
Total minimum payments	28,269
Less amount representing interest	<u>(4,382)</u>
Net present value of obligations under capital lease and other financing arrangements	23,887
Less current portions included in accounts payable	<u>(3,347)</u>
Long-term portion of obligations under capital lease and other financing arrangements	<u>\$ 20,540</u>

12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

Prior to January 1, 2012, RUMC 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.

Effective January 1, 2015 (the "effective date"), a new defined benefit plan was established. This new plan (the "Pre-2015 Separations Plan" or the "Pre-2015 Plan") is a spinoff of the current Retirement Plan. The Retirement Plan's benefit obligation and assets attributable to participants who terminated employment prior to January 1, 2015, with a vested benefit were transferred to the Pre-2015 Plan as of the effective date. On the effective date, \$648,066 of benefit obligations and \$625,334 of assets were transferred from the Retirement Plan into the Pre-2015 Plan.

RUMC offered a voluntary lump sum cash out to certain eligible terminated vested participants of the Pre-2015 Plan in fiscal year 2015, resulting in a total settlement amount of \$46,044. In addition, the settlement initiative triggered a one-time non-cash charge of \$12,464 as a result of the total payments exceeding the plan's interest cost and service cost components in fiscal year 2015.

In addition to the pension programs, RUMC 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 Plans and Postretirement Healthcare Plans (collectively, the "Plans"). The table also reflects the funded status of the Plans as of the Measurement Date and amounts recognized in RUMC's component balance sheets as of June 30, 2017 and 2016.

Obligations and Funded Status	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2017	2016	2017	2016
Actuarial present value of benefit obligations — accumulated benefit obligation	\$ 1,041,151	\$ 1,049,136	\$ 7,516	\$ 7,227
Change in projected benefit obligations:				
Projected benefit obligation — beginning of measurement period	\$ 1,071,828	\$ 959,059	\$ 7,227	\$ 7,120
Service costs	21,444	18,964	146	156
Interest costs	41,637	43,525	287	325
Employee contributions	-	-	575	571
Plan settlements	(302)	(1,246)	-	-
Actuarial losses	(22,783)	96,152	153	72
Benefits paid	(46,590)	(44,626)	(872)	(1,017)
Projected benefit obligation — end of measurement period	\$ 1,065,234	\$ 1,071,828	\$ 7,516	\$ 7,227
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	\$ 940,438	\$ 849,325	\$ -	\$ -
Actual return on plan assets	69,881	69,739	-	-
Employer contributions	40,302	67,246	297	446
Plan participant contributions	-	-	575	571
Plan settlements	(302)	(1,246)	-	-
Benefits paid	(46,590)	(44,626)	(872)	(1,017)
Fair value of plan assets — end of measurement period	\$ 1,003,729	\$ 940,438	\$ -	\$ -
Accrued benefit liability	\$ 61,505	\$ 131,390	\$ 7,516	\$ 7,227

The actuarial cost method used to compute the Defined Benefit Pension Plans 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	
	2017	2016	2017	2016
Net periodic pension cost comprised the following:				
Service cost	\$ 21,444	\$ 18,964	\$ 146	\$ 156
Interest cost on projected benefit obligation	41,637	43,525	287	325
Expected return on plan assets	(62,472)	(58,977)	-	-
Amortization of prior service cost and other actuarial amounts	(1,078)	(2,051)	-	(144)
Recognized actuarial loss (gain)	13,074	8,431	(368)	(708)
Recognized settlement loss	28	135	-	-
Net periodic pension cost (credit)	\$ 12,633	\$ 10,027	\$ 65	\$ (371)

