Rush System for Health

Consolidated Financial Statements as of and for the
Years Ended June 30, 2018 and 2017,
Supplemental Consolidating Schedules as of and
for the Year Ended June 30, 2018, and
Independent Auditors' Report

RUSH

RUSH SYSTEM FOR HEALTH

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush System for Health:

We have audited the accompanying consolidated financial statements of Rush System for Health and its subsidiaries (the "System"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, 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, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary 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 listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. This supplementary 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 26, 2018

RUSH SYSTEM FOR HEALTH

CONSOLIDATED BALANCE SHEET

(Dollars in thousands)

	As of June 30, 2018	As of June 30, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 157,303	$ 99,241
Accounts receivable for patient services — net of allowance for doubtful accounts of $81,267 and $83,946 for June 30, 2018 and 2017 respectively	333,444	309,455
Other accounts receivable — net of reserves of $952 and $1,188 as of June 30, 2018 and 2017, respectively	59,464	58,509
Self-insurance trust — current portion	20,346	25,182
Other current assets	67,564	60,409
Total current assets	638,121	552,796
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments	1,141,777	1,062,114
Limited as to use by donor or time restriction	598,020	556,234
Self-insurance trust — less current portion	114,617	116,621
Total assets limited as to use and investments	1,854,414	1,734,969
PROPERTY AND EQUIPMENT — net of accumulated depreciation of $1,511,504 and $1,431,026 as of June 30, 2018 and 2017, respectively	1,497,632	1,467,804
OTHER ASSETS	54,339	61,813
TOTAL ASSETS	$ 4,044,506	$ 3,817,382
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 70,752	$ 77,178
Accrued expenses	308,317	274,200
Estimated third-party settlements payable	180,107	182,817
Current portion of accrued liability under self-insurance program	30,964	36,207
Current portion of long-term debt	13,156	12,393
Total current liabilities	603,296	582,795
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance program — less current portion	181,462	194,566
Postretirement and pension benefits	24,392	68,458
Long-term debt — less current portion, net	598,371	616,412
Line of Credit	36,500	32,519
Obligations under capital lease and other financing arrangements	51,470	20,540
Other long-term liabilities	118,706	86,349
Total long-term liabilities	1,010,901	1,018,844
Total liabilities	1,614,197	1,601,639
NET ASSETS:		
Unrestricted	1,652,774	1,505,945
Temporarily restricted	496,865	438,112
Permanently restricted	280,670	271,686
Total net assets	2,430,309	2,215,743
TOTAL LIABILITIES AND NET ASSETS	$ 4,044,506	$ 3,817,382

See notes to the consolidated financial statements.

RUSH SYSTEM FOR HEALTH

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

(Dollars in thousands)

	For the Years Ended June 30,	
	2018	**2017**
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 2,223,592	$ 2,100,771
Provision for uncollectible accounts	(81,078)	(97,999)
Net patient service revenue less provision for uncollectible accounts	2,142,514	2,002,772
University services:		
Tuition and educational grants	73,409	70,510
Research and other operations	123,440	113,013
Other revenue	93,274	81,503
Total revenue	2,432,637	2,267,798
EXPENSES:		
Salaries, wages, and employee benefits	1,249,522	1,183,691
Supplies, utilities, and other	728,022	672,854
Insurance	58,075	43,400
Purchased services	151,257	148,195
Depreciation and amortization	126,847	128,695
Interest expense	24,932	21,423
Total expenses	2,338,655	2,198,258
OPERATING INCOME	93,982	69,540
NON-OPERATING INCOME (EXPENSE):		
Investment income and other	35,055	82,875
Unrestricted contributions	1,835	2,738
Fundraising expenses	(10,105)	(8,578)
Net gain on sale	1,409	1,501
Change in fair value of interest rate swaps	4,402	7,139
Total non-operating income	32,596	85,675
EXCESS OF REVENUE OVER EXPENSES	$ 126,578	$ 155,215

See notes to the consolidated financial statements.

(Continued)

RUSH SYSTEM FOR HEALTH

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

(Dollars in thousands)

	For the Years Ended June 30,	
	2018	**2017**
UNRESTRICTED NET ASSETS		
Excess of revenue over expenses	$ 126,578	$ 155,215
Net assets released from restrictions used for purchase of property and equipment	1,919	1,654
Postretirement related changes other than net periodic postretirement cost	18,210	41,695
Other	123	6,427
INCREASE IN UNRESTRICTED NET ASSETS	146,830	204,991
RESTRICTED NET ASSETS		
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges, contributions, and grants	61,843	48,349
Net assets released from restrictions	(49,808)	(47,849)
Net realized and unrealized gains on investments	46,717	90,881
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	58,752	91,381
PERMANENTLY RESTRICTED NET ASSETS:		
Pledges and contributions	7,172	2,754
Investment gains on trustee-held investments	1,812	3,551
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	8,984	6,305
INCREASE IN NET ASSETS	214,566	302,677
NET ASSETS — Beginning of year	2,215,743	1,913,066
NET ASSETS — End of year	$ 2,430,309	$ 2,215,743

