RUSH

Rush System for Health

Quarterly Report
For the Six Months Ended December 31, 2018
Unaudited

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION IN THIS QUARTERLY REPORT

Certain statements included or incorporated by reference in this Quarterly Report constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” or other similar words.

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

PURPOSE OF THE QUARTERLY REPORT

The purpose of this Quarterly Report is to present certain financial and operating information for the Rush University Medical Center Obligated Group (the Obligated Group consists of Rush University Medical Center ("RUMC"), Rush Oak Park Hospital (“ROPH”), Rush Copley Medical Center (“RCMC”), Copley Memorial Hospital (“CMH”), Rush Copley Foundation (“Copley Foundation”), Copley Ventures (“Copley Ventures”) and Rush Copley Medical Group (“RCMG”)) for the six months ended December 31, 2018 and 2017 and the fiscal years ended June 30, 2018 and 2017, and management’s discussion and analysis of the Obligated Group’s financial condition and results of operations for the six months ended December 31, 2018. This report also provides insights on the quality of earnings reported, significant balance sheet assumptions used and any changes in assumptions used, risks to the balance sheet and statement of operations, and the impact of anticipated future events.

Historically, the Quarterly Reports have been for the Obligated Group. 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 (the "Parent"), led by a board of trustees that oversees the fully integrated academic health system (collectively, the "System"). This new 13-member board of trustees (the “System Board”) is responsible for overseeing the vision and strategy for the System, including RUMC, RCMC, ROPH and their respective subsidiaries. The System Board will initially consist of RUMC and RCMC board members. RUMC, RCMC, and ROPH will each maintain their respective leadership, hospital board and organizational structure. The System Board provides oversight of the System as described in more detail below, but the Parent has minimal assets and operating activities at this time.

The financial and operating data in the Quarterly Report continues to be presented on a consolidated basis for the Obligated Group. Consolidating schedules for the System are included on pages 39-41 of this report. For the six months ended December 31, 2018, the Obligated Group Members constituted approximately 98.8% of the total revenue of the System. See "OVERVIEW OF THE SYSTEM - PRESENTATION OF FINANCIAL INFORMATION" below for additional information.

This report includes the consolidated activities and results of the Obligated Group. The primary activities and consolidated results of the Obligated Group include the hospitals, Rush University education and research activities, Rush University Medical Group ("RUMG"), RUMC’s faculty practice plans, and other physician practice activity as well as other operating activities.

OFFICER'S CERTIFICATE

The undersigned duly appointed and acting Senior Vice President and Chief Financial Officer of Rush University Medical Center, as the Group Representative pursuant to the Master Continuing Disclosure Agreement dated as of February 1, 2015 between the Group Representative, on behalf of itself and the other Members of the Obligated Group, and Digital Assurance Certification, L.L.C., as Dissemination Agent (Dissemination Agent), hereby certifies as follows:

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

2. **Quarterly Report.** Accompanying this Quarterly Report Certificate is the Quarterly Report for the six months ended December 31, 2018.

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

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

IN WITNESS WHEREOF the undersigned has executed and delivered this Quarterly Report Certificate to the Dissemination Agent, which has received such certificate and the Quarterly Report, all as of the 12th day of February, 2019.

RUSH UNIVERSITY MEDICAL CENTER
As Group Representative

By: John P. Mordach
John P. Mordach

Its: Senior Vice President and Chief Financial Officer

Acknowledgment of Receipt:

Digital Assurance Certification (DAC)
As Dissemination Agent

By: Shana Blanchard
Shana Blanchard

Its: Client Service Manager, Deputy Director

OBLIGATED PERSONS

1. Rush University Medical Center ("RUMC")
2. Rush Oak Park Hospital ("ROPH")
3. Copley Memorial Hospital, Inc. ("CMH")
4. Rush Copley Medical Center, Inc. ("RCMC")
5. Rush Copley Foundation ("Copley Foundation")
6. Copley Ventures, Inc. ("Copley Ventures")
7. Rush Copley Medical Group NFP ("RCMG")

Selected Financial Results and Other Information

The selected financial data for the six months ended December 31, 2018 and 2017 are derived from interim unaudited consolidated financial statements of the Obligated Group. The unaudited consolidated financial statements include all adjustments, including normal recurring accruals, which the Obligated Group considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the unaudited six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the audited fiscal year ending June 30, 2019, or any other period. See below for various highlights of the quarterly results:

(Dollars in thousands)

Financial Results for the	Six Months Ended Dec 31, 2018	Six Months Ended Dec 31, 2017	Impact	
Total operating revenue	$ 1,284,214	$ 1,193,995	$ 90,219	7.6%
Total operating expenses (2)	1,260,224	1,146,751	(113,473)	-9.9%
Operating Income before pension settlement	23,990	47,244	(23,254)	-49.2%
Pension settlement expense	25,500	-	(25,500)	
Adjusted operating (loss) income	(1,510)	47,244	(48,754)	-103.2%
Non-operating (expense) income	(37,434)	44,259	(81,693)	-184.6%
Excess of (loss) revenue over expenses	(38,944)	91,503	(130,447)	-142.6%
Operating EBIDA (2)	106,830	124,320	(17,490)	-14.1%

Selected Balance Sheet Information as of	Dec 31, 2018	June 30, 2018	Impact	
Unrestricted cash and investments	$ 1,249,403	$ 1,298,659	$ (49,256)	-3.8%
Restricted cash and investments	704,139	732,982	(28,843)	-3.9%
Accounts receivable for patient services	350,388	333,444	16,944	5.1%
Net property and equipment	1,511,254	1,497,632	13,621	0.9%
Obligated Group indebtedness	685,226	703,289	18,063	2.6%
Postretirement and pension benefits	17,367	24,392	7,025	28.8%
Unrestricted net assets	1,651,911	1,652,640	(729)	0.0%

Selected Cash Flow Information for the	Six Months Ended Dec 31, 2018	Six Months Ended Dec 31, 2017	Impact	
Net cash provided by operating activities	$ 84,682	$ 74,891	$ 9,791	13.1%
Changes in operating assets and liabilities	16,378	(16,746)	33,124	197.8%
Capital expenditures	(97,840)	(80,427)	(17,413)	-21.7%

Note 1: Refer to 'Significant Nonrecurring Items' on page 25 of this Quarterly Report for a listing of items impacting the Obligated Group's reported operating income for the six months ended December 31, 2018 and 2017.

Note 2: In fiscal year 2019, RUMC and ROPH offered an early retirement opportunity ("ERO") to certain eligible employees. The ERO created a $25.5 million pension settlement expense, which is excluded from total operating expenses above. RUMC and ROPH also paid $12.6 million in severance to ERO participants, which is included in total operating expenses within salaries and benefits. See the 'Recent Transactions' on page 31 for additional details.

Financial Ratios

	UNAUDITED	AUDITED FISCAL YEAR			TARGET
	Six Months Ended Dec 31, 2018 Actual	2018 Actual	2017 Actual	2016 Actual	Moody's "A" Median 2017 (2)
Operating Performance:					
Operating Margin (4)	1.9%	3.9%	3.1%	4.2%	2.3%
Excess Margin (1) (4)	3.2%	4.2%	3.7%	5.5%	5.2%
Operating Cash Flow (EBIDA) Margin (4)	8.3%	10.1%	9.7%	10.3%	8.6%
Liquidity:					
Days Cash on Hand (4)	193.3	214.3	204.8	216.7	226.5
Days in Patient Accounts Receivable	56.5	56.8	56.4	52.9	48.4
Financial Position / Debt Capacity:					
Debt to Capitalization	29.3%	29.9%	31.3%	34.7%	32.9%
Debt to Cash Flow (1) (4)	3.0	3.1	3.2	3.0	3.0
Cash to Debt	182.3%	184.7%	169.5%	168.3%	169.6%
Maximum Annual Debt Service Coverage (1) (3) (4)	5.0x	5.4x	5.1x	5.6x	4.7x
Annual Debt Service Coverage (1) (3) (4)	5.4x	6.0x	6.8x	7.6x	5.4x
Average Age of Plant in Years	11.1	11.9	11.1	12.3	11.6
Capital Spending Ratio	1.4	1.5	1.6	1.2	1.3

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

Note 2: As published by Moody's Investor Services, Fiscal Year 2017 Not-for-Profit Healthcare Medians for Freestanding Hospitals, Single-State and Multi-State Healthcare Systems, September 2018.

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

Note 4: In fiscal year 2019, RUMC and ROPH offered an early retirement opportunity ("ERO") to certain eligible employees. The ERO created a $25.5 million pension settlement expense, which is excluded from total operating expenses above. RUMC and ROPH also paid $12.6 million in severance to ERO participants, which is included in total operating expenses within salaries and benefits. See the 'Recent Transactions' on page 31 for additional details.

OVERVIEW OF THE SYSTEM

The System will focus on bringing academic medicine to Chicago's western suburbs and beyond, providing patients and communities with convenient access to RUMC, ROPH, and RCMC'S nationally ranked clinical programs and research studies. A streamlined governance structure will help the System focus on its goal of providing a single level of quality and commitments to communities it serves.

The System Board has certain reserved powers with respect to RUMC and RCMC, including without limitation, the ability to set the strategic plan and budget, approve indebtedness above certain thresholds, approve certain transactions and take certain governance actions. RUMC and RCMC have similar reserved powers over their respective subsidiaries. Dr. Larry Goodman, CEO of RUMC, serves as the CEO of the System. Michael Dandorph, President of RUMC, serves as the President of the System, overseeing the system's strategy and operations. Barry Finn will continue as President and CEO of RCMC and also serves as an executive officer of the System. Susan Crown was appointed Chairman of the Board of RUMC and the System Board effective November 14, 2018. She succeeds William Goodyear, who had served as Chairman of the Medical Center Board since 2013 and the System Board since 2017.

Obligated Group

RUMC and certain of its affiliates are Members of an Obligated Group created under the Master Indenture. The Members of the Obligated Group are:

Rush University Medical Center – RUMC owns and operates an academic medical center located in Chicago, Illinois. Major operations of RUMC include Rush University Hospital, Rush University and Rush University Medical Group. The hospital operations of RUMC are licensed by the State of Illinois to operate 727 beds, of which 684 are currently staffed and include the Johnson R. Bowman Health Center for the Elderly, a rehabilitation and psychiatric facility, and Rush Children's Hospital. According to COMPdata, RUMC is the third largest hospital provider in the eight county Chicago metropolitan area as measured by market share. RUMC is an Illinois not-for-profit corporation, which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

Rush Oak Park Hospital, Inc. – ROPH owns and operates a 296 licensed bed acute care, rehabilitation and skilled nursing hospital, of which 127 beds are currently staffed, located approximately eight miles west of RUMC in Oak Park, Illinois. RUMC is the sole corporate member of ROPH. ROPH is an Illinois not-for-profit corporation, which is exempt from federal income taxes under Section 501(c)(3) of the Code.