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	
	2017	2016	2017	2016
Accrued benefit liability — beginning of measurement period	\$ 131,392	\$ 109,734	\$ 7,227	\$ 7,119
Fiscal year activity:				
Net periodic pension cost	12,632	10,029	65	(371)
Employer contributions	(40,302)	(67,246)	(297)	(447)
Postretirement-related changes other than net periodic postretirement cost:				
Actuarial (gains) losses	(30,193)	85,391	153	74
Reclassification adjustment for losses reflected in periodic expense	(12,024)	(6,516)	368	852
Accrued benefit liability — end of measurement period	<u>\$ 61,505</u>	<u>\$ 131,392</u>	<u>\$ 7,516</u>	<u>\$ 7,227</u>
Recognized in the consolidated balance sheets as follows:				
Accrued expenses	\$ -	\$ -	\$ 564	\$ 480
Noncurrent liabilities	61,505	131,392	6,952	6,747
	<u>\$ 61,505</u>	<u>\$ 131,392</u>	<u>\$ 7,516</u>	<u>\$ 7,227</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 component balance sheets. The postretirement-related charges other than net periodic benefit cost related to the pension and Postretirement Healthcare Plans are included as a separate decrease to unrestricted net assets and total \$41,695 and \$(79,802) for fiscal years 2017 and 2016, respectively. For fiscal year 2017, this amount includes actuarial gains arising during fiscal year 2016 of \$30,039 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2017 of \$11,655. For fiscal year 2016, this amount includes actuarial losses arising during fiscal year 2016 of \$85,465 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2016 of \$5,457.

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, 2017 and 2016, are as follows:

	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2017	2016	2017	2016
Unrecognized prior service credit	\$ 3,257	\$ 4,336	\$ -	\$ -
Unrecognized net actuarial (loss) gain	(273,516)	(316,810)	(131)	390
Total	<u>\$ (270,259)</u>	<u>\$ (312,474)</u>	<u>\$ (131)</u>	<u>\$ 390</u>

An estimated \$662 in prior service credit and (\$10,106) in net actuarial loss will be included as components of periodic pension expense in fiscal year 2018. An estimated \$4 in net actuarial loss will be included as components of periodic postretirement expense in fiscal year 2018.

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	
	Retirement Plan		Pre-2015 Separations Plan		2017	2016
	2017	2016	2017	2016		
	2017	2016	2017	2016	2017	2016
Discount rate — benefit obligation	4.15 %	4.10 %	4.05 %	3.90 %	4.15 %	4.10 %
Discount rate — pension expense	4.10	4.75	3.90	4.60	4.10	4.75
Rate of increase in compensation levels	5.35	5.35	-	-	-	-
Expected long-term rate of return on plan assets	7.00	7.00	6.50	7.00	-	-
Health care cost trend rate (initial)	-	-	-	-	6.60	7.20
Health care cost trend rate (ultimate)	-	-	-	-	4.50	4.50
Year the rate reaches ultimate trend rate	-	-	-	-	2038	2029

The discount rate used is based on a spot interest rate yield curve based on a broad group of corporate bonds rated AA or better as of the Measurement Date. RUMC uses this yield curve and the estimated payouts of the Plans to develop an aggregate discount rate. The estimated payouts are the sum of the payouts under the Defined Benefit Pension Plan(s) and the Postretirement Healthcare Plans. For fiscal years 2017 and 2016, 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, 2017 and 2016, the actual rate of return on plan assets was 8.0% and 8.6%, respectively.

Plan Assets

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

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

The fair value of the Defined Benefit Pension Plan assets as of June 30, 2017 and 2016 is as follows:

Fair Value Measurements as of June 30, 2017	Level 1	Level 2	Level 3	Valued @ NAV	Total Fair Value
Marketable securities and short-term investments	\$ -	\$ -	\$ -	\$ 13,341	\$ 13,341
Fixed Income Securities:					
U.S. Government and Agency securities	-	241,223	-	-	241,223
Corporate Bonds	-	407,505	-	-	407,505
Asset Backed Securities and Other	-	44,933	-	-	44,933
Public Equity Securities	130,916	-	-	-	130,916
Fund Investments (Mutual/Commingled):					
Public Equity Funds	-	-	-	117,549	117,549
Multi Asset Class Funds	92,939	-	-	-	92,939
Alternative Investments:					
Private Equity Partnerships	-	-	-	22,245	22,245
Other:					
Derivative Assets	-	9,580	-	-	9,580
Pending Transactions	-	(77,134)	-	-	(77,134)
Total Plan Assets	<u>\$ 223,855</u>	<u>\$ 626,107</u>	<u>\$ -</u>	<u>\$ 153,135</u>	<u>\$ 1,003,097</u>
Liabilities					
Derivative Liabilities	-	(6,538)	-	-	(6,538)
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ (6,538)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,538)</u>