See notes to consolidated financial statements. *(Concluded)*

RUSH SYSTEM FOR HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the Years Ended June 30,	
	2018	**2017**
OPERATING ACTIVITIES:		
Increase in net assets	$ 214,566	$ 302,677
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	126,847	128,695
Postretirement-related changes other than net periodic postretirement cost	(18,210)	(41,695)
Provision for uncollectible accounts	81,078	97,999
Change in fair value of interest rate swaps	(4,402)	(7,139)
Net unrealized and realized gains on investments	(80,884)	(176,941)
Restricted contributions and investment income received	(15,468)	(11,493)
Investment gains on trustee held investments	(1,812)	(1,264)
Gain on sale of property and equipment	(22,354)	(2,652)
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(105,067)	(128,876)
Accounts payable and accrued expenses	37,910	(18,693)
Estimated third-party settlements payable	(2,710)	(1,446)
Postretirement and pension benefits	(25,856)	(27,986)
Accrued liability under self-insurance program	(14,413)	372
Other changes in operating assets and liabilities	(13,604)	(1,377)
Net cash provided by operating activities	155,621	110,181
INVESTING ACTIVITIES:		
Additions to property and equipment	(190,087)	(208,524)
Acquisition of Castle Orthopedics and Sports Medicine SC, and Castle Surgicenter	-	(18,000)
Proceeds from sale of equipment	78,624	1,581
Purchase of investments	(2,152,407)	(1,377,664)
Sale of investments	2,129,306	1,419,661
Net cash used in investing activities	(134,564)	(182,946)
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	15,468	11,493
Proceeds from Line of Credit	3,981	17,925
Payment of deferred financing costs	(476)	-
Payment of long-term debt	(13,343)	(11,103)
Payment of obligations under capital lease and other financing arrangements	(3,340)	(1,236)
Proceeds from financing arrangements	34,715	-
Net cash provided by financing activities	37,005	17,079
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,062	(55,686)
CASH AND CASH EQUIVALENTS — Beginning of year	99,241	154,927
CASH AND CASH EQUIVALENTS — End of year	$ 157,303	$ 99,241
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest — including capitalized interest of $459 and $767 for the years ended June 30, 2018 and 2017, respectively	$ 25,982	$ 24,659
Noncash additions to property and equipment	$ 16,435	$ 30,027

See notes to consolidated financial statements.

1. ORGANIZATION AND BASIS OF CONSOLIDATION

Rush System for Health ("Rush") 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 Code. Previous to this reorganization, RUMC had an affiliation with RCMC that covers governance and other organization relationships, including an Obligated Group. 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 595 physicians as of June 30, 2018.

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 $162,399 and $148,845 in annual research expenditures during fiscal years 2018 and 2017, 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 45 physicians as of June 30, 2018.

Rush Health - A network of providers whose members include RUH, ROPH, and RCMC effective January 1, 2014. Rush Health has approximately 1,711 physicians and 470 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 94 physicians as of June 30, 2018.

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, 2018, are presented for the purpose of additional analysis of Rush's 2018 consolidated financial statements taken as a whole..

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 70% and 73% of self-pay accounts receivable as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 $1,812 and $1,264 are included within permanently restricted net assets for the years ended June 30, 2018 and 2017, 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 $27,891 and $19,079 as of June 30, 2018 and 2017, 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 non-operating 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. Buildings and building service equipment assets have an estimated useful life of 10 to 80 years, moveable equipment assets have an estimated useful life of 5 to 10 years, and computer software and hardware assets have an estimated useful life of 3 to 5 years.

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 $459 and $767 was capitalized during the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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. Asset retirement obligations are reported in other liabilities in the accompanying consolidated balance sheets and amounted to $21,187 and $21,449 as of June 30, 2018 and 2017, respectively.

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, 2018 and 2017, noncontrolling interests in consolidated subsidiaries amounted to $11,545 and $11,293, 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 $4,606 and $4,442 as of June 30, 2018 and 2017, respectively.

Other Assets

Other assets include investments in joint ventures accounted for on the equity basis, goodwill, insurance recoveries and other intangible assets. RCMC reviews goodwill for impairment annually; no impairment was recorded for the fiscal years ended June 30, 2018 and 2017.

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.

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).

Non-Operating Income (Expense)

Non-operating income (expense) includes items not directly associated with patient care or other activities not relating to the core operations of Rush. Non-operating income (expense) consists primarily of unrestricted investment returns, 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) which 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. ASU 2014-09 also requires expanded disclosures regarding an entity's revenue recognition policies and significant judgments employed in the determination of revenue. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of ASU 2014-09 will result in changes to the presentation and disclosure of revenue from services to patients. Currently, a significant portion of the Rush's provision for uncollectible accounts relates to uninsured patients as well as deductibles and co-pays due from patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from patients are generally considered implicit price concessions that are a direct reduction before recording patient service revenue, with a corresponding significant reduction in the amounts presented separately as provision for doubtful accounts. Although the adoption of ASU 2014-09 will have a significant impact on the amounts presented in certain categories of Rush's Consolidated Statements of Operations and Changes in Net Assets going forward, it will not materially impact Rush's financial position, results of operations or cash flows. Rush adopted the standard effective July 1, 2018 using the full retrospective method.

In August 2016, the FASB issued ASU No. 2016-14, *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 adopted the standard effective July 1, 2018 and it will not materially impact Rush's financial position.

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 January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying among exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Rush is beginning to assess the impact of this standard, which is required to be implemented in fiscal year 2022.

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 2020.

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 twelve 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 continues to assess the impact of the standard, which is required to be implemented in fiscal year 2020.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurements*. The ASU modifies the disclosure requirements on fair value measures in Topic 820, *Fair Value Measurement*. The ASU allows entities to remove disclosures over the transfers between Level 1 and Level 2 of the fair value hierarchy, the policy of timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. Rush is beginning to assess the impact of this standard, which is required to be implemented in fiscal year 2021.

