Rush University Medical Center Obligated Group

Consolidated Financial Statements as of and
for the Years Ended June 30, 2016 and 2015,
Single Audit Supplementary Report
for the Year Ended June 30, 2016, and
Independent Auditors' Report

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

TABLE OF CONTENTS

Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush University Medical Center:

We have audited the accompanying consolidated financial statements of Rush University Medical Center Obligated Group (including Rush University Medical Center and Rush-Copley Medical Center) (collectively, "Rush"), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rush as of June 30, 2016 and 2015, and the results of operations and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2016, on our consideration of Rush's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rush's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 27, 2016

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

	As of June 30, 2016	As of June 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 154,927	$ 145,812
Accounts receivable for patient services - net of allowance for doubtful doubtful accounts of $56,545 and $51,535, as of June 30, 2016 and 2015, respectively	277,088	225,330
Other accounts receivable - net of reserves of $4,044 and $2,910 as of June 30, 2016 and 2015, respectively	71,779	52,814
Self-insurance trust - current portion	26,838	31,211
Other current assets	51,705	50,227
Total current assets	582,337	505,394
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments - less current portion	1,008,415	1,002,423
Limited as to use by donor or time restriction or other	484,440	507,036
Self-insurance trust - less current portion	103,432	106,761
Total assets limited as to use and investments	1,596,287	1,616,220
PROPERTY AND EQUIPMENT - net of accumulated depreciation of $1,330,969 and $1,306,334 as of June 30, 2016 and 2015, respectively	1,360,635	1,359,133
OTHER ASSETS	46,946	46,384
TOTAL ASSETS	$ 3,586,205	$ 3,527,131
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 83,821	$ 38,260
Accrued expenses	247,312	281,713
Estimated third-party settlements payable	184,263	170,710
Current portion of accrued liability under self-insurance programs	38,484	44,015
Current portion of long-term debt	11,102	2,507
Total current liabilities	564,982	537,205
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance programs - less current portion	197,600	205,882
Postretirement and pension benefits	138,139	116,296
Line of credit	14,594	-
Long-term debt - less current portion, net	640,612	654,791
Obligations under capital lease and other financing arrangements	22,360	28,415
Other long-term liabilities	94,852	90,523
Total long-term liabilities	1,108,157	1,095,907
Total liabilities	1,673,139	1,633,112
NET ASSETS:		
Unrestricted	1,300,954	1,267,087
Temporarily restricted	346,731	364,206
Permanently restricted	265,381	262,726
Total net assets	1,913,066	1,894,019
TOTAL LIABILITIES AND NET ASSETS	$ 3,586,205	$ 3,527,131

See notes to consolidated financial statements.

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

	For the Years Ended June 30, 2016	2015
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,980,369	$ 1,879,903
Provision for uncollectible accounts	(64,001)	(68,631)
Net patient service revenue less provision for uncollectible accounts	1,916,368	1,811,272
University services:		
Tuition and educational grants	68,029	66,757
Research and other operations	102,177	98,518
Other revenue	78,308	110,528
Total revenue	2,164,882	2,087,075
EXPENSES:		
Salaries, wages, and employee benefits	1,107,285	1,027,403
Supplies, utilities, and other	647,045	624,353
Insurance	52,109	39,452
Purchased services	135,042	131,166
Depreciation and amortization	108,454	122,001
Interest	23,627	37,580
Pension settlement expense	135	12,464
Total expenses	2,073,697	1,994,419
OPERATING INCOME	91,185	92,656
NONOPERATING INCOME (EXPENSE):		
Investment income and other	16,287	8,225
Unrestricted contributions	9,719	6,246
Fundraising expenses	(7,997)	(7,159)
Change in fair value of interest rate swaps	(5,050)	(711)
Net gain on sale	1,501	1,501
Loss on extinguishment of debt	(826)	(117,694)
Total nonoperating income (expense)	13,634	(109,592)
EXCESS OF REVENUE (LOSS) OVER EXPENSES	$ 104,819	$ (16,936)

(Continued)

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

	For the Years Ended June 30, 2016	2015
UNRESTRICTED NET ASSETS		
Excess of revenue (loss) over expenses	$ 104,819	$ (16,936)
Net assets released from restrictions used for purchase of property and equipment	8,757	7,604
Postretirement related changes other than net periodic postretirement cost	(79,802)	(41,466)
Pension settlement expense		
Other	93	109
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	33,867	(50,689)
RESTRICTED NET ASSETS		
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges, contributions, and grants	32,681	28,114
Net assets released from restrictions	(46,949)	(43,037)
Net realized and unrealized (losses) gains on investments	(3,207)	9,473
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(17,475)	(5,450)
PERMANENTLY RESTRICTED NET ASSETS:		
Pledges and contributions	4,400	5,724
Investment losses on trustee-held investments	(1,745)	(269)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	2,655	5,455
INCREASE (DECREASE) IN NET ASSETS	19,047	(50,684)
NET ASSETS — Beginning of year	1,894,019	1,944,703
NET ASSETS — End of year	$ 1,913,066	$ 1,894,019

See notes to consolidated financial statements.