At the beginning of fiscal year 2017, \$26.5 million of securities were transferred from Level 2 to NAV due to a reclassification of an underlying holding.

Fair Value Measurements as of June 30, 2016	Level 1	Level 2	Level 3	Valued @ NAV	Total Fair Value
Marketable securities and short-term investments	\$ -	\$ 26,507	\$ -	\$ -	\$ 26,507
Fixed Income Securities:					
U.S. Government and Agency securities	-	229,307	-	-	229,307
Corporate Bonds	-	388,546	-	-	388,546
Asset Backed Securities and Other	-	52,056	-	-	52,056
Public Equity Securities	118,504	-	-	-	118,504
Fund Investments (Mutual/Commingled):					
Public Equity Funds	-	-	-	95,404	95,404
Multi Asset Class Funds	38,202	-	-	44,106	82,308
Alternative Investments:					
Private Equity Partnerships	-	-	-	25,471	25,471
Other:					
Derivative Assets	-	3,072	-	-	3,072
Pending Transactions	-	(77,558)	-	-	(77,558)
Total Plan Assets	<u>\$ 156,706</u>	<u>\$ 621,930</u>	<u>\$ -</u>	<u>\$ 164,981</u>	<u>\$ 943,617</u>
Liabilities					
Derivative Liabilities	-	(9,835)	-	-	(9,835)
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ (9,835)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,835)</u>

As of June 30, 2017 and 2016, the Defined Benefit Pension Plan's commitments for additional contributions to alternative investments totaled \$5,295 and \$6,047, respectively.

Cash Flows

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

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Expected contributions in 2018	<u>\$ 34,380</u>	<u>\$ 564</u>
Estimated Benefit Payments		
2018	\$ 58,486	\$ 564
2019	61,077	615
2020	63,685	585
2021	65,536	597
2022	69,404	579
2023 through 2027	<u>354,040</u>	<u>2,958</u>
Total	<u>\$ 672,228</u>	<u>\$ 5,898</u>

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 \$18,124 and \$16,780 for the years ended June 30, 2017 and 2016, 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 \$23,330 and \$18,271 as of June 30, 2017 and 2016, 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.

Both RUMC and RCMC also sponsor supplemental retirement plans for certain management employees. The RUMC plans include a supplement plan, which was frozen as of December 31, 2014, and replaced with the Executive Retirement Plan. These supplemental retirement 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 retirement plans amounted to \$9,026 and \$13,303 as of June 30, 2017 and 2016, respectively, and are included in investments — less current portion in the accompanying consolidated balance sheets. These supplemental retirement plans are currently funded at 97% 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 RUMC’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, net of contractual allowances, but before provision for uncollectible accounts, from patients and third-party payors as of June 30, 2017 and 2016, was as follows:

	2017	2016
Medicare	14 %	17 %
Medicare Managed Care	4	4
Medicaid	11	6
Medicaid Managed Care	15	16
Managed Care	47	46
Commercial	2	2
Self-pay	7	9
	<u>7</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 44% and 39% of managed care net patient accounts receivable as of June 30, 2017 and 2016, respectively, and 21% and 18%, respectively, of net patient accounts receivable of Rush.