In August 2018, The FASB issued ASU No. 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans. The ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The ASU allows entities to remove disclosures over accumulated comprehensive income and certain information about plan assets. The ASU also requires entities to add disclosures over reasons for significant gains and losses affecting the benefit obligation and any explanation for other significant changes in the benefit obligation or plan assets. Rush is beginning to assess the impact of the standard, which is required to be implemented fiscal year 2021.

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, 2018, the date the consolidated financial statements were available to be issued. There were no significant subsequent events through this date, with the exception of the adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606) and ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities.*

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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, 2018 and 2017, by major payor source, was as follows:

	2018		2017	
Medicare	$ 497,975	22.4 %	$ 463,730	22.1 %
Medicare Managed Care	92,986	4.2	77,211	3.7
Medicaid	145,500	6.5	131,901	6.3
Medicaid Managed Care	195,518	8.8	195,398	9.3
Blue Cross	668,321	30.1	629,264	30.0
Managed care	460,343	20.7	418,219	19.8
Commercial, self-pay, and other	162,949	7.3	185,048	8.8
Total patient service revenue, net of contractual allowances and discounts (but before provision for uncollectible accounts)	$ 2,223,592	100.0 %	$ 2,100,771	100.0 %

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 $56,284 and $66,639 during the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, the Medicaid payment of $110,409 and $119,236 was included in net patient service revenue, representing 5% and 6% of the net patient service revenue for fiscal years 2018 and 2017, respectively, and the tax assessment of $54,125 and $52,597, respectively, was included in supplies, utilities, and other expenses within the consolidated statements of operations and changes in net assets. The state of the Illinois and the Centers for Medicare and Medicaid Services (CMS) has approved a redesign of the Hospital Assessment program effective July 1, 2018. The current system sunset on June 30, 2018. The redesign is not expected to have a material impact on the Obligated Group from the current program.

The following table presents the level of charity care and Medicaid provided for the years ended June 30, 2018 and 2017:

	2018	2017
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program	$ 104,515	$ 97,216
Estimated costs and expenses incurred to provide charity care in the hospitals	33,877	32,056
Total	$ 138,392	$ 129,272

The total number of patients that were either provided charity care directly by Rush or that were covered by the Program represented 25% Rush's total patients in 2018 and 2017.

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 assets limited as to use and investments as of June 30, 2018 and 2017:

	2018	2017
Marketable securities and short-term investments	$ 22,963	$ 23,309
Fixed income securities	485,800	425,291
Public equity securities	218,261	277,126
Fund investments (mutual/commingled)	901,009	833,672
Alternative investments	210,140	175,267
Other	(20,978)	(21,456)
Total assets limited as to use and investments	1,817,195	1,713,209
Beneficial interest in trusts	29,675	27,863
Total assets limited as to use and investments — excluding pledges and grants receivable	1,846,870	1,741,072
Net pledges and grants receivable	27,891	19,079
Total assets limited as to use and investments	1,874,761	1,760,151
Less amount reported as current assets	(20,346)	(25,182)
Assets limited as to use and investments — noncurrent	$ 1,854,415	$ 1,734,969

As of June 30, 2018 and 2017, commitments for additional contributions to alternative investments totaled $133,752 and $94,728, 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, 2018 and 2017, approximates the real return that Rush expects to earn on its investments over the long term and totaled $5,419 and $5,190 for the years ended June 30, 2018 and 2017, respectively. The difference between the total investment return and the amount allocated to operations is reported in non-operating income and totaled $428 and

$5,064 for the years ended June 30, 2018 and 2017, respectively. There is no guarantee that the investment return expected by management will be realized. For the years ended June 30, 2018 and 2017, the total annual investment return was approximately 4.3% and 8.4%, 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, 2018 and 2017, are as follows:

	2018	2017
Interest and dividends	$ 34,345	$ 26,809
Net realized gains on sales of securities	52,658	45,658
Unrealized gains (losses)— unrestricted	(2,920)	58,928
Unrealized gains — restricted	5,141	52,052
	$ 89,224	$ 183,447
Reported as:		
Other operating revenue	$ 5,550	$ 5,538
Nonoperating income	35,050	83,245
Restricted net assets - Net realized/unrealized gains on investments:		
Temporarily restricted net assets	46,812	91,113
Permanently restricted net assets	1,812	3,551
	$ 89,224	$ 183,447

6. FAIR VALUE MEASUREMENTS

As of June 30, 2018 and 2017, Rush held certain assets and liabilities that are required to be measured at fair value on a recurring basis, including marketable securities and short-term investments, certain restricted, trusteed and other investments, derivative instruments, 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 Accounting Standard Codification 820, *Fair Value Measurement*,,, 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, 2018 and 2017:

Fair Value Measurements as of June 30, 2018	**Level 1**	**Level 2**	**Level 3**	**Valued @ NAV**	**Total Fair Value**
Marketable securities and short-term investment	$ 1,736	$ 28	$ -	$ 21,199	$ 22,963
Fixed Income Securities:					
U.S. Government and Agency securities	-	226,069	-	-	226,069
Corporate Bonds	-	212,127	-	-	212,127
Asset Backed Securities and Other	-	47,605	-	-	47,605
Public Equity Securities	218,261	-	-	-	218,261
Fund Investments (Mutual/Commingled):					
Fixed Income Funds	237,138	-	-	-	237,138
Public Equity Funds	214,974	-	-	261,265	476,239
Multi Asset Class Funds	160,367	-	-	27,266	187,633
Alternative Investments:					
Hedge Funds	-	-	-	82,609	82,609
Private Equity Partnerships	-	-	-	74,301	74,301
Private Debt	-	-	-	53,229	53,229
Other:					
Derivative Assets	-	780	-	-	780
Trustee-held Investments	-	-	29,675	-	29,675
Pending Transactions	-	(45,113)	-	-	(45,113)
Total investments	$ 832,476	$ 441,496	$ 29,675	$ 519,869	$ 1,823,516
Obligations under interest rate swap agreements	$ -	$ (11,600)	$ -	$ -	$ (11,600)
Other derivative liabilities	-	(122)	-	-	(122)
Total liabilities at fair value	$ -	$ (11,722)	$ -	$ -	$ (11,722)