(Concluded)

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

	For the Years Ended June 30, 2016	2015
OPERATING ACTIVITIES:		
Increase (Decrease) in net assets	$ 19,047	$ (50,684)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	108,454	122,001
Postretirement-related changes other than net periodic postretirement cost	79,802	41,466
Provision for uncollectible accounts	64,001	68,631
Change in fair value of interest rate swaps	5,050	711
Net unrealized and realized gains on investments	(9,527)	(13,661)
Restricted contributions and investment income received	(10,800)	(17,051)
Investment losses on trustee held investments	1,745	269
Net gain on sale	(3,625)	(1,501)
Loss on extinguishment of debt	826	117,694
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(115,771)	(82,603)
Accounts payable and accrued expenses	16,900	15,970
Estimated third-party settlements payable	13,553	15,058
Postretirement and pension benefits	(57,959)	21,349
Accrued liability under self-insurance program	(13,813)	2,187
Other changes in operating assets and liabilities	(14,631)	18,110
Net cash provided by operating activities	83,252	257,946
INVESTING ACTIVITIES:		
Additions to property and equipment	(125,844)	(128,351)
Proceeds from sale of Atlas Physical Therapy	2,129	-
Proceeds from settlement	9,000	-
Purchase of investments	(935,716)	(1,123,219)
Sale of investments	957,459	1,000,417
Net cash used in investing activities	(92,972)	(251,153)
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	14,189	16,764
Refunding of long-term debt	(50,000)	(558,355)
Proceeds from issuance of long-term debt	50,000	562,842
Proceeds from line of credit	14,594	-
Payment of bond issuance costs	(290)	(4,486)
Payment of long-term debt	(2,506)	(12,924)
Payment of obligations under capital lease and other financing arrangements	(7,152)	(4,212)
Net cash provided by (used in) financing activities	18,835	(371)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,115	6,422
CASH AND CASH EQUIVALENTS — Beginning of year	145,812	139,390
CASH AND CASH EQUIVALENTS — End of year	$ 154,927	$ 145,812
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest — including capitalized interest of $666 and $968 for the years ended June 30, 2016 and 2015, respectively	$ 34,061	$ 30,811
Noncash additions to property and equipment	1,641	2,449

See notes to consolidated financial statements.

1. ORGANIZATION AND BASIS OF CONSOLIDATION

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

Rush University Medical Center

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

RUH — Consists of an acute care hospital and the Johnson R. Bowman Health Center for the Elderly, a rehabilitation and psychiatric facility, licensed in total for 713 beds. RUH also includes a faculty practice plan, Rush University Medical Group, which employed 512 physicians as of June 30, 2016.

Rush University — A health sciences university that educates students in health-related fields. This includes Rush Medical College, the College of Nursing, the College of Health Sciences, and the Graduate College. Rush University also includes a research operation with $140,742 and $130,949 in annual research expenditures during fiscal years 2016 and 2015, respectively.

ROPH — A 296-licensed bed acute care, rehabilitation, and skilled nursing hospital located in Oak Park, Illinois, eight miles west of RUH. ROPH includes an employed medical group, which employed 42 physicians as of June 30, 2016.

Rush Health is a network of providers whose members include RUH, ROPH, and RCMC effective January 1, 2014. Rush Health has approximately 1,057 physicians and 357 allied health providers who are on the medical staff of the member hospitals. Collectively, the Obligated Group members own 56% of Rush Health. The financial results of Rush Health are not consolidated with the financial results of Rush and are accounted for using the equity method of accounting (see Note 17).

Rush-Copley Medical Center

RCMC is the sole corporate member of Copley Memorial Hospital, Inc., a 210-bed licensed acute care hospital located in Aurora, Illinois, which includes an employed medical group of 75 physicians as of June 30, 2016.

RUMC and RCMC are affiliated for the purpose of advancing their missions in patient care, education, research, and community service through formal affiliation agreements, which cover governance and other organizational relationships. Pursuant to the Amended and Restated Master Trust Indenture dated February 1, 2015, RUMC and RCMC established an Obligated Group of which both are members. RUMC and RCMC are jointly and severally liable for certain debt issued through the Illinois Finance Authority (see Note 9).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) as recommended in the *Audit and Accounting Guide for Health Care Organizations* published by the American Institute of Certified Public Accountants.