14. COMMITMENTS AND CONTINGENCIES

Professional Liability

RUMC 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, 2017 and 2016, RUMC retained self-insurance risk of \$10 million for each claim, with a \$10 million annual aggregate buffer, in excess of the \$10 million. RUMC also maintains excess liability insurance coverage with combined limits of \$120 million per occurrence and in the aggregate. RUMC has an established irrevocable trust fund to pay claims and related costs, which is recorded within the self-insurance trust in the accompanying component balance sheets. From October 1986 to December 2009, RCMC was insured for professional liability claims through the Chicago Hospital Risk Pooling Program (CHRPP). CHRPP was a pooled insurance program in which claims were paid out of the pooled funds of several hospitals. RCMC's primary coverage limits under CHRPP were \$1 million per occurrence and \$3 million annual aggregate with excess coverage limits of \$10 million per occurrence and \$20 million annual aggregate, with a \$50K or \$100K per occurrence deductible. Although all RCMC claims under the CHRPP coverage have now been fully resolved and closed, under the terms of the CHRPP arrangement, RCMC can be charged retrospective premiums if actuarially determined funding proves inadequate in the future. Starting on January 1, 2010, RCMC implemented a self insurance program for professional and general liability claims for claims not covered under the CHRPP. Self insured risks are retained at \$2 million per claim and \$10 million annual aggregate with a \$1 million per claim and \$1 million aggregate buffer. RCMC also maintains excess liability insurance coverage with combined limits of \$35 million per claim and in the aggregate. Amounts above specified self insured limits are insured through purchased insurance policies. Insurance is purchased on a claims made basis. RCMC has established an 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 \$230,773 and \$236,084 as of June 30, 2017 and 2016, 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 \$28,004 and \$43,783 higher than the amounts recorded in the consolidated balance sheets as of June 30, 2017 and 2016, respectively. The discount rates used in calculating the present value by organization was 4% for fiscal years ended June 30, 2017 and 2016. Insurance recoveries are presented separately within noncurrent and current assets in the accompanying consolidated balance sheets, as appropriate. As of June 30, 2017 and 2016, no insurance recoveries were recorded.

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 \$27,037 and \$24,979 for the years ended June 30, 2017 and 2016, 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, 2015, are as follows:

Years Ending June 30	
2018	\$ 16,079
2019	13,102
2020	10,829
2021	9,837
2022	8,512
Thereafter	<u>18,336</u>
Total	<u>\$ 76,695</u>

15. UNCONDITIONAL PROMISES TO CONTRIBUTE

Included in assets limited by donor or time restriction are the following unconditional promises to contribute as of June 30, 2017 and 2016:

	2017	2016
Unconditional promises to contribute before unamortized discount and allowance for uncollectibles	\$ 19,773	\$ 18,926
Less unamortized discount	(305)	(98)
Less allowance for uncollectibles	<u>(389)</u>	<u>(377)</u>
Net unconditional promises to contribute	<u>\$ 19,079</u>	<u>\$ 18,451</u>
Amounts due in:		
Less than one year	\$ 6,201	\$ 6,328
One to five years	11,872	12,448
More than five years	<u>1,700</u>	<u>150</u>
Total unconditional promises to contribute	<u>\$ 19,773</u>	<u>\$ 18,926</u>

In addition, Rush has received conditional promises to contribute that are not recognized as assets in the consolidated balance sheets as of June 30, 2017 and 2016. The total is not considered material to the consolidated financial statements.

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes as of June 30, 2017 and 2016:

	2017	2016
Temporarily restricted net assets:		
Construction and purchase of equipment	\$ 1,981	\$ 2,205
Health education	17,354	13,466
Research, charity, and other	359,875	281,819
Unappropriated endowment appreciation available for operations	<u>58,902</u>	<u>49,241</u>
Total temporarily restricted net assets	<u>\$ 438,112</u>	<u>\$ 346,731</u>
Permanently restricted net assets, income from which is expendable to support:		
Health education	\$ 167,986	\$ 166,683
Research, charity, and other	35,222	62,039
Operations	<u>68,478</u>	<u>36,659</u>
Total permanently restricted net assets	<u>\$ 271,686</u>	<u>\$ 265,381</u>

During fiscal years 2017 and 2016, net assets were released from donor restrictions for purchasing property and equipment of \$1,654 and \$8,757, respectively, and incurring expenses of \$46,195 and \$38,193, 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.