Rush Copley Medical Center, Inc. – RCMC serves as the parent holding company for the Copley Members (as defined herein). RCMC supports the other Copley Members by providing administrative, management and related services. RCMC is an Illinois not-for-profit corporation, which is exempt from federal income taxes under Section 501(c)(3) of the Code.

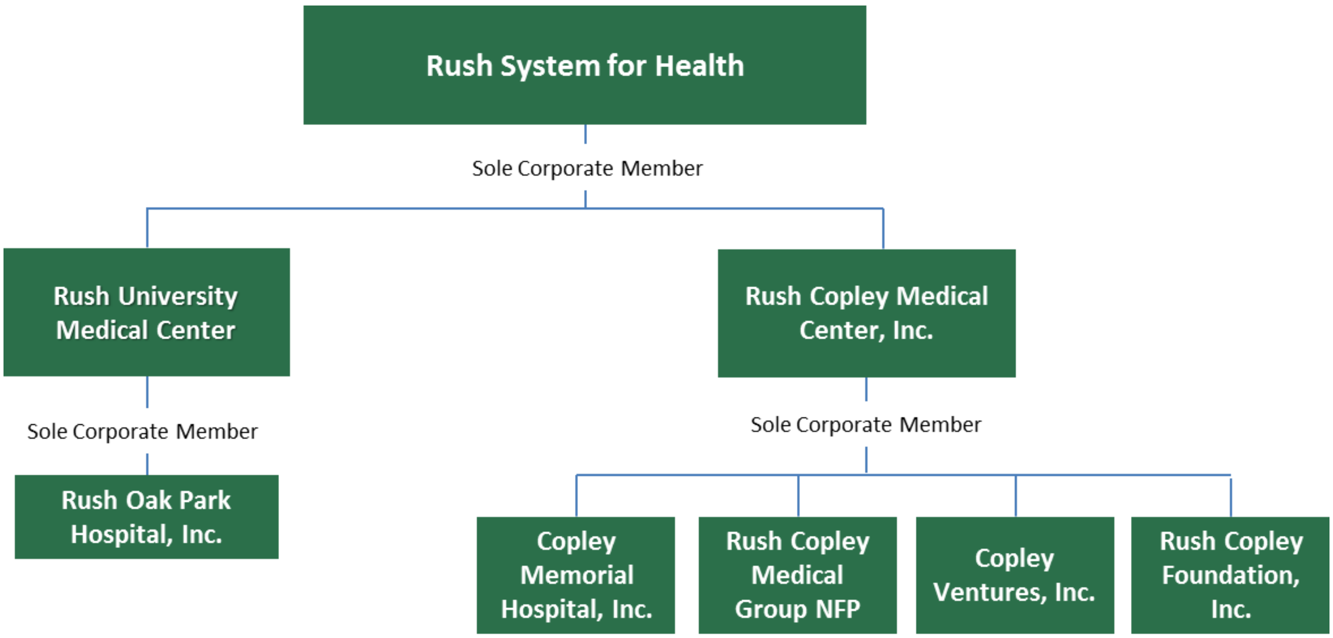
Copley Memorial Hospital, Inc. – CMH owns and operates an acute care hospital located approximately 35 miles west of RUMC in Aurora, Illinois. CMH is licensed by the State of Illinois to operate 210 beds, all of which are currently staffed. CMH is an Illinois not-for-profit corporation, which is exempt from federal income taxes under Section 501(c)(3) of the Code.

Rush Copley Foundation – Copley Foundation solicits contributions to support health care activities in RCMC's service area, including, but not limited to, those of RCMC. Copley Foundation is an Illinois not-for-profit corporation, which is exempt from federal income taxes under Section 501(c)(3) of the Code.

Copley Ventures, Inc. – Copley Ventures holds title to property for rental purposes. Copley Ventures is an Illinois not-for-profit corporation, which is exempt from federal income taxes under Section 501(c)(3) of the Code.

Rush Copley Medical Group NFP – RCMG owns, operates, controls and otherwise coordinates the activities of physician practice health and medical services and provides certain physician billing and administrative services. The RCMG is an Illinois not-for-profit taxable corporation.

The following chart reflects the corporate organizational structure of the System:



Presentation of Financial Information

Although RUMC and the other corporations referenced above are currently the only Obligated Group Members under the Master Indenture, the Parent is not a member of the Obligated Group and also controls, directly or indirectly, a number of other non-member entities whose revenues and expenses and results of operations are included in the consolidated financial statements. The Parent and such non-member joint ventures and investment entities are accounted for in the audited consolidated financial statements and unaudited interim consolidated financial information. Further, the information describing the financial condition of the Obligated Group contained in this quarterly report includes information with respect to these entities which are not Obligated Group Members. For the six months ended December 31, 2018, the Obligated Group Members constituted approximately 98.8% of total revenue of the System.

RUSH UNIVERSITY MEDICAL CENTER

Mission

The mission of RUMC is to improve the health of the individuals and diverse communities we serve through the integration of outstanding patient care, education, research, and community partnerships.

Changes in Management

On October 29, 2018, Rush named Sherine E. Gabriel, MD, MSc, as president of Rush University. Gabriel is the current dean of Rutgers Robert Wood Johnson Medical School and former dean of Mayo Medical School. Gabriel will be only the fourth president of the University and the first whose role will be solely focused on the University. Larry Goodman, MD, who has served as president of Rush University since 2002, will continue to serve as CEO of the Rush System and Rush University Medical Center. The transition will be effective February 1, 2019.

Service Area and Competition

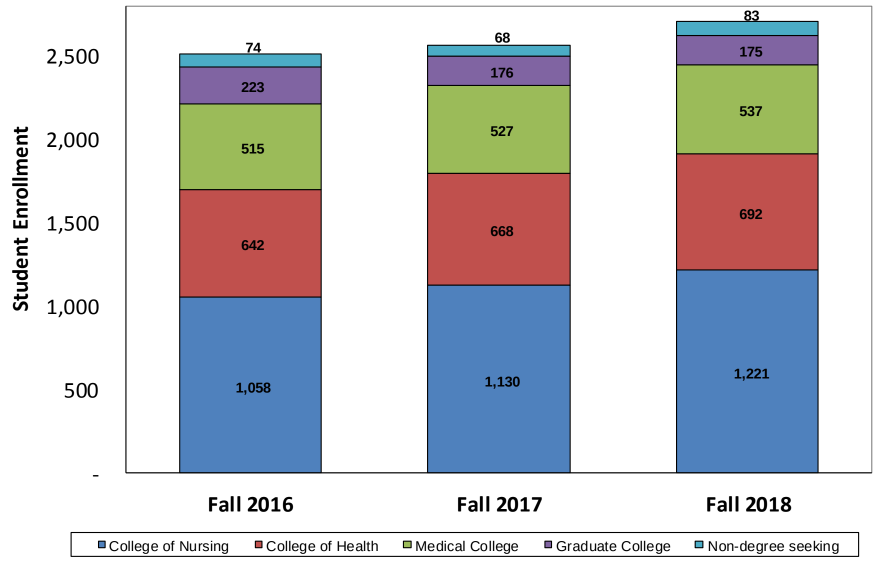
RUMC considers its service area to be the eight counties surrounding and including the City of Chicago. The eight county market area encompasses Cook, DuPage, Kane, Kankakee, Kendall, McHenry, Lake and Will counties. RUMC competes with four other academic medical centers in the Chicago metropolitan area as well as several large suburban hospitals with specialty and local strength. RUMC was the third largest hospital provider in the 8-county Chicago metropolitan area with a market share of 3.4% and 3.2% during the three months ended September 30, 2018 and fiscal year ended June 30, 2018, respectively. In a highly fragmented market, RUMC focuses on building market share in its strategic programs: Neurosciences, Bone and Joint, Cancer Care, High Risk Infant and Mother, Transplant, and Heart and Vascular. RUMC was the market leader in Bone & Joint and Neurosciences, and second in Cancer Care during the three months ended September 30, 2018.

Rush University

Rush University currently offers more than 30 unique degree or certificate options in medicine, nursing, allied health and biomedical research. Rush University is known for its practitioner-teacher model, translational research, nurturing academic environment and focus on community and global health.

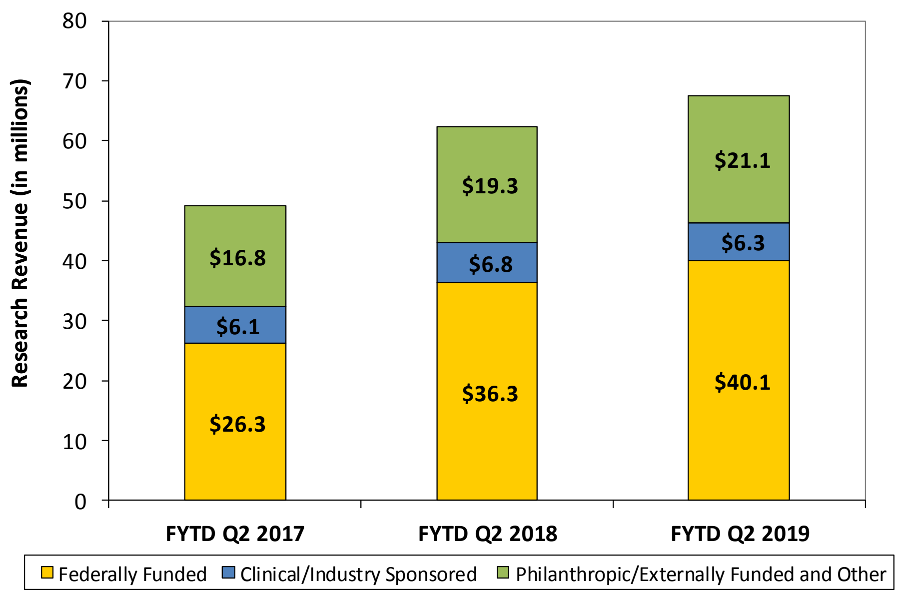
Revenue consists mainly of tuition revenue. Expenses are those instructional expenses required to educate the students. Enrollment continues to grow with 2,708 enrolled at the beginning of the fall 2018 semester. Rush University's teaching model is a teacher-practitioner model with practicing clinicians and other staff teaching students as part of the normal day to day responsibilities. Total enrollment in Rush University for the last three years is shown on the following chart:

Enrollment in Rush University



For the six months ended December 31, 2018 and 2017, RUMC Research reported an excess of expenses over revenue of $18.0 million and $17.5 million, respectively, which was supported from operating income. The breakdown of research revenue can be seen in the chart below for the last three fiscal years.