Basis of Consolidation

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

The supplemental consolidating balance sheet information and consolidating statement of operations and changes in net asset information as of and for the year ended June 30, 2016, are presented for the purpose of additional analysis of Rush's 2016 consolidated financial statements taken as a whole. RUMC amounts included in the supplemental consolidating schedules exclude RUMC's controlling interest in RCMC.

Use of Estimates

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

Cash and Cash Equivalents

Cash and investments having an original maturity of 90 days or less when purchased are considered to be cash and cash equivalents. These securities are so near maturity that they present insignificant risk of changes in value.

Net Patient Service Revenue, Patient Accounts Receivable, and Allowance for Doubtful Accounts

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors, patients, and others for services rendered. Rush has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payors.

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

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

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

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

The allowance for doubtful accounts for self-pay patients was 78% and 75% of self-pay accounts receivable at June 30, 2016 and 2015, respectively. Rush does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Charity Care

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

Inventory

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

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, investments, derivative instruments, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and estimated third-party settlements approximated their financial statement carrying amount as of June 30, 2016 and 2015, because of their short-term maturity. The fair value of the other instruments is disclosed in Notes 6, 9, and 12.

Assets Limited as to Use and Investments

Assets limited as to use consist primarily of investments limited as to use by donors, unconditional promises to contribute, assets held by trustees under debt or other agreements and for self-insurance, and board-designated assets set aside for a specified future use. Investments in equity and debt securities with readily determinable fair values are measured at fair value using quoted market prices or model-driven valuations.

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

Investments in hedge funds are measured at fair market value based on Rush's interest in the net asset value (NAV) of the respective fund. The estimated valuations of hedge fund investments are subject to uncertainty and could differ had a ready market existed for these investments. Such differences could be material. Investments in private equity funds entered into on or after July 1, 2012, are measured at fair market value based on the estimated fair values of the nonmarketable private equity partnerships in which it invests, which is equivalent to NAV, when Rush's ownership is minor (less than 5%). The estimated valuations of private equity partnerships are subject to uncertainty and could differ had a ready market existed for these investments. Investments in private equity funds entered into during fiscal year 2012 or prior years are reported at cost, adjusted for impairment losses, based on information provided by the respective partnership when Rush's ownership percentage is minor (less than 5%). Investments in private equity funds where Rush's ownership percentage is more than minor, but consolidation is not required (5% to 50%), are accounted for on the equity basis. These investments are periodically assessed for impairment. The financial statements of hedge funds and private equity funds are audited annually, generally on December 31. Real estate investments are carried at amortized cost. Rush's risk in alternative investments is limited to its capital investment and any future capital commitments (see Note 5).

Investment income or loss (including interest, dividends, realized and unrealized gains and losses, and changes in cost-based valuations) is reported within the excess of revenue over expenses, unless the income or loss is restricted by donor or interpretation of law. Investment gains and losses on Rush's endowment are recognized within temporarily restricted net assets until appropriated for use (see Note 7). Investment gains and losses on permanently restricted assets are allocated to purposes specified by the donor either as temporarily restricted or unrestricted, as applicable. Income earned on tax-exempt borrowings for specific construction projects is offset against interest expense capitalized for such projects.

Unconditional Promises to Contribute

Unconditional promises to contribute (pledges receivable) are recorded at the net present value of their estimated future cash flows. Estimated future cash flows due after one year are discounted using interest rates commensurate with the time value of money concept. Rush maintains an estimated allowance for uncollectible pledges based upon management's assessment of historical and expected net collections considering business and economic conditions and other collection indicators. Net unconditional promises to contribute are reported in assets limited as to use by donor or time restriction in the accompanying consolidated balance sheets and amounted to $18,451 and $25,454 as of June 30, 2016 and 2015, respectively (see Note 15).

Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded in the consolidated balance sheets as either assets or liabilities at their respective fair values. The change in the fair value of derivative instruments is reflected in nonoperating income (expense) in the accompanying consolidated statements of operations and changes in net assets. Net cash settlements and payments, representing the realized changes in the fair value of the interest rate swaps, are included in interest expense in the accompanying consolidated statements of operations and changes in net assets and as operating cash flows in the accompanying consolidated statements of cash flows (see Note 10).

Property and Equipment

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

Capitalized Interest

Interest expense from bond proceeds, net of interest income, incurred during the construction of major projects is capitalized during the related construction period. Such capitalized interest is amortized over the depreciable life of the related assets on a straight-line basis. Interest expense of $666 and $968 was capitalized during the years ended June 30, 2016 and 2015, respectively.

Long-Lived Assets and Impairment

Rush carries tangible and intangible long-lived assets, including goodwill. Rush continually evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment. Impairment write-downs are recognized in operating income at the time the impairment is identified. No asset impartments were recorded during the years ended June 30, 2016 and 2015. Goodwill is assessed for impairment on an annual basis.