17. JOINT VENTURES AND OTHER AFFILIATIONS

Investments in unconsolidated joint ventures, accounted for on the equity method, totaled \$6,355 and \$6,063 as of June 30, 2017 and 2016, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income recognized from these joint ventures, reported in other revenue, was \$1,522 and \$1,531 during the years ended June 30, 2017 and 2016, respectively.

Rush has a majority interest in Rush Health and a majority representation on the Board of Trustees as of June 30, 2017. The addition of RCMC to the network resulted in a restructuring of the governance and membership structure of Rush Health. Rush has recorded equity in Rush Health based on membership interest of 56% or \$3,235 and \$3,484 as of June 30, 2017 and 2016, respectively. Rush has elected not to consolidate its interest in Rush Health, as it expects control to be temporary and believes the effects of consolidation to be immaterial.

18. FUNCTIONAL EXPENSES

Expenses related to the patient care, education, and research services provided by Rush for the years ended June 30, 2017 and 2016, were as follows:

	2017	2016
Health care	\$ 1,747,170	\$ 1,664,857
University services, including research	225,473	215,127
General and administrative	173,020	148,225
Illinois Medicaid hospital assessment	<u>52,596</u>	<u>45,488</u>
Total	<u>\$ 2,198,259</u>	<u>\$ 2,073,697</u>

19. GOODWILL

The changes in the carrying amount of goodwill for the years ended June 30, 2017 and 2016, were as follows:

	2017	2016
Beginning balance	\$ 6,299	\$ 5,639
Acquisition of goodwill	<u>14,084</u>	<u>660</u>
Ending balance	<u>\$ 20,383</u>	<u>\$ 6,299</u>

SUPPLEMENTAL CONSOLIDATING SCHEDULES

RUSH SYSTEM FOR HEALTH
CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2017
(Dollars in thousands)