Total Research Revenue (in millions)



Physician Alignment

RUMC builds relationships with employed and independent physicians through various means. RUMC employs approximately one-half of its medical staff, including those in its highly-ranked neurosurgery practice.

RUMC has also implemented various joint ventures with physicians to provide core services including the following:

- Rush Surgicenter – Outpatient surgery operations at RUMC.
- Circle Imaging – Outpatient imaging operations at RUMC.
- Rush Radiosurgery – Outpatient stereotactic radiosurgery services at RUMC.
- Rush Oak Brook Surgery Center – Outpatient surgery center focused on orthopaedic services

In addition, RUMC has key strategic relationships with Midwest Orthopedics at Rush ("MOR"), a preeminent independent physician practice that is anchored in a building on the RUMC campus that was opened in 2009 by RUMC and MOR physicians. MOR provides a broad spectrum of orthopedics and sports medicine services, and utilizes the facilities at RUMC, the on-campus Rush Surgicenter, and ROPH. In 2011, RUMC entered into a broad umbrella clinical affiliation agreement, for an initial term of 10 years, with DuPage Medical Group ("DMG"), which is a multi-specialty and primary care group with over 425 physicians based in the western suburbs of Chicago. To date, the parties have implemented an affiliated outpatient cancer treatment program with infusion therapy at a newly-developed DMG building in Lisle, Illinois.

Awards

RUMC provides care through a multidisciplinary approach that brings together a team of experts including physicians, scientists, nurses and other specialists to diagnose and treat patients in an integrated manner. This unique combination of teaching, research and patient care has earned RUMC national recognition for a number of its programs. Below is a list of certain awards which RUMC has received over the last two years.

Best Quality:

Vizient **(formerly UHC)** Quality Leadership Awards	In the October 2018 rankings, RUMC is ranked second among 99 leading academic medical centers in the United States in a study conducted by the health care services company Vizient. The study evaluated the medical centers and hospitals on the criteria based on the Institute of Medicine's six domains of care—safety, timeliness, effectiveness, efficiency, equity and patient centeredness.
ANCC Magnet Status	In 2016, for the fourth consecutive time, RUMC has received Magnet designation, the highest national recognition given for nursing excellence. RUMC was the first hospital in Illinois treating both children and adults to achieve Magnet status.
H&H Networks Most Wired	RUMC has been named one of the 2017 "Most Wired" hospitals in the nation by Hospitals & Health Networks.
CMS Overall Hospital Quality Star Rating	In November 2017, RUMC received five stars in the CMS Overall Hospital Quality Star Rating. RUMC is the only five star academic medical center in the Chicago area. The rating is based on 57 quality measures that CMS collects from hospitals and publicly reports. The ratings were developed to help consumers make decisions about where to seek medical treatment.

Becker's Hospital Review ACO to Know	Becker ranked RUMC among the top 110 ACOs to Know in 2017.
Baby-Friendly USA Baby-Friendly Facility	In February 2017, RUMC received the prestigious international recognition as a Baby-Friendly designated birth facility. This designation recognizes RUMC as a medical center that provides the optimal level of care for infant feeding and mother/baby bonding. It is part of a global program sponsored by the World Health Organization and the United Nations Children's Fund.
Health-grades Outstanding Patient Experience	In 2017, RUMC received the Healthgrades Outstanding Patient Experience Award, which recognizes hospitals that provide an overall outstanding patient experience.
ComEd Retro Commission-ing Award	In December 2017, RUMC received the ComEd Retro-commissioning Award for cutting greenhouse gases and energy use.

Best Programs:

US News Best Hospitals	RUMC was named among the best hospitals in America in seven adult specialties for 2018-2019 by U.S. News & World Report.
US News Best Graduate Schools	In the 2019 edition of U.S. News & World Report's "America's Best Graduate Schools" survey released in March 2018, eight programs in the Rush University College of Nursing and two programs in the Rush University College of Health Sciences ranked among the top 10 in the country, while the College of Nursing is ranked fourth in the Doctor of Nursing Practice category and 18th in the master's degree category overall in the nation. The College of Nursing is also ranked 4th among 179 schools listed in the graduate nursing programs category in U.S. News & World Report's 2019 "Best Online Programs" list.
Leapfrog Top Teaching Hospital	In the fall 2017, Rush University Medical Center has been named a Top Teaching Hospital by the Leapfrog Group. Rush is one of only 36 recipients of the Top Teaching Hospital honor nationwide, and one of only two in Illinois. Rush also is among an elite group of only 109 hospitals that Leapfrog recognized in any of its four Top Hospital categories, out of more than 1,800 eligible hospitals nationwide.
THE Top Young Universities	Rush University is ranked 33rd on the Times Higher Education's (THE) 2017 list of the world's top 150 universities under 50 years of age, placing it #2 among all such institutions in the United States.
AARC Apex Award Recognition	RUMC's Department of Respiratory Care was named one of only four winners in the United States for the 2017 Apex Recognition Award from the American Association for Respiratory Care (AARC).

Best People:

Illinois Nurse Foundation 40 Under 40 Emerging Nurse Leader Awards	In the fall of 2018, eight nurses across RUMC, Copley and ROPH achieved recognition from the Illinois Nurse Foundation 40 Under 40 award. The celebration is to recognize exemplary dedication to the nursing profession, dedicated service within the community and the promise to grow in leadership for the advancement of nursing in Illinois.
HRCF Healthcare Equality Index	In March 2018, for the tenth consecutive year, RUMC was recognized as a "Leader in LGBT Healthcare Equality" by the Human Rights Campaign Foundation.
Nurse.org Best Hospitals in Illinois for Nurses	Nurse.org ranked RUMC #1 in its list of Best Hospitals in Illinois for Nurses in 2017. The rankings were based on more than 1500 surveys of nurses at 169 hospitals in the state.
Chicago Magazine Top Doctors	Thirty-five doctors from RUMC were named 'top doctors' in the January 2019 issue of Chicago magazine.
Chicago Magazine Top Doctors	Fifteen doctors from RUMC were named 'top cardiologists' in the June 2018 issue of Chicago magazine.

RUSH COPLEY MEDICAL CENTER

Service Area and Competition

CMH was the market leader in its 15-Zip code primary service area with a market share of 35.8% and 35.9% during the three months ended September 30, 2018 and fiscal year ended June 30, 2018, respectively (primary service area includes the cities of Aurora, Eola, Oswego, Millbrook, Montgomery, Yorkville, Plano, Sandwich, Bristol, Newark, Somonauk, Sugar Grove and Plainfield). CMH is the market leader in its primary service area in the following strategic programs: Cancer Care, Neurosciences, Heart and Vascular, Women's Health, and Emergency Services. CMH also ranked seventh in the state of Illinois for deliveries during the three months ended September 30, 2018.

Physician Alignment

RCMC also seeks to build relationships with employed and independent physicians through various means. A significant strategy for RCMC is the growth of its employed medical groups including RCMG and Fox Valley Cardiovascular Consultants. Additionally, RCMC has joint ventures with physicians to provide core services including the following:

- Yorkville Physical Therapy and Sports Medicine – Outpatient physical therapy.
- Riverwest Radiation Therapy Center – Outpatient radiation therapy treatments.

Awards

Below is a list of some of the awards which RCMC has received over the last two years:

Best Quality:

Leapfrog Patient Safety	In the fall 2018 Hospital Survey, RCMC received a top grade "A" for patient safety from the Leapfrog Group for the 14th consecutive time. The medical center is the only Fox Valley area hospital to have earned "Straight A's" since the scores were first released in 2012.
AACN Gold Beacon Award for Excellence	In the fall of 2018, RCMC received the Gold Beacon Award for Excellence on the Intermediate Care Area by the American Association of Critical-Care Nurses (AACN).
CMS Overall Hospital Quality Star Rating	In November 2017, RCMC received five stars in the CMS Overall Hospital Quality Star Rating. The rating is based on 57 quality measures that CMS collects from hospitals and publicly reports. The ratings were developed to help consumers make decisions about where to seek medical treatment.

Best Programs:

AACVPR Certification	RCMC earned certification of its cardiac rehabilitation program by the American Association of Cardiovascular and Pulmonary Rehabilitation (AACVPR).
American Stroke Association Stroke Gold Plus & Stroke Honor Roll	In 2018, RCMC received the American Stroke Association's Get With The Guidelines® Stroke Gold Plus Achievement Award. The hospital was also a recipient of the American Stroke Association's Target: Stroke Honor Roll Award.
American College of Cardiology Chest Pain Center with PCI Accreditation	In 2017, RCMC earned full accreditation as Chest Pain Center with PCI and Resuscitation from the American College of Cardiology.
ACTION Registry Silver Performance Achievement Award	In 2017, RCMC earned the ACTION Registry Silver Performance Achievement Award based on its commitment to delivering the highest quality care to cardiovascular patients that are high-risk ST-Elevation Myocardial Infarction (STEMI)/Non-ST-Elevation Myocardial Infarction (NSTEMI).

American College of Radiology
ACR Seal of Accreditation

In 2017, RCMC's Radiation Oncology Department was awarded a three-year term of accreditation in radiation oncology by the American College of Radiology (ACR).

College of American Pathologists
Lab Accreditation

In fall 2017, Rush Copley's laboratories were re-accredited by the College of American Pathologists. Every function of the laboratory and respiratory care was inspected, as well the point of care testing on the nursing units. Approximately 3,000 standards were reviewed to satisfy regulations and assure quality results.

Best People:

IBM
Employer Engagement

RCMC is currently ranked in the 92nd percentile nationwide for employer engagement by IBM/Kenexa for health care facilities with 100 or more respondents.

RUSH OAK PARK HOSPITAL

Service Area and Competition

Local competition is strong and represented by integrated delivery system hospitals and for-profit systems. Three of the strategic programs at RUMC are currently integrated at ROPH: Cancer Care, Heart and Vascular, and Bone and Joint. RUMC is the sole corporate member of ROPH. ROPH was the market leader in its 6-Zip code primary service area with a market share of 24.7% and 22.6% during the three months ended September 30, 2018 and fiscal year ended June 30, 2018, respectively (primary service area includes the cities of Oak Park, Forest Park, and River Forest). ROPH focuses on building market share in its strategic programs: Neurosciences, Heart & Vascular, Cancer Care, and Bone & Joint. ROPH was first in Neurosciences and Heart & Vascular, third in Bone & Joint and third in Cancer Care in its primary service area during the three months ended September 30, 2018.

Physician Alignment

ROPH has various relationships with employed and independent physicians. Rush Oak Park Physician Group ("ROPPG") is comprised of seven physician groups that include 53 employed physicians with locations in Oak Park, Elmwood Park and North Riverside communities with Family Practice, Pediatrics and Internal Medicine physicians as well as other specialty services.