Asset Retirement Obligations

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

Ownership Interests in Other Health-Related Entities

Rush has a majority ownership interest in a number of subsidiaries, which provide outpatient surgical and imaging services. An ownership interest of more than 50% in another health-related entity in which Rush has a controlling interest is consolidated, except for Rush Health as discussed in Note 1. As of June 30, 2016 and 2015, noncontrolling interests in consolidated subsidiaries amounted to $5,465 and $4,917, respectively. The amounts related to noncontrolling interests are recorded in unrestricted net assets, and as the amounts are not material, they are not separately presented in the accompanying consolidated financial statements. Rush also has affiliations with and interests in other organizations that are not consolidated. These organizations primarily provide outpatient health care and managed care contracting services. An ownership interest in another health-related entity of at least 20%, but not more than 50%, in which Rush has the ability to exercise significant influence over the operating and financial decisions of the investee, is accounted for on the equity basis (see Note 18), and the income (loss) is reflected in other revenue. An ownership interest in a health-related entity of less than 20%, in which Rush does not have the ability to exercise significant influence over the operating and financial decisions of the investee, is carried at cost or estimated net realizable value and reported within other assets, which is not material to the consolidated financial statements.

Deferred Financing Costs

Debt issuance costs, net of amortization computed on a straight-line basis over the life of the related debt, are reported within other assets in the accompanying consolidated balance sheets. The straight-line basis approximates the effective interest method, which is required under GAAP. Unamortized debt issuance costs amounted to $4,902 and $5,687 as of June 30, 2016 and 2015, respectively.

Other Long-term Liabilities

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

Net Assets

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

Contributions

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

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

Grants

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

Electronic Health Record Incentive Payments

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

Rush recognizes HITECH incentive payments as revenue when it is reasonably assured that the meaningful use objectives have been achieved. Rush recognized incentive payments totaling $3,254 and $6,551 for the years ended June 30, 2016 and 2015, respectively, within other revenue in the consolidated statements of operations and changes in net assets. Rush's compliance with the meaningful use criteria is subject to audit by the federal government.

Excess of Revenue over Expenses

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

Nonoperating Income (Expense)

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

New Accounting Pronouncements

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

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires all costs incurred to issue debt to be presented as a deduction from the carrying value of the debt rather than as an asset on the consolidated balance sheet. The ASU only impacts the presentation of the consolidated balance sheet and does not change the recognition or measurement of debt issuance costs.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which requires that investments measured at net asset value per share (or its equivalent) as a practical expedient for fair value, are excluded from the fair value hierarchy within the fair value footnote.

ASU 2015-07 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Rush has early adopted ASU 2015-07 effective fiscal year 2016. Fiscal Year 2015 disclosures have been restated to reflect the implementation of the new guidance retrospectively. See Note 6 (Fair Value Measurements) and Note 12 (Pension and Other Postretirement Benefit Plans) for further detail.

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

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

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

Reclassification of Prior Year Presentations

Certain prior year amounts have been reclassified for consistency with the current period presentation. During fiscal year 2016 Rush completed a system implementation and created a new chart of accounts, which resulted in a prior year reclassification between accounts payable and accrued expenses in order to conform with current year presentation. These reclassifications had no effect on the reported results of operations.

Consideration of Events Subsequent to the Consolidated Balance Sheet Date

Rush has evaluated events occurring subsequent to the consolidated balance sheet date through October 27, 2016, the date the consolidated financial statements were available to be issued. There were no significant subsequent events as of the date of this report.

3. NET PATIENT SERVICE REVENUE

The mix of patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended June 30, 2016 and 2015, by major payor source, was as follows:

	2016		2015	
Medicare	$ 465,935	24 %	$ 426,955	23 %
Medicare Managed Care	63,818	3	62,840	3
Medicaid	124,508	6	196,994	11
Medicaid Managed Care	176,101	9	102,163	5
Blue Cross	569,021	29	546,321	29
Managed care	416,149	21	401,796	21
Commercial, self-pay, and other	164,836	8	142,834	8
Total patient service revenue, net of contractual allowances and discounts (but before provision for uncollectible accounts)	$ 1,980,368	100 %	$ 1,879,903	100 %

Changes in estimates relating to prior periods increased net patient service revenue by $7,324 and $19,346 in fiscal years 2016 and 2015, respectively. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount.