At the beginning of fiscal year 2018, $12.0 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, 2017	Level 1	Level 2	Level 3	Valued @ NAV	Total Fair Value
Marketable securities and short-term investment	$ 1,711	$ -	$ -	$ 21,598	$ 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	239,493	-	-	-	239,493
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
Other Investments	-	-	-	-	-
Pending Transactions	-	(45,587)	-	-	(45,587)
Total investments	$ 918,985	$ 379,916	$ 27,863	$ 390,388	$ 1,717,152
Obligations under interest rate swap agreements	$ -	$ (16,002)	$ -	$ -	$ (16,002)
Other derivative liabilities	-	(213)	-	-	(213)
Total liabilities at fair value	$ -	$ (16,215)	$ -	$ -	$ (16,215)

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.

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:

Fixed Income Securities – Fixed income securities consists 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 encompasses collateralized bond obligations, collateralized loan and mortgage obligations 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, 2016	$ 26,599
Actual return on investments — Realized and unrealized losses	1,264
Purchases	-
Sales	-
Fair value — June 30, 2017	27,863
Actual return on investments — Realized and unrealized gains	1,812
Purchases	-
Sales	-
Fair value — June 30, 2018	$ 29,675

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:

Marketable Securities and Short Term Investments – Marketable Securities and Short-Term Investments – Marketable securities and short term investments classified as NAV 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 quality and short term money market instruments with daily liquidity.

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, 2018:

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	$ 115,773	Not currently redeemable	N/A
Private Debt	$ 17,979	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 17% and 18% of Rush's endowment is available for general purposes for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, are as follows:

	Target Allocation and Range	Percentage of Endowment Assets	
Asset Class		**2018**	**2017**
Global equity	55% (+/- 5%)	56 %	56 %
Multi Asset Fund	15% (+/- 5%)	13	19
Private equity	15% (+/- 5%)	17	14
Fixed income	15% (+/- 5%)	15	11

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, 2018 and 2017, respectively, and income from the endowment fund provided $19,190 and $18,217 of support for Rush's programs during the fiscal years ended June 30, 2018 and 2017, respectively.

Composition of Endowment Fund and Reconciliation

The endowment net asset composition by type of fund as of June 30, 2018, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 347,524	$ 280,136	$ 627,660
Board-designated endowment funds	7,454	2,496	534	10,484
Total funds	$ 7,454	$ 350,020	$ 280,670	$ 638,144

Changes in endowment net assets for the fiscal year ended June 30, 2018, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 30, 2017	$ 7,218	$ 319,523	$ 271,686	$ 598,427
Investment return:				
Investment income	47	6,194	532	6,773
Net appreciation (realized and unrealized)	189	43,058	1,812	45,059
Total investment return	236	49,252	2,344	51,832
Contributions	-	610	7,172	7,782
Transfer of endowment appreciation	-	(19,365)	(532)	(19,897)
Endowment net assets — June 30, 2018	$ 7,454	$ 350,020	$ 280,670	$ 638,144

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	7,218	1,973	534	9,725
Total funds	$ 7,218	$ 319,523	$ 271,686	$ 598,427

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

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, 2018 and 2017.

8. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Land and buildings	$ 2,082,657	$ 2,119,394
Equipment	763,476	738,244
Construction in progress	163,003	41,192
Total	3,009,136	2,898,830
Less accumulated depreciation	(1,511,504)	(1,431,026)
Property and equipment, net	$ 1,497,632	$ 1,467,804

Property and equipment, net, includes $39,581 in leased buildings and equipment as of June 30, 2018 and 2017. Accumulated depreciation on leased property and equipment amounted to $22,977 and $21,879 as of June 30, 2018 and 2017, 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, 2018 and 2017, Rush had construction commitments outstanding of $70,937 and $79,788, 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, 2018 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, 2018 and 2017, is as follows:

			Amount Outstanding at June 30,	
	Interest Rates	Final Maturity Date	2018	2017
Illinois Finance Authority Revenue Bonds:				
Fixed-rate revenue bonds:				
Series 2015 A/B	5.00%	November 15, 2039	$ 466,365	$ 474,855
Variable-rate revenue bonds:				
Series 2016	Average of 1.78% and 1.29% in FY2018 and FY2017, respectively	November 1, 2045	50,000	50,000
Series 2011, Tax-Exempt Private Placement with a commercial bank	Average of 2.18% and 1.67% in FY2018 and FY2017, respectively	November 1, 2024	34,665	37,605
Total variable rate debt			84,665	87,605
Total tax-exempt debt			551,030	562,460
Other Debt:				
Mortgage loan, collateralized by fitness center	4.40%	May 2021	2,986	3,924
Line of Credit	2.02%	December 31, 2019	36,500	32,519
Total par value of debt			590,516	598,903
Less current portion of long-term debt			(13,156)	(12,393)
Deferred Financing Costs			(4,606)	(4,442)
Less unamortized premium/(discount), net			62,117	66,863
Long-term debt			$ 634,871	$ 648,931
Estimated fair value based on quoted market prices and other relevant information (Level 2 classification)			$ 580,404	$ 620,635

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, 2018 and 2017.