Awards

Below is a list of certain awards which ROPH has received over the last two years:

Best Quality:

ANCC
Magnet Status

In 2016, ROPH achieved Magnet designation, the highest national recognition given for nursing excellence by the American Nurses Credentialing Center.

AACN Gold Beacon Award for Excellence	ROPH received the Gold Beacon Award for Excellence on the Intensive Care Unit by the American Association of Critical-Care Nurses (AACN) in the September of 2018.
Health-grades Patient Safety Excellence	In spring 2018, ROPH among Top 10 percent of hospitals in nation recognized for Safety Excellence by Healthgrades.
US News Best Hospitals	In August 2018, ROPH was rated High Performing in COPD, Heart Failure Care by U.S. News.
H&H Networks Most Wired	ROPH has been named one of the 2017 "Most Wired" hospitals in the nation by Hospitals & Health Networks.
Joint Commission Gold Seal of Approval	In 2017, ROPH has again earned The Joint Commission's Gold Seal of Approval for Advanced Certification in Inpatient Diabetes Care.
CMS Overall Hospital Quality Star Rating	In November 2017, ROPH's four stars rating in the CMS Overall Hospital Quality Star Rating was re-affirmed. The rating is based on 57 quality measures that CMS collects from hospitals and publicly reports. The ratings were developed to help consumers make decisions about where to seek medical treatment.
Leapfrog Patient Safety	In the Fall 2018 Hospital Survey, ROPH received a top grade "A" for patient safety from the Leapfrog Group for the 5th consecutive time.
Health-grades Outstanding Patient Experience	In 2017, ROPH received the Healthgrades Outstanding Patient Experience Award, which recognizes hospitals that provide an overall outstanding patient experience.

Best Programs:

ADA Education	ROPH's diabetes program recognized by the American Diabetes Association as meeting the National Standards for Diabetes Self-Management Education.
American Stroke Association Stroke Gold Plus & Stroke Honor Roll Elite	In 2018, ROPH received the American Stroke Association's Get With The Guidelines® Stroke Gold Plus Quality Achievement Award. The hospital was also a recipient of the American Stroke Association's Target: Stroke Honor Roll Elite Award.

US News
Best Hospitals – COPD and Heart Failure

U.S. News & World Report rated ROPH as High Performing in Chronic Obstructive Pulmonary Disease (COPD) and Heart Failure Care in its annual "Best Hospitals" issue, published August 8, 2017. The report also highlighted the hospital's four out of five-star rating in Patient Experience.

US News
Best Hospitals – Skilled Care

In November 2017, Rush Oak Park Hospital again has been recognized as among the best Illinois hospitals for skilled care by U.S. News & World Report.

Best People:

NYU
Improving Care

ROPH is one of 10 hospitals in Illinois to have earned New York University College of Nursing's Nurses Improving Care for Healthsystem Elders designation.

HRCF
Healthcare Equality Index

In March 2018, for the fifth consecutive year, ROPH was recognized as a "Leader in LGBT Healthcare Equality" by the Human Rights Campaign Foundation.

SUMMARY OF HISTORICAL UTILIZATION AND FINANCIAL INFORMATION

Historical Utilization of Services

The following tables summarize certain consolidated historical utilization statistics for the Obligated Group for the six months ended December 31, 2018 and 2017 and the fiscal years ended June 30, 2018 and 2017:

Historical Utilization of Services

	Six Months Ended December 31,		Fiscal Year Ended June 30,	
	2018	**2017**	**2018**	**2017**
Beds:				
Licensed	1,233	1,221	1,221	1,221
Staffed	1,021	1,021	1,021	1,012
Utilization Statistics:				
Admissions	26,306	24,232	49,294	49,566
Patient Days	127,616	120,177	242,424	249,584
Average length of stay	4.85	4.96	4.92	5.04
Adjusted Discharges	57,680	52,759	107,977	105,301
Occupancy:				
RUMC	73.3%	69.4%	70.3%	72.0%
ROPH	43.5%	44.6%	44.0%	46.5%
RCMC	65.2%	57.9%	60.8%	66.0%
Obligated Group	67.9%	64.0%	65.1%	67.6%
Emergency Room Visits:	88,865	88,642	181,126	183,999
Surgical Procedures:				
Inpatient	8,757	8,163	16,172	16,736
Outpatient	16,453	15,142	30,624	29,690
Total	25,210	23,305	46,796	46,426

Summary of Revenues and Expenses

The following selected financial data and additional information contained in this quarterly report describes the financial condition of the Obligated Group. Although RUMC and the other corporations referenced above are currently the only Obligated Group Members under the Master Indenture, RUMC controls, directly or indirectly, a number of other non-member entities whose revenues and expenses and results of operations are included in the Obligated Group audited consolidated financial statements. Such non-member joint ventures and investment entities are accounted for in the Obligated Group audited consolidated financial statements using the equity method of accounting or are consolidated depending upon the control exercised by the applicable Obligated Group Member.

Operating Results

The operating results of the Obligated Group for the six months ended December 31, 2018 and 2017 and the fiscal years ended June 30, 2018 and 2017:

Summary of Statement of Operations

	Six Months Ended December 31,		Fiscal Year Ended June 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Patient service revenue	$ 1,141,483	$ 1,041,535	$ 2,142,515	$ 2,002,772
Other operating revenue	142,731	152,460	290,122	265,026
Total operating revenue	1,284,214	1,193,995	2,432,637	2,267,798
Salaries, wages and employee benefits	672,360	616,590	1,249,522	1,183,691
Supplies, utilities and other	385,986	351,016	728,022	672,853
Professional liability and other insurance	31,077	28,347	58,075	43,400
Purchased services	87,961	73,722	151,257	148,195
Depreciation and amortization	70,959	64,406	126,847	128,695
Interest	11,881	12,670	24,932	21,423
Total operating expenses	1,260,224	1,146,751	2,338,655	2,198,257
Operating income before pension settlement	23,990	47,244	93,982	69,541
Pension settlement expense	25,500	-	-	-
Adjusted operating income	(1,510)	47,244	93,982	69,541
Non-operating income	(37,434)	44,259	32,596	85,674
Excess of (loss) revenue over expenses	$ (38,944)	$ 91,503	$ 126,578	$ 155,215

Liquidity

The following table sets forth the Obligated Group's liquidity, namely unrestricted cash and cash equivalents and marketable securities, which include investments designated for capital purposes. Excluded from liquidity are investments limited as to use for donor purposes, interest in collateral pools, trust assets limited for use to the self-insurance program and debt service reserve funds:

Liquidity

	Six Months Ended December 31,		Fiscal Year Ended June 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Unrestricted cash and cash equivalents	$ 157,288	$ 204,916	$ 156,882	$ 99,080
Unrestricted marketable securities	1,092,115	1,078,512	1,141,777	1,062,114
Total unrestricted cash and marketable securities	1,249,403	1,283,428	1,298,659	1,161,194
Total operating expenses	1,260,224	1,096,949	2,338,655	2,198,257
Depreciation and amortization	70,959	62,788	126,847	128,695
Total operating expenses less depreciation and amortization	$ 1,189,265	$ 1,034,161	$ 2,211,808	$ 2,069,562
Days cash on hand	193.3	218.2	214.3	204.8

Capitalization

The following tables reflect the Obligated Group's historical long-term indebtedness as a percentage of total capitalization for the six months ended December 31, 2018 and 2017 and fiscal years ended June 30, 2018 and 2017:

Historical Long-Term Capitalization

	Six Months Ended December 31,		Fiscal Year Ended June 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Long-term debt	$ 633,333	$ 646,824	$ 648,027	$ 661,324
Capital leases and other financing arrangements	51,893	22,288	55,262	23,888
Total debt	685,226	669,112	703,289	685,212
Unrestricted net assets	1,651,911	1,598,151	1,652,640	1,505,784
Total Capitalization	$ 2,337,137	$ 2,267,263	$ 2,355,929	$ 2,190,996
Capitalization Ratio	29.3%	29.5%	29.9%	31.3%

Sources of Revenue

The majority of revenue received by the Obligated Group is attributable to billed services provided to its patients. The payments made on behalf of these patients are from government programs such as Medicare and Medicaid, from managed care companies under negotiated contracts, from commercial insurance carriers with no negotiated contract and directly from patients. The following is a summary of gross patient service revenue payer mix for the six months ended December 31, 2018 and 2017 and fiscal years ended June 30, 2018 and 2017:

Sources of Gross Patient Service Revenue

	Six Months Ended December 31,		Fiscal Year Ended June 30,	
	2018	**2017**	**2018**	**2017**
Medicare	31.8 %	32.4 %	32.4 %	32.8 %
Medicare Managed Care	7.1	6.6	6.9	5.9
Medicaid	4.4	5.9	5.9	6.1
Medicaid Managed Care	15.7	13.3	13.5	13.6
Blue Cross	24.3	24.5	24.2	24.0
Managed Care	13.2	14.1	13.8	14.3
Commercial & Self-Pay	3.5	3.2	3.2	3.3
Total	100.0 %	100.0 %	100.0 %	100.0 %

Debt Service Coverage

The following table sets forth the actual maximum annual debt service coverage on the Indebtedness of the Obligated Group for the fiscal years ended June 30, 2018 and 2017:

Debt Service Coverage

(In thousands)	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Excess of revenues over expenses	$ 126,578	$ 155,215
Exclude certain special items:		
Change in fair value of interest rate swaps	4,402	7,139
Unrealized gain on trading securities	(1,975)	59,812
Net gain on sales	22,374	2,652
Net Income, excluding special items	101,777	85,612
Depreciation and amortization	126,847	128,695
Interest	24,933	21,423
Income available for debt service	$ 253,557	$ 235,730
Maximum Annual Debt Service Requirement	46,625	46,385
Maximum Annual Debt Service Coverage Ratio	5.4	5.1

Recent Financial Performance – Six Months Ended December 31, 2018 and 2017

Drivers of Performance – Operating Revenue – Operating revenue increased by $90.2 million or 7.6% from the six months ended December 31, 2017 to the six months ended December 31, 2018. The largest contributor to operating revenue is patient service revenue in the hospitals at 74.7% of operating revenue for the six months ended December 31, 2018.

Revenue Sources

	Six Months Ended December 31, 2018 Operating Revenue	2018 % of Total	2017 Operating Revenue	2017 % of Total
Patient Service Revenue:				
Hospitals	$ 960,478	74.7%	$ 881,528	73.8%
Physician Practice Plans	181,004	14.0%	160,008	13.4%
University Services:				
Research	67,508	5.3%	62,437	5.2%
Education (*)	43,206	3.4%	36,069	3.0%
Other Operating Activities	32,019	2.6%	53,953	4.6%
Total	$ 1,284,214	100.0%	$ 1,193,995	100.0%

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

Patient service revenue for the hospitals and physician practice plans combined increased by $99.9 million or 9.6% from the six months ended December 31, 2017 to the six months ended December 31, 2018.