	RUH and Rush Unvers	ROPH	RUMC	RCMC	Eliminations	Obligated Group	Rush System for Health Parent	Parent Eliminations	Rush System for Health
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$ 57,176	\$ 26,549	\$ 83,725	\$ 15,355	\$ -	\$ 99,080	\$ 161	\$ -	\$ 99,241
Accounts receivable for patient services — net of allowance for doubtful accounts of \$68,178 and \$15,768 for RUMC and RCMC respectively	235,366	18,307	253,673	55,782	-	309,455	-	-	309,455
Other accounts receivable, net	61,328	(2,333)	58,995	-	(486)	58,509	266	(266)	58,509
Self-insurance trust — current portion	25,182	-	25,182	-	-	25,182	-	-	25,182
Other current assets	37,317	3,577	40,894	19,515	-	60,409	22	(22)	60,409
Total current assets	<u>416,369</u>	<u>46,100</u>	<u>462,469</u>	<u>90,652</u>	<u>(486)</u>	<u>552,635</u>	<u>449</u>	<u>(288)</u>	<u>552,796</u>
ASSETS LIMITED AS TO USE AND INVESTMENTS:									
Investments	765,029	15,835	780,864	281,250	-	1,062,114	-	-	1,062,114
Limited as to use by donor or time restriction	544,958	-	544,958	11,276	-	556,234	-	-	556,234
Self-insurance trust — less current portion	116,621	-	116,621	-	-	116,621	-	-	116,621
Total assets limited as to use and investments	<u>1,426,608</u>	<u>15,835</u>	<u>1,442,443</u>	<u>292,526</u>	<u>-</u>	<u>1,734,969</u>	<u>-</u>	<u>-</u>	<u>1,734,969</u>
PROPERTY AND EQUIPMENT — net of accumulated depreciation of \$1,187,249 and \$243,777 for RUMC and RCMC respectively									
	1,224,650	38,030	1,262,680	205,124	-	1,467,804	-	-	1,467,804
OTHER ASSETS	31,014	8,462	39,476	30,803	(8,466)	61,813	-	-	61,813
TOTAL ASSETS	<u>\$ 3,098,641</u>	<u>\$ 108,427</u>	<u>\$ 3,207,068</u>	<u>\$ 619,105</u>	<u>\$ (8,952)</u>	<u>\$ 3,817,221</u>	<u>\$ 449</u>	<u>\$ (288)</u>	<u>\$ 3,817,382</u>
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Accounts payable	53,648	3,897	57,545	20,119	(486)	77,178	339	(339)	77,178
Accrued expenses	240,724	9,245	249,969	24,231	-	274,200	-	-	274,200
Estimated third-party settlements payable	122,211	17,373	139,584	43,233	-	182,817	-	-	182,817
Current portion of accrued liability under self-insurance programs	32,195	-	32,195	4,012	-	36,207	-	-	36,207
Current portion of long-term debt	9,945	-	9,945	2,448	-	12,393	-	-	12,393
Total current liabilities	<u>458,723</u>	<u>30,515</u>	<u>489,238</u>	<u>94,043</u>	<u>(486)</u>	<u>582,795</u>	<u>339</u>	<u>(339)</u>	<u>582,795</u>
LONG-TERM LIABILITIES:									
Accrued liabilities under self-insurance programs — less current portion	165,613	12,042	177,655	16,911	-	194,566	-	-	194,566
Postretirement and pension benefits	68,458	-	68,458	-	-	68,458	-	-	68,458
Long-term debt — less current portion, net	514,013	-	514,013	102,399	-	616,412	-	-	616,412
Line of Credit	-	-	-	32,519	-	32,519	-	-	32,519
Obligations under capital lease and other financing arrangements	20,540	-	20,540	-	-	20,540	-	-	20,540
Other long-term liabilities	74,638	2,351	76,989	17,826	(8,466)	86,349	-	-	86,349
Total long-term liabilities	<u>843,262</u>	<u>14,393</u>	<u>857,655</u>	<u>169,655</u>	<u>(8,466)</u>	<u>1,018,844</u>	<u>-</u>	<u>-</u>	<u>1,018,844</u>
Total liabilities	<u>1,301,985</u>	<u>44,908</u>	<u>1,346,893</u>	<u>263,698</u>	<u>(8,952)</u>	<u>1,601,639</u>	<u>339</u>	<u>(339)</u>	<u>1,601,639</u>
NET ASSETS:									
Unrestricted	1,098,578	63,415	1,161,993	343,791	-	1,505,784	110	51	1,505,945
Temporarily restricted	434,481	104	434,585	3,527	-	438,112	-	-	438,112
Permanently restricted	263,597	-	263,597	8,089	-	271,686	-	-	271,686
Total net assets	<u>1,796,656</u>	<u>63,519</u>	<u>1,860,175</u>	<u>355,407</u>	<u>-</u>	<u>2,215,582</u>	<u>110</u>	<u>51</u>	<u>2,215,743</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,098,641</u>	<u>\$ 108,427</u>	<u>\$ 3,207,068</u>	<u>\$ 619,105</u>	<u>\$ (8,952)</u>	<u>\$ 3,817,221</u>	<u>\$ 449</u>	<u>\$ (288)</u>	<u>\$ 3,817,382</u>

See notes to the consolidated financial statements.

RUSH SYSTEM FOR HEALTH
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(Dollars in thousands)