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

Years Ending June 30	
2019	$ 13,156
2020	50,770
2021	15,095
2022	15,740
2023	16,600
Thereafter	479,155
Total	$ 590,516

Lines of Credit Arrangements

The Obligated Group also had a $100 million short-term line of credit with a bank as of June 30, 2018 and 2017, 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, 2018 and 2017, the Obligated Group had $36,500 and $32,519 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 (1.421% and 0.835% as of June 30, 2018 and 2017, respectively) from the swap counterparties, each calculated on the notional amount of the Swap Agreements. As of June 30, 2018 and 2017, the Swap Agreements had a notional amount of $79,150 and $82,750, respectively ($39,575 in notional amount 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, which were refinanced into the Series 2016 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, 2018 and 2017, the Obligated Group had no collateral posted under Swap Agreements.

The fair value of the Swap Agreements was as follows as of June 30, 2018 and 2017:

		June 30	
	Reported As	**2018**	**2017**
Obligations under Swap Agreements	Other long-term liabilities	$ (11,600)	$ (16,002)
Collateral posted under Swap Agreements	Other current assets	-	-
Obligations under Swap Agreements, net		$ (11,600)	$ (16,002)

The fair value of the Swap Agreements reported in Rush's consolidated balance sheets as of June 30, 2018 and 2017, 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, 2018 and 2017, were as follows:

		Fiscal Years Ended June 30	
	Reported As	**2018**	**2017**
Change in fair value of interest rate swaps	Nonoperating expense	$ 4,402	$ 7,139
Net cash payments on interest rate swaps	Interest expense	(2,323)	(2,807)

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 $1,930 and $2,154 for the years ended June 30, 2018 and 2017, respectively. Assets acquired under capital lease and long-term financing arrangements are included in property and equipment, net, in the accompanying consolidated balance sheets. During fiscal year 2018, two of Rush's joint ventures, Rush Oak Brook Orthopaedic, LLC and Rush Oak Brook Surgery Center, LLC, had draws of $34,715 from a construction line of credit to finance the construction of a new medical office building in Oak Brook, Illinois. The outstanding balance is recorded within other financing arrangements of the accompanying consolidated balance sheet. Payments consist of interest only until March 1, 2018, at which time the line will convert to a term loan with a maturity of March 5, 2026. RUMC guarantees the outstanding balance of the line of credit during construction until the line converts to a term loan, at which time RUMC will guaranty 25% of the outstanding term loan balance until certain metrics within the credit agreement are achieved.

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

Years Ending June 30	
2019	$ 7,324
2020	22,259
2021	5,992
2022	5,992
2023	5,992
Thereafter	16,285
Total minimum payments	63,844
Less amount representing interest	(8,596)
Net present value of obligations under capital lease and other financing arrangements	55,248
Less current portions included in accounts payable	(3,778)
Long-term portion of obligations under capital lease and other financing arrangements	$ 51,470

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.

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, 2018 and 2017.

Obligations and Funded Status	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017
Actuarial present value of benefit obligations — accumulated benefit obligation	$ 1,008,810	$ 1,041,151	$ 6,495	$ 7,516
Change in projected benefit obligations:				
Projected benefit obligation — beginning of measurement period	$ 1,065,233	$ 1,071,828	$ 7,516	$ 7,227
Service costs	21,743	21,444	181	146
Interest costs	43,325	41,637	308	287
Employee Contributions	-	-	413	575
Plan settlements	(406)	(302)	-	-
Actuarial (gain) loss	(47,893)	(22,783)	(1,332)	153
Benefits paid	(49,195)	(46,590)	(591)	(872)
Projected benefit obligation — end of measurement period	$ 1,032,807	$ 1,065,234	$ 6,495	$ 7,516
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	$ 1,003,729	$ 940,438	$ -	$ -
Actual return on plan assets	25,968	69,881	-	-
Employer contributions	34,406	40,302	178	297
Plan participant contributions	-	-	413	575
Plan settlements	(406)	(302)	-	-
Benefits paid	(49,195)	(46,590)	(591)	(872)
Fair value of plan assets — end of measurement period	$ 1,014,502	$ 1,003,729	$ -	$ -
Accrued benefit liability	$ 18,305	$ 61,505	$ 6,495	$ 7,516

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	
	2018	2017	2018	2017
Net periodic pension cost comprised the following:				
Service cost	$ 21,743	$ 21,444	$ 181	$ 146
Interest cost on projected benefit obligation	43,325	41,637	308	287
Expected return on plan assets	(66,486)	(62,472)	-	-
Amortization of prior service cost and other actuarial amounts	(662)	(1,078)		
Recognized actuarial loss (gain)	10,106	13,074	4	(368)
Recognized settlement loss	54	28	-	-
Net periodic pension cost (credit)	$ 8,080	$ 12,633	$ 493	$ 65

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	
	2018	2017	2018	2017
Accrued benefit liability - beginning of measurement period	$ 61,505	$ 131,392	$ 7,516	$ 7,227
Fiscal year activity:				
Net periodic pension cost	8,080	12,632	493	65
Employer contributions	(34,406)	(40,302)	(178)	(297)
Postretirement-related changes other than net periodic postretirement cost:				
Actuarial (gain) loss	(7,376)	(30,193)	(1,332)	153
Reclassification adjustment for losses reflected in periodic expense	(9,498)	(12,024)	(4)	368
Accrued benefit liability - end of measurement period	$ 18,305	$ 61,505	$ 6,495	$ 7,516
Recognized in the consolidated balance sheets as follows:				
Accrued expenses	$ -	$ -	$ 564	$ 564
Noncurrent liabilities	18,305	61,505	7,267	6,952
	$ 18,305	$ 61,505	$ 7,831	$ 7,516

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 increase to unrestricted net assets and total $18,210 and $41,695 for fiscal years 2018 and 2017, respectively. For fiscal year 2018, this amount includes actuarial gains arising during fiscal year 2017 of $8,708 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2018 of $9,502. For fiscal year 2017, this amount includes actuarial losses arising during fiscal year 2017 of $30,039 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2017 of $11,655.