Reimbursement Environment and Payer Mix – Revenue for the hospitals includes payments from government programs such as Medicare and Medicaid, from managed care companies under negotiated contracts, from commercial insurance companies with no negotiated contract, and directly from patients. Governmental payers accounted for 59.0% of the Obligated Group's gross patient service revenues for the six months ended December 31, 2018. There have been modest increases in Medicare reimbursement in the last several years. Effective July 1, 2014, Medicaid reformed and updated its payment system. While the Obligated Group was among several Illinois facilities which would have seen reimbursement decreases due to this change, Medicaid committed to making transitional payments to hold hospitals harmless through June 2018. The state of 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 has not had a material impact on the Obligated Group from the previous program.

The Obligated Group is currently seeing a shift in its traditional payer mix of patients. In an effort to reduce the number of uninsured patients, the ACA provided for the creation of Health Insurance Exchanges ("HIX") and the expansion of Medicaid coverage for adults. This has resulted in increased hospital volume under new Blue Cross HIX plans as well as an increase in the overall Medicaid patient mix. Additionally, the number of self-pay patients has decreased slightly. The State of Illinois has moved a significant portion of its Medicaid population to Managed Care plans. Consequently, the Obligated Group has seen a marked increase in Medicaid Managed Care mix with a concurrent drop in traditional Medicaid.

The combined Hospital Assessment Program's impact on the Consolidated Statements of Operations during the six months ended December 31, 2018 and 2017 and fiscal years ended June 30, 2018 and 2017 was as follows:

Illinois Hospital Assessment Program Impact

	Six Months Ended December 31,		Fiscal Year Ended June 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Patient service revenue	$ 55,290	$ 55,980	$ 110,409	$ 119,236
Supplies, utilities and other expense	32,011	26,854	54,125	52,596
Operating income	$ 23,279	$ 29,126	$ 56,284	$ 66,640

Physician Practice Plans – Total patient service revenue from the physician practice plans increased $20.9 million or 13.1% from the six months ended December 31, 2017 to the six months ended December 31, 2018 mainly due to increased volumes.

Other Operating Revenue – Other operating revenue represented 11.3% of total operating revenue for the six months ended December 31, 2018 and decreased $9.7 million or 6.4% from the six months ended December 31, 2017. Other operating revenue consists primarily of external funding for research and internal fund support to research (47%), tuition and educational grants (30%), and other non-patient care service activities (23%). The decrease in other operating revenue is mainly the result of RUMC recognizing a $20.9 million gain on sale related to two properties during the six months ended December 31, 2017, which was included in other non-patient care service activities.

Drivers of Performance – Operating Expense – Operating expenses increased by $113.4 million or 9.9% from the six months ended December 31, 2017 to the six months ended December 31, 2018. Operating costs as a percentage of operating revenue for the six months ended December 31, 2018 and 2017 and fiscal years ended June 30, 2018 and 2017 were as follows:

Operating Costs as a Percentage of Operating Revenue

	Six Months Ended December 31,		Fiscal Year Ended June 30,	
	2018	2017	2018	2017
Salaries, wages and employee benefits	52.4%	51.6%	51.4%	52.2%
Supplies, utilities and other (including purchased services)	36.9%	35.6%	36.1%	36.2%
Depreciation and amortization	5.5%	5.4%	5.2%	5.7%
Professional liability and other insurance	2.4%	2.4%	2.4%	1.9%
Interest	0.9%	1.1%	1.0%	0.9%

Salaries, Wages and Employee Benefits – Salaries, wages and employee benefits increased by $55.7 million or 9.0% from the six months ended December 31, 2017 to the six months ended December 31, 2018. The increase is the result of the increase in FTEs, employed physicians and the $12.6 million ERO severance payment. See the 'Recent Transactions' on page 31 for additional details related to the ERO severance payment.

The table below shows the employed FTEs and employed physicians for the Obligated Group as of December 31, 2018 and 2017 and June 30, 2018 and 2017:

FTE and Employed Physicians Statistics

	As of Dec 31,		Percent	As of Jun 30,		Percent
	2018	2017	Change	2018	2017	Change
Number of Full-time Equivalents	12,028	11,567	4.0%	11,709	11,611	0.8%
Number of Employed Physicians	779	754	3.3%	734	687	6.8%

Note: Of the 12,028, FTEs, approximately 6.8% of non-clinical employees are represented by a union.

Depreciation and Amortization – Depreciation and amortization expense increased $6.6 million or 10.2% from the six months ended December 31, 2017 to the six months ended December 31, 2018.

Professional Liability and Other Insurance – Professional liability and other insurance expense increased $2.7 million or 9.6% from the six months ended December 31, 2017 to the six months ended December 31, 2018.

Interest Expense – Interest expense was $11.9 million for the six months ended December 31, 2018, which is a decrease of $0.8 million or 6.2% from the six months ended December 31, 2017.

Significant Nonrecurring Items – During the six months ended December 31, 2018 and 2017 significant nonrecurring items impacted the Obligated Group's reported operating income as follows:

(In millions)	Six Months Ended December 31 2018	Dec-18 Operating Margin	Six Months Ended December 31 2017	Dec-17 Operating Margin
Operating income reported	**($1.5)**	**-0.1%**	**$47.2**	**4.0%**
Items impacting operating revenue	(8.9)	-0.7	(22.9)	-1.9
Items impacting operating expenses	39.1	3.0	3.5	0.3
Total adjustments	**30.2**	**2.4**	**(19.4)**	**-1.6**
Adjusted operating income	**$28.7**	**2.2%**	**$27.8**	**2.3%**

Non-operating Income/Expense – Total non-operating expense increased by $81.7 million from the six months ended December 31, 2017 to the six months ended December 31, 2018. Non-operating expense consists of investment income, unrestricted contributions, loss on extinguishment of debt, and interest rate swaps. The decrease is due to a decline in market returns.

Liquidity and Capital Resources – The Obligated Group's unrestricted cash and investments at market value decreased by $49.3 million or 3.8% from June 30, 2018 to December 31, 2018, 193.3 days cash on hand as of December 31, 2018. The decrease is attributable to increased capital expenditures and a slowdown in state of Illinois payments. Included in unrestricted cash and investments was $138.9 million and $124.0 million of Specific Purpose Fund balances as of December 31, 2018 and June 30, 2018, respectively, and $58.3 million and $63.9 million of appreciation on the unrestricted portion of RUMC's endowment as of December 31, 2018 and June 30, 2018, respectively.

Excluded from unrestricted cash and investments is the appreciation on the restricted portion of RUMC's endowment fund of $252.4 million and $283.9 million as of December 31, 2018 and June 30, 2018, respectively. These temporarily restricted funds are used to support specific purposes such as research and education.

The Obligated Group as well as other Illinois hospitals have experienced significant delays in payments by the state of Illinois for amounts due under Medicaid, Medicaid Managed Care, and the Cigna/Aetna State of Illinois insurance programs over the last several years. While the Obligated Group did experience payment slowdowns during certain months of fiscal year 2018, by June 30, 2018 the Obligated Group's state of Illinois payments improved significantly and the overall state of Illinois receivables decreased for the fiscal year. During the first quarter of fiscal year 2019, the Obligated Group received payments from the state of Illinois and receivables remained flat compared to June 30, 2018. The Obligated Group has experienced payment slowdowns in the second quarter of fiscal year 2019. The Obligated Group will continue to closely monitor the outstanding receivables from the state and evaluate any impact of possibly future delays in collections.

Capital Expenditures

Total capital expenditures for the Obligated Group amounted to $97.8 million for the six months ended December 31, 2018, a $17.4 million increase from the six months ended December 31, 2017. The Obligated Group's construction commitments outstanding as of December 31, 2018 and 2017 were $97.0 and $75.1 million, respectively.

MISCELLANEOUS

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.

Rush adopted ASU 2014-09 effective July 1, 2018 using the full retrospective method. The adoption of the new standard did not have a material impact on Rush's recognition of net revenues for any periods prior to adoption. The adoption also did not have a material impact on the amount or timing of when Rush recognized revenue in the three-month period ended September 30, 2018 and is not anticipated to have a material impact prospectively. The most significant impact of adopting the new standard is to the presentation of the consolidated statement of operations and changes in net assets where the "Provision for uncollectible accounts" is no longer presented as a separate line item and instead, revenues are presented net of implicit price concession revenue reductions. Likewise, the disclosure of "Allowance for doubtful accounts" has been eliminated on the consolidated balance sheets as a result of the adoption.

Rush has also assessed the impact of the standard on various reimbursement programs that represent variable consideration, including settlements with third party payors, supplemental state Medicaid programs, and other reimbursement programs. Industry guidance is continuing to develop around these programs and any conclusions in the final industry guidance inconsistent with Rush's application could result in changes to Rush's expectations regarding the impact of this new standard on the consolidated financial statements. Rush does not believe the industry guidance will have an impact on the current accounting policies and procedures related to these reimbursement programs. Rush is monitoring the development of such guidance.

On June 22, 2018, the FASB issued ASU No. 2018-08, Clarifying the scope and the accounting guidance for contributions received and contributions made. The ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made by providing a framework to determine if arrangements (1) should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance (e.g., Topic 606) and (2) determining whether a contribution is conditional.

Rush adopted ASU 2018-08 for contributions received effective July 1, 2018, as required, and the amendments in the update were applied prospectively consistent with the guidance which required they only apply to the portion of revenue that has not yet been recognized in the consolidated financial statements before July 1, 2018 in accordance with previous guidance. As such, there was no cumulative-effect adjustment to the opening balance of net assets and no prior-period results have been restated.

Ratings

Moody's, S&P and Fitch have assigned municipal bond ratings of "A1", "A+" and "AA-," respectively, to the long-term debt of the Obligated Group. As of November 19, 2018, S&P affirmed the Obligated Group's A+ rating and revised the outlook to "Positive". As of December 10, 2018, Fitch upgraded the Obligated Group's rating to AA- and revised the outlook to "Stable". As of January 20, 2017, Moody's affirmed the Obligated Group's A1 rating and "Stable" outlook.

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

Community Benefits

Rush has an established charity care policy and maintains records to identify and monitor the level of charity care it provides. RUMC provides free care to all patients whose family income is 300% of the federal poverty level or less, and a 75% 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. Uninsured patients within 600% of FPL receive a 68% discount. Individuals over 600% of FPL receive a 50% discount.