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

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

4. CHARITY CARE

Rush has an established charity care policy and maintains records to identify and monitor the level of charity care it provides. RUMC provides free care to all patients whose family income is 300% of the federal poverty level or less, and an additional discount is available to all patients with family income up to 400% of the federal poverty level. All uninsured patients receive a tiered discount regardless of their ability to pay. These discounts apply to patients with family income ranging from 301% to 1,000% of the federal poverty level, with discounts ranging from 33% to 68%. In addition, any uninsured patient with family income over 1,000% of the federal poverty level would still receive a 33% discount. RCMC provides free care to all patients who apply and support income and asset levels of less than 300% of the current-year poverty level and a 30% discount to all uninsured patients regardless of ability to pay, and discounts balances to patients under 600% of the poverty level. Interest-free payment plans are also provided. Charity care includes the estimated cost of unreimbursed services provided and supplies furnished under its charity care policy and the excess of cost over reimbursement for Medicaid patients. The estimated cost of charity care provided is determined using a ratio of cost to gross charges and multiplying that ratio by the gross unreimbursed charges associated with providing care to charity patients.

In December 2008, the Centers for Medicare and Medicaid Services approved the Illinois Hospital Assessment Program (the “Program”) to improve Medicaid reimbursement for Illinois hospitals. This Program increased net patient service revenue in the form of additional Medicaid payments and increased supplies, utilities, and other expense through a tax assessment from the State of Illinois. In fiscal year 2014, the State of Illinois approved a new enhanced assessment program providing additional funding to Rush. The net benefit to Rush from the Program was $49,122 and $48,948 during the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, the Medicaid payment of $94,610 and $95,412 was included in net patient service revenue, representing 5% of the net patient service revenue for both fiscal years, and the tax assessment of $45,488 and $46,463, respectively, was included in supplies, utilities, and other expenses. The Program is approved through June 30, 2018; however, the future of the Program is uncertain.

The following table presents the level of charity care and Medicaid provided for the years ended June 30, 2016 and 2015:

	2016	**2015**
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program	$ 90,790	$ 84,312
Estimated costs and expenses incurred to provide charity care in the hospitals	33,229	32,514
Total	$ 124,019	$ 116,826

The total number of patients that were either provided charity care directly by Rush or that were covered by the Program represented 24% and 26% of Rush’s total patients in 2016 and 2015, respectively.

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

5. ASSETS LIMITED AS TO USE AND INVESTMENTS

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

Following is a summary of the composition of non-current assets limited as to use and investments as of June 30, 2016 and 2015:

	2016	2015
Marketable securities and short-term investments	$ 27,912	$ 33,598
Fixed income securities	394,611	407,833
Public equity securities	245,879	233,447
Fund investments (mutual/commingled)	752,943	762,007
Alternative investments	143,107	122,792
Other	13,622	30,664
	1,578,074	1,590,341
Beneficial interest in trusts	26,599	28,344
Total assets limited as to use and investments — excluding pledges receivable	1,604,673	1,618,685
Net pledges and grants receivable	18,452	28,746
Total assets limited as to use and investments	1,623,125	1,647,431
Less amount reported as current assets	(26,838)	(31,211)
Assets limited as to use and investments — noncurrent	$ 1,596,287	$ 1,616,220

The table above comprises all of Rush's investments, including those measured at fair value as well as certain alternative investments in private equity partnerships or real estate measured under the cost or equity method of accounting. The fair value of private equity investments, as estimated by management of the limited partnerships based on audited financial statements and other relevant factors, was $31,730 and $25,597 as of June 30, 2016 and 2015, respectively. Rush's private equity investments have diverse strategies, consisting of the following as of June 30, 2016 and 2015:

Private Equity Fund Allocations	**2016**	**2015**
Buyout and growth capital	28 %	21 %
Distressed debt and special situations	12	20
Diversified private equity fund of funds	25	28
Venture capital	17	20
Special situations	16	8
Direct investment	1	1
Co-investment private equity	1	2
	100 %	100 %

Investments in private equity funds recorded on the equity basis amounted to $883 as of June 30, 2016 and 2015, respectively. As many factors are considered in arriving at the estimated fair value, Rush routinely monitors and assesses methodologies and assumptions used in valuing these partnerships. As of June 30, 2016 and 2015, commitments for additional contributions to private equity partnerships totaled $64,678 and $45,828, respectively.

It is Rush's intent to maintain a long-term investment portfolio to support its self-insurance program. Accordingly, the total return on investments restricted for the self-insurance program is reported in the consolidated statements of operations and changes in net assets in two income statement line items. The investment return allocated to operations, reported in other revenue, is determined by a formula designed to provide a consistent stream of investment earnings to support the self-insurance provision reported in insurance expense in the accompanying consolidated statements of operations and changes in net assets. This allocated return, 5% for the years ended June 30, 2016 and 2015, approximates the real return that Rush expects to earn on its investments over the long term and totaled $5,086 and $5,131 for the years ended June 30, 2016 and 2015, respectively. The difference between the total investment return and the amount allocated to operations is reported in nonoperating income and totaled $4,033 and $2,798 for the years ended June 30, 2016 and 2015, respectively. There is no guarantee that the investment return expected by management will be realized. For the years ended June 30, 2016 and 2015, the total annual investment return was approximately 0.9% and 1.9%, respectively.