	RUMC	RCMC	Eliminations	Obligated Group	Rush System for Health Parent	Parent Eliminations	Rush System for Health
REVENUE:							
Patient service revenue (net of contractual allowances and discounts)	\$ 1,709,919	\$ 390,852	\$ -	\$ 2,100,771	\$ -	\$ -	\$ 2,100,771
Provision for uncollectible accounts	(64,374)	(33,625)	-	(97,999)	-	-	(97,999)
Net patient service revenue less provision for uncollectible accounts	1,645,545	357,227	-	2,002,772	-	-	2,002,772
University services:							
Tuition and educational grants	70,510	-	-	70,510	-	-	70,510
Research and other operations	113,013	-	-	113,013	-	-	113,013
Other revenue	70,554	10,949	-	81,503	1,412	(1,412)	81,503
Total revenue	<u>1,899,622</u>	<u>368,176</u>	<u>-</u>	<u>2,267,798</u>	<u>1,412</u>	<u>(1,412)</u>	<u>2,267,798</u>
EXPENSES:							
Salaries, wages, and employee benefits	982,237	201,454	-	1,183,691	280	(280)	1,183,691
Supplies, utilities, and other	580,218	92,636	-	672,854	112	(112)	672,854
Insurance	44,148	(748)	-	43,400	13	(13)	43,400
Purchased services	109,385	38,810	-	148,195	1,007	(1,007)	148,195
Depreciation and amortization	107,096	21,599	-	128,695	-	-	128,695
Interest expense	17,338	4,085	-	21,423	-	-	21,423
Total expenses	<u>1,840,422</u>	<u>357,836</u>	<u>-</u>	<u>2,198,258</u>	<u>1,412</u>	<u>(1,412)</u>	<u>2,198,258</u>
OPERATING INCOME	<u>59,200</u>	<u>10,340</u>	<u>-</u>	<u>69,540</u>	<u>-</u>	<u>-</u>	<u>69,540</u>
NONOPERATING INCOME (EXPENSE):							
Investment income and other	48,320	34,555	-	82,875	-	-	82,875
Unrestricted contributions	2,738	-	-	2,738	-	-	2,738
Fundraising expenses	(8,578)	-	-	(8,578)	-	-	(8,578)
Net gain on sale	-	1,501	-	1,501	-	-	1,501
Change in fair value of interest rate swaps	3,725	3,414	-	7,139	-	-	7,139
Total non-operating income	<u>46,205</u>	<u>39,470</u>	<u>-</u>	<u>85,675</u>	<u>-</u>	<u>-</u>	<u>85,675</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 105,405</u>	<u>\$ 49,810</u>	<u>\$ -</u>	<u>\$ 155,215</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,215</u>

See notes to the consolidated financial statements.

(Continued)

RUSH SYSTEM FOR HEALTH
CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(Dollars in thousands)

	RUMC	RCMC	Obligated Group	Rush System for Health Parent	Parent Eliminations	Rush System for Health
UNRESTRICTED NET ASSETS						
Excess of revenue over expenses	\$ 105,405	\$ 49,810	\$ 155,215	\$ -	\$ -	\$ 155,215
Net assets released from restrictions used for purchase of property and equipment	1,646	8	1,654	-	-	1,654
Postretirement related changes other than net periodic postretirement cost	41,695	-	41,695	-	-	41,695
Other	6,409	(143)	6,266	110	51	6,427
INCREASE IN UNRESTRICTED NET ASSETS	155,155	49,675	204,830	110	51	204,991
RESTRICTED NET ASSETS						
TEMPORARILY RESTRICTED NET ASSETS:						
Pledges, contributions, and grants	47,203	1,146	48,349	-	-	48,349
Net assets released from restrictions	(46,442)	(1,407)	(47,849)	-	-	(47,849)
Net realized and unrealized gains on investments	89,972	909	90,881	-	-	90,881
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	90,733	648	91,381	-	-	91,381
PERMANENTLY RESTRICTED NET ASSETS:						
Pledges and contributions	2,726	28	2,754	-	-	2,754
Investment gains on trustee-held investments	3,551	-	3,551	-	-	3,551
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	6,277	28	6,305	-	-	6,305
INCREASE IN NET ASSETS	252,165	50,351	302,516	110	51	302,677
NET ASSETS — Beginning of year	1,608,010	305,056	1,913,066	-	-	1,913,066
NET ASSETS — End of year	<u>\$ 1,860,175</u>	<u>\$ 355,407</u>	<u>\$ 2,215,582</u>	<u>\$ 110</u>	<u>\$ 51</u>	<u>\$ 2,215,743</u>

See notes to the consolidated financial statements.

(Concluded)