RCMC provides free care to all patients whose family income is less than 200% of the federal poverty level and a 30% discount to all uninsured patients regardless of ability to pay, also providing discount balances to patients under 600% of the federal poverty level. Interest-free payment plans are also provided. Charity care includes the estimated cost of unreimbursed services provided and supplies furnished under its charity care policy and the excess of cost over reimbursement for Medicaid patients. The estimated cost of charity care provided is determined using a ratio of cost to gross charges and multiplying that ratio by the gross unreimbursed charges associated with providing care to charity patients.

The table below shows the total community benefit provided during the fiscal years 2018 and 2017 by service type:

Community Benefits by Type

	Fiscal Year Ended June 30,			
(In thousands)	**2018**		**2017**	
Unreimbursed care provided to patients in the Hospitals	$ 326,302	73 %	$ 305,377	74 %
Support of education programs	56,281	13	52,017	13
Unreimbursed costs for research	33,224	7	30,391	7
Physician clinics providing primary and preventative care services to uninsured and Medicaid patients	11,971	3	7,966	2
Other	18,345	4	15,341	4
Total	$ 446,124	100 %	$ 411,092	100 %

Pension Plans

RUMC actively manages its defined benefit retirement plans and has established a formal pension risk strategy plan. This plan is reviewed annually by the Investment Committee of the Board. Risk management planning is comprehensive and incorporates plan design, funding, investment policy and risk transfer assessments.

- ***Funded Status*** – RUMC regularly measures its plans' funded status on a PPA Funded Ratio, FAS Funded Ratio and Economic Funded Ratio. These measurements utilize different time periods and discount rates to measure the liability and different smoothing methods for the assets held in the Master Retirement Trust. The FAS Funded Ratio found in the footnotes to the financial statements as of June 30, 2018, reflects a funded ratio of 98%.
- ***Funding*** – For the past eight consecutive calendar years, RUMC contributed more than the minimum required by Employee Retirement Income Security Act and the Code funding rules. During the six months ended December 31, 2018 and 2017, RUMC contributed $13.9 million to the plan.
- ***Investment Policy*** – The portfolio's investment objective is to achieve a total return that meets or exceeds the plan's obligations over a full market cycle. This cycle is generally defined as rolling five year periods.

Effective January 1, 2015, 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.

In addition to the pension programs, Rush also provides postretirement health care benefits for certain employees. Further benefits under the postretirement healthcare plans have been curtailed.

Contingencies

On January 22, 2019, Rush learned that an employee of one of its third-party claims processing vendors improperly disclosed a file containing certain patient information to an unauthorized party. Based on Rush's internal investigation and review, we believe this file included certain personal information, such as name, address, Social Security number, date of birth, and health insurance information, relating to approximately 45,000 Rush patients. No medical history or treatment information was part of the file. After learning of the incident, Rush launched an internal investigation and suspended the contract with the claims processing vendor. The cause of this incident was not internal to Rush but due to an external party. Rush has taken steps relative to its vendors to help prevent this type of incident from happening in the future.

Although Rush is not aware of any misuse of any information arising out of this incident, we are providing notice of the incident to all potentially affected individuals as well as providing notice to the Department of Health and Human Services

Office of Civil Rights and applicable state regulators, as required by law. The notice to individuals includes an offer of complimentary identity protection services for potentially affected individuals as well as detailed information about how to protect against the potential misuse of personal information. Rush has a current Business Associate Agreement with the vendor, and we are reviewing existing indemnification obligations of the vendor and other appropriate defenses.

As an update to discussion in previous filings, the Office of the Inspector General of the Department of Health and Human Services ("OIG") asked RUMC for repayment of approximately $10.2 million in alleged overpayment relating to an audit of certain admissions to RUMC's Inpatient Rehabilitation Facility ("IRF") over a two-year period (2015-2016). In addition, the OIG has advised RUMC to audit four other years of IRF admissions (the "additional four year period"). This OIG audit appears to be part of OIG's nationwide audits of IRF billing. In June-July 2018, National Government Services, RUMC's Medicare Administrator Contractor, recouped $10.3 million from Medicare remittances, consisting of an adjusted $9.8 million the OIG identified plus accrued interest on that amount. RUMC has and will continue to appeal the OIG's determination on these claims and the amount of the recoupment through the appropriate administrative process. Any repayments recouped from or made by RUMC related to this two-year audit period would be offset by any recoveries determined appropriate for RUMC at the end of the appeals process. Further, RUMC is working with relevant federal agencies to resolve potential claims related to the additional four year period and currently anticipates a repayment of approximately $10.8 million.

On December 22, 2017, the United States Congress passed "The Tax Cuts and Jobs Act." The tax reform bill includes certain provisions that may have an unfavorable impact on tax-exempt organizations. These provisions did not have any impact on the System during fiscal year 2018, and the System has estimated an immaterial impact for fiscal year 2019.

In addition, in the ordinary course of business, the System receives new lawsuits containing allegations of professional liability and/or general liability.

Investment Policies

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

The objective of the RUMC self-insurance trust is to fund the self-insurance obligations of RUMC. As of December 31, 2018, the self-insurance trust assets had a market value of $138.7 million versus a market value of $135.0 million as of June 30, 2018. The following table shows the current asset allocation targets and ranges as well as the asset allocation as of December 31, 2018 and June 30, 2018 for the self-insurance trust:

			Percentage Trust Assets as of	
Asset Class	**Target Allocation and Range**		**Dec 31, 2018**	**Jun 30, 2018**
Fixed Income	75%	(+/-5%)	75%	70%
Domestic Equity	25%	(+/-5%)	24%	23%
Cash/Money Market	--	--	1%	7%
Total			100%	100%

RUMC uses the total return concept to record returns on investments in its self-insurance trust. RCMC maintains a portfolio of unrestricted cash and investments which it utilizes to fund its self-insurance obligations.

Interest Rate Swap Agreements

The Obligated Group currently is party to two interest rate swap agreements (the "Swap Agreements"), which were originally entered into in connection with the issuance of the Series 2006A Bonds, which were refinanced during the fiscal year 2009.

Management has not designated the Swap Agreements as hedging instruments. Amounts recorded in the accompanying consolidated statement of operations and changes in net assets for the Swap Agreements for the six months ended December 31, 2018 and 2017 and the fiscal years ended June 30, 2018 and 2017 were as follows:

Swap Disclosures

		Six Months Ended December 31,		Fiscal Year Ended June 30,	
(In Thousands)	Reported As	2018	2017	2018	2017
Change in Fair Value of Interest Rate Swaps	Nonoperating Income (Expense)	$ (458)	$ 1,274	$ 4,402	$ 7,139
Net Cash Payments on Interest Rate Swaps	Interest Expense	$ (879)	$ (1,177)	$ (2,178)	$ (2,767)

The Swap Agreements also require either party to post collateral in the form of cash and certain cash equivalents to secure potential termination payments. The amount of collateral that is required to be posted is based on the relevant party's long-term credit rating. Based on its current rating, the Obligated Group is required to post collateral with the Swap Counterparties in the event that the market value of the Swap Agreements exceeds $(25.0) million or $(12.5) million for each Swap Agreement. As of December 31, 2018, the Obligated Group was not required to post any collateral with the Swap Counterparties.

Affiliations, Merger, Acquisition and Divestiture

Management of the Obligated Group is actively considering and evaluating potential affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, management reviews the use, compatibility and business viability of many of the operations of the Obligated Group, and from time to time Obligated Group Members may pursue changes in the use of, or disposition of, their facilities. The Members of the Obligated Group receive offers from and/or conduct discussions with third-parties about potential affiliations and joint venture opportunities. As a result, it is possible that the current organization, assets, operations and financial condition of the Obligated Group may change from time to time as a result of such affiliations, mergers, acquisitions and divestitures.

In addition to relationships with other hospitals and physicians, the Members of the Obligated Group may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home healthcare, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises that support the overall operations of the Members of the Obligated Group. In addition, the Members of the Obligated Group may pursue transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, management will consider these arrangements if there is a perceived strategic or operational benefit for the Obligated Group. Any such investment, venture, affiliate, development or acquisition may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the Members of the Obligated Group may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the Obligated Group.

Information Technology

The Obligated Group strives to be a national leader for the innovative use of informatics and technology to support safe, effective and efficient patient-centered quality healthcare, empowering customers and partners by advancing technology solutions that enable the Obligated Group to achieve its mission, vision and values. During the six months ended December

31, 2018 and 2017, the Obligated Group has spent $67.8 and $70.4 million, respectively, on IT expenditures, which represents 5.3% and 5.9% of its operating revenue.

Campus Transformation

RUMC is in the initial stages of a strategic master facility plan, which includes new developments on campus as well as other offsite investments.

In October 2018, RUMC received approval by the Illinois Certificate of Need Board to build an eleven-story building of approximately 530,000 square feet, for the provision of outpatient services plus an attached parking deck. The new ambulatory destination center for cancer and neurological care proposed for the campus of RUMC will further the mission to improve health of the individuals and diverse communities we serve through the integration of outstanding patient care, education, research and community partnerships.

The services to be located in the building will focus on RUMC's cancer care and neurosciences programs. Among the outpatient clinical services to be provided are radiation therapy, infusion therapy, integrative medicine and imaging. The building will also serve as a primary site for clinical research and teaching programs offered through Rush University; with medical students, residents and fellows as well as nursing students, imaging and radiation therapy technology students and physicists actively engaged in the building's patient care and research activities.

Construction is planned to begin in fiscal year 2019 with a projected opening in fiscal year 2022. The estimated CON cost is approximately $473 million. RUMC will continue to assess the sizing and pricing of the building over the next fiscal year.

In October 2018, Rush opened an outpatient health center within a new 15-story mixed used residential development in Chicago's South Loop neighborhood. The outpatient center includes primary care, obstetrics and gynecology, pediatrics, allergy, audiology, bariatric surgery, cancer surgery, cardiology, colorectal surgery, dermatology, endocrinology, otolaryngology, integrative behavioral medicine, neurology, pain management, plastic surgery, pulmonology, rheumatology, and urology.

In January 2019, a joint venture between RUMC and Midwest Orthopaedics at Rush opened a state-of-the-art three-story medical professional building in Oak Brook. The medical building is comprised of three primary tenants: a multi-specialty ambulatory surgical treatment center, offices for Midwest Orthopaedics at Rush, and offices for other faculty physicians of RUMC. The outpatient center includes RUMC primary care physicians and specialists in allergy, breast surgery, colorectal surgery, dermatology, gastroenterology, hepatology, neurosurgery, neurology, orthopedics, otolaryngology, plastic surgery, rheumatology, surgical oncology, transplant, and vascular surgery. The building also houses a laboratory and a full slate of comprehensive imaging services such as MRI, CT, general x-ray, mammography, ultrasound, and bone densitometry.