The composition and presentation of investment income and the realized and unrealized gains and losses on all investments for the years ended June 30, 2016 and 2015, are as follows:

	2016	2015
Interest and dividends	$ 32,300	$ 28,504
Net realized gains on sales of securities	10,510	32,101
Unrealized losses — unrestricted	(14,215)	(18,044)
Unrealized losses — restricted	(14,476)	(22,416)
	$ 14,119	$ 20,145
Reported as:		
Other operating revenue	$ 4,988	$ 5,467
Nonoperating income	14,083	5,505
Restricted net assets — net realized and unrealized (losses) gains on investments	(4,952)	9,173
	$ 14,119	$ 20,145

Gains and losses on alternative investments included above as of June 30, 2016 and 2015, are as follows:

	2016	2015
Reported as:		
Nonoperating income (expense)	$ 2,160	$ (184)
Restricted net assets — net realized and unrealized gains on investments	6,257	9,979
Total investment income and realized/unrealized gains and losses on alternative investments	$ 8,417	$ 9,795

6. FAIR VALUE MEASUREMENTS

As of June 30, 2016 and 2015, Rush held certain assets and liabilities that are required to be measured at fair value on a recurring basis, including marketable securities and short-term investments, certain restricted, trusteed and other investments, derivative instruments, and beneficial interests in trusts. Certain alternative investments measured using either the cost or equity method of accounting are excluded from the fair value disclosure provided herein.

Valuation Principles

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

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

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

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

In restating the long-term investments fair value hierarchy table as of June 30, 2015 to comport with the adoption of ASU 2015-07 as discussed in Note 2, $76.3. million in fund investments were reclassified from Level 1 within the fair value hierarchy to being reported under their NAV (or its equivalent) as a practical expedient, $108.2 million in fund investments were reclassified from Level 2 within the fair value hierarchy to being reported under their NAV (or its equivalent) as a practical expedient, and $130.2 million in fund investments and alternative investments were reclassified from Level 3 to being reported under their NAV (or its equivalent) as a practical expedient. The reconciliation for financial instruments classified as Level 3 investments as of June 30, 2015 was restated to reflect the Level 3 reclassifications to NAV (or its equivalent) as a practical expedient.

Fair Value Measurements at the Consolidated Balance Sheet Date

The following tables present Rush's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015:

Fair Value Measurements as of June 30, 2016	Level 1	Level 2	Level 3	Valued @ NAV	Total Fair Value
Marketable Securities and Short-term Investments	$ 1,544	$ 26,368	$ -	$ -	$ 27,912
Fixed Income Securities:					
U.S. Government and Agency securities	-	169,801	-	-	169,801
Corporate Bonds	-	171,458	-	-	171,458
Asset Backed Securities and Other	-	53,352	-	-	53,352
Public Equity Securities	245,879	-	-	-	245,879
Fund Investments (Mutual/Commingled):					
Fixed Income Funds	225,398	-	-	-	225,398
Public Equity Funds	168,017	-	-	151,290	319,307
Multi Asset Class Funds	115,014	-	-	93,224	208,238
Alternative Investments:					
Hedge Funds	-	-	-	86,771	86,771
Private Equity Partnerships	137	-	-	27,153	27,290
Private Debt	-	-	-	29,046	29,046
Other:					
Accrued Income & Other	-	2,622	-	1,000	3,622
Beneficial Interest in Trusts	-	-	26,599	-	26,599
Pending Transactions	-	(15,571)	-	-	(15,571)
Total investments	$ 755,989	$ 408,030	$ 26,599	$ 388,483	$ 1,579,101
Obligations under interest rate swap agreements	$ -	$ 23,141	$ -	$ -	$ 23,141
Total liabilities at fair value	$ -	$ 23,141	$ -	$ -	$ 23,141

Fair Value Measurements as of June 30, 2015	Level 1	Level 2	Level 3	Valued @ NAV	Total Fair Value
Marketable securities and Short-term Investments	$ 2,299	$ 31,299	$ -	$ -	$ 33,598
Fixed Income Securities:					
U.S. Government and Agency securities	-	186,629	-	-	186,629
Corporate Bonds	-	155,853	-	-	155,853
Asset Backed Securities and Other	-	65,351	-	-	65,351
Public Equity Securities	233,447	-	-	-	233,447
Fund Investments (Mutual/Commingled):					
Fixed Income Funds	300,848	-	-	-	300,848
Public Equity Funds	154,771	-	-	93,981	248,752
Multi Asset Class Funds	114,515	166	-	97,726	212,407
Alternative Investments:					
Hedge Funds	-	-	-	89,726	89,726
Private Equity Partnerships	-	-	-	17,337	17,337
Private Debt	-	-	-	15,729	15,729
Other:					
Accrued Income & Other	-	2,770	-	-	2,770
Beneficial Interest in Trusts	-	-	28,344	-	28,344
Pending Transactions	-	(219)	-	-	(219)
Total investments	$ 805,880	$ 441,848	$ 28,344	$ 314,500	$ 1,590,572
Obligations under interest rate swap agreements	$ -	$ 18,092	$ -	$ -	$ 18,092
Total liabilities at fair value	$ -	$ 18,092	$ -	$ -	$ 18,092

During fiscal year ended June 30, 2015, there were security transfers of $4.3 million from Levels 1 to Level 2 due to a reclassification of an underlying holding.