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, 2018 and 2017, are as follows:

	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017
Unrecognized prior service credit	$ 2,595	$ 3,257	$ -	$ -
Unrecognized net actuarial (loss) gain	(255,979)	(273,516)	1,205	(131)
Total	$ (253,384)	$ (270,259)	$ 1,205	$ (131)

An estimated $665 in prior service credit and ($19,284) in net actuarial loss will be included as components of periodic pension expense in fiscal year 2019. An estimated $368 in net actuarial gain will be included as components of periodic postretirement expense in fiscal year 2019.

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			
	2018	2017	2018	2017	2018	2017
Discount rate — benefit obligation	4.45 %	4.15 %	4.45 %	4.05 %	4.45 %	4.15 %
Discount rate — pension expense	4.15	4.10	4.05	3.90	4.15	4.10
Rate of increase in compensation levels	5.42	5.35	-	-	-	-
Expected long-term rate of return on plan assets	7.00	7.00	6.50	6.50	-	-
Health care cost trend rate (initial)	-	-	-	-	6.40	6.60
Health care cost trend rate (ultimate)	-	-	-	-	4.50	4.50
Year the rate reaches ultimate trend rate	-	-	-	-	2038	2038

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 2018 and 2017, 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, 2018 and 2017, the actual rate of return on plan assets was 3.1% and 8.0%, 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, 2018 and 2017 is as follows:

Fair Value Measurements as of June 30, 2018	**Level 1**	**Level 2**	**Level 3**	**Valued @ NAV**	**Total Fair Value**
Marketable securities and short-term investments	$ -	$ -	$ -	$ 10,548	$ 10,548
Fixed Income Securities:					
U.S. Government and Agency securities	-	301,548	-	-	301,548
Corporate Bonds	86,443	344,417	-	-	430,860
Asset Backed Securities and Other	-	35,793	-	-	35,793
Public Equity Securities	86,036	-	-	-	86,036
Fund Investments (Mutual/Commingled):					
Public Equity Funds	9,931	-	-	144,304	154,235
Multi Asset Class Funds	75,814	-	-	-	75,814
Alternative Investments:					
Private Equity Partnerships	-	-	-	20,263	20,263
Other:					
Derivative Assets	-	8,967	-	-	8,967
Pending Transactions	-	(109,618)	-	-	(109,618)
Total Plan Assets	$ 258,225	$ 581,108	$ -	$ 175,115	$ 1,014,447
Liablities					
Derivative Liablities	-	(6,487)	-	-	(6,487)
Total Liabilities at Fair Value	$ -	$ (6,487)	$ -	$ -	$ (6,487)

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	$ 223,855	$ 626,107	$ -	$ 153,135	$ 1,003,097
Liablities					
Derivative Liablities	-	(6,538)	-	-	(6,538)
Total Liabilities at Fair Value	$ -	$ (6,538)	$ -	$ -	$ (6,538)

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.

As of June 30, 2018 and 2017, the defined benefit pension plan's commitments for additional contributions to alternative investments totaled $3,169 and $5,295, 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 2019	$ 35,454	$ 409
Estimated Benefit Payments		
2019	$ 63,975	$ 409
2020	64,210	438
2021	65,648	464
2022	69,723	482
2023	69,845	505
2024 through 2027	360,635	2,819
Total	$ 694,036	$ 5,117

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 $19,901 and $18,124 for the years ended June 30, 2018 and 2017, 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 $26,483 and $23,330 as of June 30, 2018 and 2017, 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 "Plans"). The RUMC plans include a Supplement plan, which was frozen as of December 31, 2014, and replaced with the Executive Retirement Plan. The Plans are noncontributory and annual benefits are credited to each participant's account based on a percentage of qualifying compensation, as defined by the provisions of the plan. Assets set aside to fund the Supplemental Plans amounted to $10,812 and $9,026 as of June 30, 2018 and 2017, respectively, and are included in investments — less current portion in the accompanying consolidated balance sheets. These supplemental retirement plans are currently funded at 93% 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, 2018 and 2017 was as follows:

	2018	2017
Medicare	15 %	14 %
Medicare Managed Care	5	4
Medicaid	10	11
Medicaid Managed Care	15	15
Managed Care	43	47
Commercial	5	2
Self-pay	7	7
Total	100 %	100 %

Products sponsored by Blue Cross Blue Shield of Illinois, the largest health insurer in the market, accounted for 52% and 44% of managed care net patient accounts receivable as of June 30, 2018 and 2017, respectively, and 22% and 21%, 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, 2018 and 2017, RUMC retained self-insurance risk of $5 million each and every claim, and a professional liability self-insurance risk of $10 million each and every claim, with a $10 million annual aggregate buffer, excess 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. 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 $2,000 per claim and $10,000 annual aggregate with a $1,000 per claim and $1,000 aggregate buffer. RCMC also maintains excess liability insurance coverage with combined limits of $35,000 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 $211,920 and $230,773 as of June 30, 2018 and 2017, 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 $20,971 and $28,004 higher than the amounts recorded in the consolidated balance sheets as of June 30, 2018 and 2017, respectively. The discount rates used in calculating the present value by organization was 4% for fiscal years ended June 30, 2018 and 2017. Insurance recoveries are presented separately within noncurrent and current assets in the accompanying consolidated balance sheets, as appropriate. As of June 30, 2018 and 2017, 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 $33,257 and $27,037 for the years ended June 30, 2018 and 2017, 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, 2018, are as follows:

Years Ending June 30	
2019	$ 18,489
2020	16,098
2021	15,183
2022	14,109
2023	11,612
Thereafter	35,377
Total	$ 110,868

On December 29, 2017, Rush entered into a sale leaseback transaction over two properties. The sale resulted in cash proceeds of $76,582, a gain on sale of $20,927 recorded within other operating revenue of the accompanying consolidated statement of operations and a deferred gain on sale of $36,708 recorded within other liabilities of the accompanying consolidated balance sheet. RUMC will lease the space for ten years with future lease payments totaling $42,224 through December 2027.

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, 2018 and 2017:

	2018	2017
Unconditional promises to contribute before unamortized discount and allowance for uncollectibles	$ 29,201	$ 19,773
Less unamortized discount	(741)	(305)
Less allowance for uncollectibles	(569)	(389)
Net unconditional promises to contribute	$ 27,891	$ 19,079
Amounts due in:		
Less than one year	$ 9,754	$ 6,201
One to five years	17,747	11,872
More than five years	1,700	1,700
Total unconditional promises to contribute	$ 29,201	$ 19,773

In addition, Rush has received $36,626 and $2,587 in conditional promises to contribute that are not recognized as assets in the consolidated balance sheets as of June 30, 2018 and 2017, respectively.

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes as of June 30, 2018 and 2017:

	2018	2017
Temporarily Restricted Net Assets:		
Construction and purchase of equipment	$ 1,111	$ 1,981
Health education	16,644	17,354
Research, charity, and other	415,555	359,875
Unappropriated endowment appreciation available for operations	63,555	58,902
Total temporarily restricted net assets	$ 496,865	$ 438,112
Permanently Restricted Net Assets, income from which is expendable to support:		
Health education	$ 172,174	$ 167,986
Research, charity, and other	36,465	35,222
Operations	72,031	68,478
Total permanently restricted net assets	$ 280,670	$ 271,686

During fiscal years 2018 and 2017, net assets were released from donor restrictions for purchasing property and equipment of $1,919 and $1,654, respectively, and incurring expenses of $44,939 and $46,195, 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 $5,911 and $6,355 as of June 30, 2018 and 2017, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income recognized from these joint ventures, reported in other revenue, was $1,588 and $1,522 during the years ended June 30, 2018 and 2017, respectively.

Rush has a majority interest in Rush Health and a majority representation on the Board of Trustees as of June 30, 2018. 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 $3,746 and $3,235 as of June 30, 2018 and 2017, 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, general and administrative services, and the Illinois Medicaid hospital assessment program for the years ended June 30, 2018 and 2017, were as follows:

	2018	2017
Health care	$ 1,864,252	$ 1,747,170
University services, including research	242,588	225,473
General and administrative	177,690	173,020
Illinois Medicaid hospital assessment	54,125	52,596
Total	$ 2,338,655	$ 2,198,259

19. GOODWILL

The changes in the carrying amount of goodwill for the years ended June 30, 2018 and 2017, were as follows:

	2018	2017
Beginning balance	$ 20,383	$ 6,299
Acquisition of goodwill	-	14,084
Ending balance	$ 20,383	$ 20,383

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SUPPLEMENTAL CONSOLIDATING SCHEDULES

RUSH SYSTEM FOR HEALTH
CONSOLIDATING BALANCE SHEET
AS OF JUNE 30, 2018
(Dollars in thousands)

	RUMC	RCMC	Eliminations	Obligated Group	Rush System for Health Parent	Parent Eliminations	Rush System for Health
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$ 136,562	$ 20,320	$ -	$ 156,882	$ 421	$ -	$ 157,303
Accounts receivable for patient services — net of allowance for doubtful accounts of $67,856 and $13,411 for RUMC and RCMC respectively	275,072	58,372	-	333,444	-	-	333,444
Other accounts receivable, net	61,888	-	(2,424)	59,464	-	-	59,464
Self-insurance trust — current portion	20,346	-	-	20,346	-	-	20,346
Other current assets	54,514	13,034	-	67,548	16	-	67,564
Total current assets	548,382	91,726	(2,424)	637,684	437	-	638,121
ASSETS LIMITED AS TO USE AND INVESTMENTS:							
Investments	841,453	300,324	-	1,141,777	-	-	1,141,777
Limited as to use by donor or time restriction	586,326	11,694	-	598,020	-	-	598,020
Self-insurance trust — less current portion	114,617	-	-	114,617	-	-	114,617
Total assets limited as to use and investments	1,542,396	312,018	-	1,854,414	-	-	1,854,414
PROPERTY AND EQUIPMENT — net of accumulated depreciation of $1,246,490 and $265,014 for RUMC and RCMC respectively	1,289,697	207,935	-	1,497,632	-	-	1,497,632
OTHER ASSETS	31,500	29,411	(6,572)	54,339	-	-	54,339
TOTAL ASSETS	$ 3,411,975	$ 641,090	$ (8,996)	$ 4,044,069	$ 437	$ -	$ 4,044,506
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES:							
Accounts payable	50,169	22,704	(2,424)	70,449	354	(51)	70,752
Accrued expenses	283,534	24,783	-	308,317	-	-	308,317
Estimated third-party settlements payable	138,597	41,510	-	180,107	-	-	180,107
Current portion of accrued liability under self-insurance programs	27,920	3,044	-	30,964	-	-	30,964
Current portion of long-term debt	10,600	2,556	-	13,156	-	-	13,156
Total current liabilities	510,820	94,597	(2,424)	602,993	354	(51)	603,296
LONG-TERM LIABILITIES:							
Accrued liabilities under self-insurance programs — less current portion	167,517	13,945	-	181,462	-	-	181,462
Postretirement and pension benefits	24,392	-	-	24,392	-	-	24,392
Long-term debt — less current portion, net	499,427	98,944	-	598,371	-	-	598,371
Line of Credit	-	36,500	-	36,500	-	-	36,500
Obligations under capital lease and other financing arrangements	51,470	-	-	51,470	-	-	51,470
Other long-term liabilities	110,655	14,623	(6,572)	118,706	-	-	118,706
Total long-term liabilities	853,461	164,012	(6,572)	1,010,901	-	-	1,010,901
Total liabilities	1,364,281	258,609	(8,996)	1,613,894	354	(51)	1,614,197
NET ASSETS:							
Unrestricted	1,282,134	370,506	-	1,652,640	83	51	1,652,774
Temporarily restricted	493,194	3,671	-	496,865	-	-	496,865
Permanently restricted	272,366	8,304	-	280,670	-	-	280,670
Total net assets	2,047,694	382,481	-	2,430,175	83	51	2,430,309
TOTAL LIABILITIES AND NET ASSETS	$ 3,411,975	$ 641,090	$ (8,996)	$ 4,044,069	$ 437	$ -	$ 4,044,506