In October 2016, ROPH filed a certificate of need application to build a new emergency department which was approved in January 2017. The new emergency department will increase the square footage from the current emergency department and is projected to open in summer 2019.

Recent Transactions

In fiscal year 2019, RUMC and ROPH offered an early retirement opportunity to a population of employees meeting certain eligibility requirements (at least 10 years of service and over the age of 60 as of December 31, 2018). Participants who elected to take this opportunity received an enhanced retirement benefit package along with a one-time cash payment. The one-time cash payment was for severance with each participant receiving $1,000 per year of service, resulting in total payments of $12.6 million. This one-time cash payment is included within salaries and wages expense in the accompanying consolidated statement of operations and changes in net assets.
This opportunity also resulted in two other one-time accounting charges related to the defined benefit pension plan:

- A special termination benefit, which represents the enhanced pension benefit offered to participants. This benefit is equal to the amount added to participants' cash balance accounts as of December 31, 2018.

- A settlement charge triggered by fiscal year 2019 lump sum payments exceeding the threshold for the year, which equals service cost plus interest cost.

These two non-cash accounting charges total approximately $25.5 million as of December 31, 2018, and is included as a reduction to operating income in the accompanying consolidated statement of operations and changes in net assets. Any additional lump sum payments made during the remainder of fiscal year 2019 will result in additional pension settlement expense.

The initiative will allow RUMC and ROPH to achieve payroll savings in fiscal year 2019 as well as future years.

Subsequent Events

The System has evaluated events occurring subsequent to the balance sheet date through February 12, 2019, the date this quarterly report was issued. There were no material subsequent events during this time period.

CONSOLIDATED FINANCIAL STATEMENTS

RUSH SYSTEM FOR HEALTH
Consolidated Balance Sheets

(Dollars in thousands)

	Unaudited Dec 31, 2018	Note 1 Audited June 30, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 157,709	$ 157,303
Accounts receivable for patient services	350,388	333,444
Other accounts receivable	78,750	59,464
Self-insurance trust— current portion	20,346	20,346
Other current assets	67,107	67,564
Total current assets	674,300	638,121
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments— less current portion	1,092,115	1,141,777
Limited as to use by donor or time restriction or other	565,374	598,020
Self-insurance trust— less current portion	118,419	114,617
Total assets limited as to use and investments	1,775,908	1,854,414
PROPERTY AND EQUIPMENT— At cost:		
Property and equipment	3,089,205	3,009,136
Less accumulated depreciation	(1,577,951)	(1,511,504)
Net property and equipment	1,511,254	1,497,632
OTHER ASSETS	58,015	54,339
TOTAL ASSETS	$ 4,019,477	$ 4,044,506
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 356,493	$ 379,069
Estimated third-party settlements payable	197,171	180,107
Current portion of accrued liability under self-insurance programs	31,479	30,964
Current portion of long-term debt	14,273	13,156
Total current liabilities	599,416	603,296
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance programs— less current portion	203,314	181,462
Postretirement and pension benefits	17,367	24,392
Long-term debt— less current portion	582,560	598,371
Line of credit	36,500	36,500
Obligations under capital lease and other financing arrangements	48,101	51,470
Other long-term liabilities	121,550	118,706
Total long-term liabilities	1,009,392	1,010,901
Total liabilities	1,608,808	1,614,197
NET ASSETS:		
Unrestricted	1,652,045	1,652,774
Temporarily restricted for specific purposes	477,551	496,865
Permanently restricted endowments	281,073	280,670
Total net assets	2,410,669	2,430,309
TOTAL LIABILITIES AND NET ASSETS	$ 4,019,477	$ 4,044,506

Note 1: The June 30, 2018 financial statement information was derived from and should be read in conjunction with the Rush System for Health 2018 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

RUSH SYSTEM FOR HEALTH
Consolidated Statements of Operations and Changes in Net Assets

(Dollars in thousands)

	Unaudited Six Months Ended Dec 31, 2018	Unaudited Six Months Ended Dec 31, 2017	Note 1 Audited Year Ended June 30, 2018
REVENUE:			
Patient service revenue	1,141,483	1,041,535	2,142,514
Tuition and educational programs revenue	38,916	36,070	73,409
Research revenue and net assets released from restriction and used for research and other operations	66,417	61,926	123,440
Other revenue	37,398	54,464	93,274
Total revenue	1,284,214	1,193,995	2,432,637
EXPENSES:			
Salaries, wages and employee benefits	672,360	616,590	1,249,522
Supplies, utilities and other	385,986	351,016	728,022
Insurance	31,077	28,347	58,075
Purchased services	87,961	73,722	151,257
Depreciation and amortization	70,959	64,406	126,847
Interest and fees	11,881	12,670	24,932
Total expenses	1,260,224	1,146,751	2,338,655
OPERATING INCOME BEFORE PENSION SETTLEMENT	23,990	47,244	93,982
Pension settlement expense	25,500	-	-
ADJUSTED OPERATING (LOSS) INCOME	(1,510)	47,244	93,982
NON-OPERATING (EXPENSE) INCOME			
Investment (loss) income and other	(34,349)	46,067	35,055
Unrestricted contributions, net of fundraising expenses	(3,299)	(3,819)	(8,270)
Change in fair value of interest rate swaps	(458)	1,274	4,402
Net gain on sale	672	737	1,409
Total non-operating (expense) income	(37,434)	44,259	32,596
EXCESS OF (LOSS) REVENUE OVER EXPENSES	$ (38,944)	$ 91,503	$ 126,578

Note 1: The June 30, 2018 financial statement information was derived from and should be read in conjunction with the Rush System for Health 2018 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

(Continued)

RUSH SYSTEM FOR HEALTH
Consolidated Statements of Operations and Changes in Net Assets

(Dollars in thousands)

	Unaudited Six Months Ended Dec 31, 2018	Unaudited Six Months Ended Dec 31, 2017	Note 1 Audited Year Ended June 30, 2018
UNRESTRICTED NET ASSETS			
Excess of (loss) revenue over expenses	$ (38,944)	$ 91,503	$ 126,578
Net assets released from restrictions used for the purchase of property and equipment	10,493	509	1,919
Postretirement related changes other than net periodic postretirement cost	25,500	-	18,210
Other	2,221	216	123
(Decrease) Increase in Unrestricted Net Assets	(730)	92,228	146,830
RESTRICTED NET ASSETS			
TEMPORARILY RESTRICTED NET ASSETS:			
Pledges, contributions and grants	41,845	29,974	61,843
Net assets released from restrictions	(34,162)	(25,043)	(49,808)
Net realized and unrealized (losses) gains on investments	(26,996)	32,217	46,717
(Decrease) Increase in Temporarily Restricted Net Assets	(19,313)	37,148	58,752
PERMANENTLY RESTRICTED NET ASSETS:			
Pledges and contributions	1,064	2,448	7,172
Investment (losses) gains on trustee-held investments	(661)	247	1,812
Increase in Permanently Restricted Net Assets	403	2,695	8,984
(DECREASE) INCREASE IN NET ASSETS	(19,640)	132,071	214,566
NET ASSETS—Beginning of period	2,430,309	2,215,743	2,215,743
NET ASSETS—End of period	$ 2,410,669	$ 2,347,814	$ 2,430,309

Note 1: The June 30, 2018 financial statement information was derived from and should be read in conjunction with the Rush System for Health 2018 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

(Concluded)

RUSH SYSTEM FOR HEALTH
Consolidated Statements of Cash Flows

(Dollars in thousands)

	Unaudited Six Months Ended Dec 31, 2018	Unaudited Six Months Ended Dec 31, 2017	Note 1 Audited Year Ended June 30, 2018
OPERATING ACTIVITIES:			
(Decrease) Increase in net assets	$ (19,640)	$ 132,071	$ 214,566
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	70,959	64,406	126,847
Postretirement related changes other than net period postretirement cost	(25,500)	-	(18,210)
Change in fair value of interest rate swaps	458	(1,274)	(4,402)
Net unrealized and realized losses (gains) on investments	62,627	(76,150)	(80,884)
Restricted contributions and investment income received	(16,989)	(5,479)	(15,468)
Investment losses (gains) on trustee held investments	661	(247)	(1,812)
Gain on sale of property and equipment	(4,272)	(21,690)	(22,354)
Changes in operating assets and liabilities:			
Accounts receivable for patient services	(16,944)	9,731	(23,989)
Accounts payable and accrued expenses	(11,159)	25,439	37,910
Estimated third-party settlements payable	17,064	360	(2,710)
Pension and postretirement costs	18,475	(13,768)	(25,856)
Accrued liability under self-insurance programs	22,367	(4,908)	(14,413)
Other changes in assets and liabilities	(13,425)	(33,600)	(13,604)
Net cash provided by operating activities	84,682	74,891	155,621
INVESTING ACTIVITIES:			
Additions to property and equipment	(97,840)	(80,427)	(190,087)
Proceeds from sale of property and equipment	-	76,581	78,624
(Purchase) Sale of investments, net	12,556	42,469	(23,101)
Net cash used in investing activities	(85,284)	38,623	(134,564)
FINANCING ACTIVITIES:			
Proceeds from restricted contributions and investment income	16,989	6,067	15,468
Proceeds from capital lease	22	-	-
Proceeds from line of credit	-	-	3,981
Payment of bond issuance cost	-	-	(476)
Payment of long-term debt	(12,634)	(11,893)	(13,343)
Payment of obligations under capital lease and other financing arrangements	(3,369)	(1,991)	(3,340)
Proceeds from other financing arrangements	-	-	34,715
Net cash provided by financing activities	1,008	(7,817)	37,005
NET INCREASE IN CASH AND CASH EQUIVALENTS	406	105,697	58,062
CASH AND CASH EQUIVALENTS—Beginning of period	157,303	99,241	99,241
CASH AND CASH EQUIVALENTS—End of period	$ 157,709	$ 204,938	$ 157,303

Note 1: The June 30, 2018 financial statement information was derived from and should be read in conjunction with the Rush System for Health 2018 Audited Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

APPENDICES

RUSH SYSTEM FOR HEALTH
Consolidating Balance Sheet Information

As of December 31, 2018

(Dollars in thousands)