Valuation Techniques and Inputs for Level 2 and Level 3 Instruments

The Level 2 and Level 3 instruments listed in the preceding fair value tables use the following valuation techniques and inputs as of the valuation date:

Marketable Securities and Short-term Investments – Marketable securities classified as Level 2 are invested in a short-term collective fund that serves as an investment vehicle for cash reserves. Fair value was determined using the calculated NAV as of the valuation date, based on a constant price. These funds are invested in high-grade and short-term money market instruments with daily liquidity.

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

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

Obligations Under Interest Rate Swap Agreements – The fair value of Rush's obligations under interest rate swap agreements classified as Level 2 is valued using a market approach. The valuation is based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs, such as interest rate curves. The fair value of the obligation reported in Rush's consolidated balance sheets includes an adjustment for the Obligated Group's credit risk but may not be indicative of the value Rush would be required to pay upon early termination of the swap agreements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Rush believes that its methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Level 3 Rollforward

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

	Beneficial Interest in Trusts
Fair value — June 30, 2014	$ 28,613
Actual return on investments —	
Realized and unrealized losses	(269)
Purchases	-
Sales	-
Fair value — June 30, 2015	28,344
Actual return on investments —	
Realized and unrealized losses	(1,745)
Purchases	-
Sales	-
Fair value — June 30, 2016	$ 26,599

Investments in Entities that Report Fair Value Using NAV

Included within the fair value table above are investments in certain entities that report fair value using a calculated NAV or its equivalent. These investments consist of hedge fund of funds and private equity partnerships within alternative investments. The NAV instruments listed in the fair value measurement tables use the following valuation techniques and inputs as of the valuation date:

Fund Investments – Investments within this category consist of public equity funds and multi-asset funds. The fair value of public equity funds classified at NAV are primarily determined using the calculated NAV at the valuation date under a market approach. This includes investments in commingled funds that invest primarily in domestic and foreign equity securities whose underlying values have a readily determinable market value or based on a net asset value. Multi-asset funds include investments in fund of funds that seek to provide both capital appreciation and income by investing in both traditional and alternative asset funds. The asset allocation is driven by the fund manager's long-range forecasts of asset-class real returns. Investments in this category classified as NAV are held in a commingled fund that invests primarily in global equity and bond mutual funds. Included in this category is a multistrategy hedge fund, priced on the last business day of each calendar month. The values for underlying investments are estimated based on many factors, including operating performance, balance sheet indicators, growth, and other market and business fundamentals. The underlying investment strategies can include long-short, global macro, fixed-income and currency hedges, and other tactical opportunity-related strategies.

Alternative Investments – Investments within this category consist primarily of hedge fund of funds and private equity partnerships. The hedge fund of funds consist of diversified investments including equity long/short, credit long/short, event-drive, relative value, global opportunities, and other multistrategy funds. Hedge fund of funds investments are valued based on Rush's ownership interest in the NAV of the respective fund as estimated by the general partner, which approximates fair value. Effective July 1, 2012, Rush elected to measure all new private equity partnerships entered into on or after July 1, 2012, at fair value (see Note 2). Private equity partnerships are valued based on the estimated fair values of the nonmarketable private equity partnerships in which it invests, which is an equivalent of NAV.

The following table summarizes the attributes relating to the nature and risk of such investments as of June 30, 2016:

Entities that Report Fair Value Using NAV	**Unfunded Commitments (In Thousands)**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Fund Investments (Mutual/Commingled)	None	Daily/Monthly	1-30 days
Alternative Investments:			
Hedge Funds	None	Quarterly	65-95 days
Private Equity Partnerships	$ 46,521	Not currently redeemable	N/A
Private Debt	$ 18,157	Not currently redeemable	N/A

7. ENDOWMENT FUNDS

Rush's endowment consists of more than 400 individual funds, which are established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

Endowment Investment and Spending Policies

Rush has adopted endowment investment and spending policies to preserve purchasing power over the long term and provide stable annual support to the programs supported by the endowment, including professorships, research and education, free care, student financial aid, scholarships, and fellowships. Approximately 16% and 22% of Rush's endowment is available for general purposes for the years ended June 30, 2016 and 2015, respectively.