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, 2018

(Dollars in thousands)

	RUMC	RCMC	Obligated Group	Rush System for Health Parent	Parent Eliminations	Rush System for Health
REVENUE:						
Patient service revenue (net of contractual allowances and discounts)	$ 1,827,340	$ 396,252	$ 2,223,592	$ -	$ -	$ 2,223,592
Provision for uncollectible accounts	(46,355)	(34,723)	(81,078)	-	-	(81,078)
Net patient service revenue less provision for uncollectible accounts	1,780,985	361,529	2,142,514	-	-	2,142,514
University services:						
Tuition and educational grants	73,409	-	73,409	-	-	73,409
Research and other operations	123,440	-	123,440	-	-	123,440
Other revenue	85,373	7,901	93,274	1,758	(1,758)	93,274
Total revenue	2,063,207	369,430	2,432,637	1,758	(1,758)	2,432,637
EXPENSES:						
Salaries, wages, and employee benefits	1,043,382	206,140	1,249,522	248	(248)	1,249,522
Supplies, utilities, and other	636,565	91,457	728,022	51	(51)	728,022
Insurance	57,501	574	58,075	6	(6)	58,075
Purchased services	113,331	37,926	151,257	1,453	(1,453)	151,257
Depreciation and amortization	104,304	22,543	126,847	-	-	126,847
Interest expense	19,781	5,151	24,932	-	-	24,932
Total expenses	1,974,864	363,791	2,338,655	1,758	(1,758)	2,338,655
OPERATING INCOME	88,343	5,639	93,982	-	-	93,982
NON-OPERATING INCOME (EXPENSE):						
Investment income and other	16,694	18,361	35,055	-	-	35,055
Unrestricted contributions	1,702	133	1,835	-	-	1,835
Fundraising expenses	(9,487)	(618)	(10,105)	-	-	(10,105)
Net gain on sale	-	1,409	1,409			1,409
Change in fair value of interest rate swaps	2,508	1,894	4,402	-	-	4,402
Total non-operating income	11,417	21,179	32,596	-	-	32,596
EXCESS OF REVENUE OVER EXPENSES	$ 99,760	$ 26,818	$ 126,578	$ -	$ -	$ 126,578

See notes to the consolidated financial statements.

(Continued)

RUSH SYSTEM FOR HEALTH **SCHEDULE II**

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
(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	$ 99,760	$ 26,818	$ 126,578	$ -	$ -	$ 126,578
Net assets released from restrictions used for purchase of property and equipment	1,919	-	1,919	-	-	1,919
Postretirement related changes other than net periodic postretirement cost	18,210	-	18,210	-	-	18,210
Other	252	(102)	150	(27)	-	123
INCREASE IN UNRESTRICTED NET ASSETS	120,141	26,716	146,857	(27)	-	146,830
RESTRICTED NET ASSETS						
TEMPORARILY RESTRICTED NET ASSETS:						
Pledges, contributions, and grants	61,118	725	61,843	-	-	61,843
Net assets released from restrictions	(48,694)	(1,114)	(49,808)	-	-	(49,808)
Net realized and unrealized gains on investments	46,185	532	46,717	-	-	46,717
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS NET ASSETS	58,609	143	58,752	-	-	58,752
PERMANENTLY RESTRICTED NET ASSETS:						
Pledges and contributions	6,957	215	7,172	-	-	7,172
Investment gains on trustee-held investments	1,812	-	1,812	-	-	1,812
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	8,769	215	8,984	-	-	8,984
INCREASE IN NET ASSETS	187,519	27,074	214,593	(27)	-	214,566
NET ASSETS — Beginning of year	1,860,175	355,407	2,215,582	110	51	2,215,743
NET ASSETS — End of year	$ 2,047,694	$ 382,481	$ 2,430,175	$ 83	$ 51	$ 2,430,309

See notes to component financial statements. *(Concluded)*