	RUMC	RCMC	Obligated Group Consolidated	Rush System for Health Parent	Parent Eliminations	Rush System for Health Consolidated
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 144,288	$ 13,000	$ 157,288	$ 421	$ -	$ 157,709
Accounts receivable for patient services	290,549	59,839	350,388	-	-	350,388
Other accounts receivable	78,546	-	76,122	2,628	-	78,750
Self-insurance trust — current portion	20,346	-	20,346	-	-	20,346
Other current assets	52,649	14,442	67,091	16	-	67,107
Total current assets	586,378	87,281	671,235	3,065	-	674,300
ASSETS LIMITED AS TO USE AND INVESTMENTS:						
Investments — less current portion	818,942	273,173	1,092,115	-	-	1,092,115
Limited as to use by donor or time restriction	553,885	11,489	565,374	-	-	565,374
Self-insurance trust - less current portion	118,419	-	118,419	-	-	118,419
Total assets limited as to use and investments	1,491,246	284,662	1,775,908	-	-	1,775,908
PROPERTY AND EQUIPMENT—At cost:						
Land and buildings	1,782,232	306,715	2,088,947	-	-	2,088,947
Equipment	611,330	169,018	780,348	-	-	780,348
Construction in progress	204,912	14,998	219,910	-	-	219,910
Total property and equipment—at cost	2,598,474	490,731	3,089,205	-	-	3,089,205
Less accumulated depreciation	(1,301,718)	(276,233)	(1,577,951)	-	-	(1,577,951)
Net property and equipment	1,296,756	214,498	1,511,254	-	-	1,511,254
OTHER ASSETS	35,085	29,502	58,015	-	-	58,015
TOTAL	$ 3,409,465	$ 615,943	$ 4,016,412	$ 3,065	$ -	$ 4,019,477
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	$ 319,174	$ 36,812	$ 353,562	$ 2,982	$ (51)	$ 356,493
Estimated third-party settlements payable	155,687	41,484	197,171	-	-	197,171
Current portion of accrued liability under self-insurance programs	28,349	3,130	31,479	-	-	31,479
Current portion of long-term debt	11,647	2,626	14,273	-	-	14,273
Total current liabilities	514,857	84,052	596,485	2,982	(51)	599,416
LONG-TERM LIABILITIES:						
Accrued liability under self-insurance programs— less current portion	188,100	15,214	203,314	-	-	203,314
Postretirement and pension benefits	17,367	-	17,367	-	-	17,367
Long-term debt— less current portion	486,175	96,385	582,560	-	-	582,560
Line of credit	-	36,500	36,500	-	-	36,500
Obligations under capital lease and deferred financing arrangements	48,101	-	48,101	-	-	48,101
Other long-term liabilities	113,500	14,622	121,550	-	-	121,550
Total long-term liabilities	853,243	162,721	1,009,392	-	-	1,009,392
Total liabilities	1,368,100	246,773	1,605,877	2,982	(51)	1,608,808
NET ASSETS:						
Unrestricted	1,294,670	357,241	1,651,911	83	51	1,652,045
Temporarily restricted	473,962	3,589	477,551	-	-	477,551
Permanently restricted	272,733	8,340	281,073	-	-	281,073
Total net assets	2,041,365	369,170	2,410,535	83	51	2,410,669
TOTAL	$ 3,409,465	$ 615,943	$ 4,016,412	$ 3,065	$ -	$ 4,019,477

RUSH SYSTEM FOR HEALTH
Consolidating Statement of Operations and Changes in Net Assets Information

For Six Months Ended December 31, 2018

(Dollars in thousands)

	RUMC	RCMC	Obligated Group Consolidated	Rush System for Health Parent	Parent Eliminations	Rush System for Health Consolidated
REVENUE:						
Patient service revenue	946,412	195,071	1,141,483	-	-	1,141,483
Tuition and educational programs revenue	38,916	-	38,916	-	-	38,916
Research revenue and net assets released from restriction and used for research and other operations	66,417	-	66,417	-	-	66,417
Other revenue	33,485	3,913	37,398	864	(864)	37,398
Total revenue	1,085,230	198,984	1,284,214	864	(864)	1,284,214
EXPENSES:						
Salaries, wages and employee benefits	566,183	106,177	672,360	121	(121)	672,360
Supplies, utilities and other	333,260	52,726	385,986	-	-	385,986
Insurance	28,432	2,645	31,077	-	-	31,077
Purchased services	68,459	19,502	87,961	743	(743)	87,961
Depreciation and amortization	58,247	12,712	70,959	-	-	70,959
Interest	9,260	2,621	11,881	-	-	11,881
Total expenses	1,063,841	196,383	1,260,224	864	(864)	1,260,224
OPERATING INCOME BEFORE PENSION SETTLEMENT	21,389	2,601	23,990	-	-	23,990
Pension settlement expense	25,500	-	25,500	-	-	25,500
ADJUSTED OPERATING (LOSS) INCOME	(4,111)	2,601	(1,510)	-	-	(1,510)
NON-OPERATING INCOME (EXPENSE)						
Investment loss and other	(18,664)	(15,685)	(34,349)	-	-	(34,349)
Unrestricted contributions, net of fundraising expenses	(2,848)	(451)	(3,299)	-	-	(3,299)
Change in fair value of interest rate swaps	(55)	(403)	(458)	-	-	(458)
Net gain on sale	-	672	672	-	-	672
Total non-operating expense	(21,567)	(15,867)	(37,434)	-	-	(37,434)
EXCESS OF LOSS OVER EXPENSES	$ (25,678)	$ (13,266)	$ (38,944)	$ -	$ -	$ (38,944)
SUPPLEMENTAL DISCLOSURES OF OPERATING INFORMATION:						
Operating Margin (before pension settlement expense)	2.0%	1.3%	1.9%			
Operating Cash Flow (EBIDA) Margin (before pension settlement expense)	8.2%	9.0%	8.3%			

(Continued)

RUSH SYSTEM FOR HEALTH
Consolidating Statement of Operations and Changes in Net Assets Information

For Six Months Ended December 31, 2018

(Dollars in thousands)

	RUMC	RCMC	Obligated Group Consolidated	Rush System for Health Parent	Parent Eliminations	Rush System for Health Consolidated
UNRESTRICTED NET ASSETS						
Excess of loss over expenses	$ (25,678)	$ (13,266)	$ (38,944)	$ -	$ -	$ (38,944)
Net assets released from restrictions used for the purchase of property and equipment	10,493	-	10,493	-	-	10,493
Postretirement related changes other than net periodic	25,500	-	25,500	-	-	25,500
Other	2,221	-	2,221	-	-	2,221
INCREASE IN UNRESTRICTED NET ASSETS	12,536	(13,266)	(730)	-	-	(730)
RESTRICTED NET ASSETS						
TEMPORARILY RESTRICTED NET ASSETS:						
Pledges, contributions and grants	41,314	531	41,845	-	-	41,845
Net assets released from restrictions	(33,622)	(540)	(34,162)	-	-	(34,162)
Investment gains (losses)	16,888	(72)	16,816	-	-	16,816
Change in unrealized losses on investments	(43,812)	-	(43,812)	-	-	(43,812)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(19,232)	(81)	(19,313)	-	-	(19,313)
PERMANENTLY RESTRICTED NET ASSETS:						
Pledges and contributions	1,028	36	1,064	-	-	1,064
Investment losses on trustee-held investments	(661)	-	(661)	-	-	(661)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	367	36	403	-	-	403
DECREASE IN NET ASSETS	(6,329)	(13,311)	(19,640)	-	-	(19,640)
NET ASSETS—Beginning of year	2,047,694	382,481	2,430,175	83	51	2,430,309
NET ASSETS—End of year	$ 2,041,365	$ 369,170	$ 2,410,535	$ 83	$ 51	$ 2,410,669

(Concluded)

Financial Results Compared to Budget for the Six Months Ended December 31, 2018

The System Board is required to set the System strategic plan and annual budget as well as approve the strategic plans, annual operating budgets, and the financial and capital priorities for RUMC and RCMC. The budget remains in effect the entire fiscal year. An actual to budget comparison and analysis is presented monthly in the interim financial statements, and the information for the six months ended December 31, 2018 is presented below.

Summary of Statement of Operations

	Six Months Ended Dec 31, 2018		Actual vs Budget Comparison	
(In thousands)	Actual	Budget	Variance	Variance %
Patient service revenue	$ 1,141,483	$ 1,123,298	$ 18,185	1.6%
Other operating revenue	142,731	139,678	3,053	2.2%
Total operating revenue	1,284,214	1,262,976	21,238	1.7%
Salaries, wages and employee benefits	672,360	660,286	(12,074)	-1.8%
Supplies, utilities and other	385,986	372,533	(13,453)	-3.6%
Professional liability and other insurance	31,077	32,173	1,096	3.4%
Purchased services	87,961	88,154	193	0.2%
Depreciation and amortization	70,959	71,889	930	1.3%
Interest	11,881	12,415	534	4.3%
Total operating expenses	1,260,224	1,237,450	(22,774)	-1.8%
Operating income before pension settlement	23,990	25,526	(1,536)	-6.0%
Pension settlement expense	25,500	30,000	4,500	15.0%
Adjusted Operating loss	(1,510)	(4,474)	(6,036)	134.9%
Non-operating (expense) income	(37,434)	18,508	(55,942)	-302.3%
Excess of revenue over expenses	$ (38,944)	$ 14,034	$ (52,978)	-377.5%

Covenant Compliance Certificate

The following calculations are pursuant to the financial covenants expressed in the Amended and Restated Master Trust Indenture dated February 1, 2015 for the Rush University Medical Center Obligated Group.

(Dollars in Thousands)

I. MAXIMUM ANNUAL DEBT SERVICE COVERAGE RATIO:

Net income, excluding net gains and losses on sales [1]		$	76,588
Add: Depreciation expense			133,400
Add: Interest expense			24,143
Revenues available for debt service		$	234,131
Maximum annual debt service		$	46,625
Revenues available for debt service	$ 234,131		5.02
Maximum annual debt service	$ 46,625		
Ratio exceeds 1.20	(please check)		X

II. DAYS CASH ON HAND:

Unrestricted cash and cash equivalents		$	157,288
Add: Unrestricted marketable securities			1,092,115
Unrestricted cash and marketable securities		$	1,249,403
Number of days in period			184
Unrestricted cash and marketable securities x 184		$	229,890,152
Total operating expenses		$	1,260,224
Less: Depreciation expense			(70,959)
Total operating expenses - depreciation expense		$	1,189,265
Unrestricted cash and marketable securities x 184	$ 229,890,152		193.3
Total operating expenses - depreciation expense	$ 1,189,265		
Days exceed 65	(please check)		X

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

[2] Total operating expenses excluded the Pension settlement expense.

Covenant Compliance Certificate - Continued

(Dollars in Thousands)

Net income, excluding net gains and losses on sales [1]			$	76,588
Add: Depreciation expense				133,400
Add: Interest expense				24,143
Revenues available for debt service			$	234,131
Payments of debt			$	19,193
Add: Interest expense				24,143
Annual debt service			$	43,336
Revenues available for debt service	$	234,131		5.40
Annual debt service	$	43,336		
Ratio exceeds 1.10	(please check)			**X**

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