The Investment Committee of the Board of Trustees is responsible for defining and reviewing the investment policy to determine an appropriate long-term asset allocation policy. The asset allocation policy reflects the objective with allocations structured for capital growth and inflation protection over the long term. The current asset allocation targets and ranges as well as the asset allocation as of June 30, 2016 and 2015, are as follows:

Asset Class	Target Allocation and Range	Percentage of Endowment Assets 2016	Percentage of Endowment Assets 2015
Global equity	45% (+/- 5%)	49 %	42 %
Multi Asset Fund	20% (+/- 5%)	21	22
Private equity	15% (+/- 5%)	12	11
Fixed income	15% (+/- 5%)	12	20
Real estate	5% (+/-5 %)	5	5
Cash	--	1	--

To achieve its long-term rate of return objectives, Rush relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The expected long-term rate of return target of the endowment given its current asset allocation structure is approximately 7.0%. Actual returns in any given year may vary from this amount. Rush has established market-related benchmarks to evaluate the endowment fund's performance on an ongoing basis.

The Finance Committee of the Board of Trustees approves the annual spending policy for program support. In establishing the annual spending policy, Rush's main objectives are to provide for intergenerational equity over the long term, the concept that future beneficiaries will receive the same level of support as current beneficiaries on an inflation-adjusted basis, and to maximize annual support to the programs supported by the endowment. The spending rate was 4.0% for the fiscal years ended June 30, 2016 and 2015, respectively, and income from the endowment fund provided $17,792 and $17,002 of support for Rush's programs during the fiscal years ended June 30, 2016 and 2015, respectively.

Composition of Endowment Fund and Reconciliation

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — July 1	$ 5,220	$ 262,026	$ 262,726	$ 529,972
Investment return:				
Investment (loss) income	(89)	7,071	88	7,070
Recovery of endowment impairment				
Net appreciation (realized and unrealized)	(108)	(7,620)	(1,745)	7,070
Total investment return	(197)	(549)	(1,657)	14,140
Contributions	-	163	4,400	4,563
Transfer of unrestricted endowment appreciation	-	(17,733)	(88)	(17,821)
Endowment net assets — June 30	$ 5,023	$ 243,907	$ 265,381	$ 514,311

The endowment net asset composition by type of fund as of June 30, 2015, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 261,241	$ 262,192	$ 523,433
Board-designated endowment funds	5,220	785	534	6,539
Total funds	$ 5,220	$ 262,026	$ 262,726	$ 529,972

Changes in endowment net assets for the fiscal year ended June 30, 2015, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — July 1	$ 5,278	$ 266,458	$ 257,175	$ 528,911
Investment return:				
Investment (loss) income	(101)	6,644	183	6,726
Recovery of endowment impairment				
Net appreciation (realized and unrealized)	43	4,888	(269)	4,662
Total investment return	(58)	11,532	(86)	11,388
Contributions	-	676	5,820	6,496
Transfer of unrestricted endowment appreciation	-	(16,640)	(183)	(16,823)
Endowment net assets — June 30	$ 5,220	$ 262,026	$ 262,726	$ 529,972

Fund Deficiencies

Rush monitors the accumulated losses on permanently restricted investments to determine whether the endowment corpus has been impaired and restores these losses through unrestricted net assets, as necessary. No additional funding was required and no amounts were recovered and replenished through unrestricted net assets during the years ended June 30, 2016 and 2015.

8. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2016 and 2015 consisted of the following:

	2016	2015
Land and buildings	$ 1,978,347	$ 2,028,817
Equipment	680,959	595,463
Construction in progress	32,298	41,187
	2,691,604	2,665,467
Less accumulated depreciation	(1,330,969)	(1,306,334)
Property and equipment, net	$ 1,360,635	$ 1,359,133

Property and equipment, net, includes $38,000 and $48,155 in leased buildings and equipment as of June 30, 2016 and 2015, respectively. Accumulated depreciation on leased property and equipment amounted to $20,931 and $24,940 as of June 30, 2016 and 2015, respectively.

Rush continues to make campus improvements and has a number of construction projects planned with a Master Facility Plan set to begin in fiscal year 2017. As of June 30, 2016 and 2015, Rush had construction commitments outstanding of $61,769 and $45,828, respectively.

9. LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Rush's long-term debt is issued under a Master Trust Indenture, which established the Obligated Group composed of Rush and RCMC. The Obligated Group is jointly and severally liable for the obligations issued under the Master Trust Indenture. Each Obligated Group member is expected to pay its allocated share of the debt issued on its behalf. As of June 30, 2016 and 2015, such issuances are secured by a pledge of gross receipts, as defined, of the Obligated Group members.

A summary of Rush's long-term debt as of June 30, 2016 and 2015, is as follows:

	Interest Rates	Final Maturity Date	Amount Outstanding at June 30, 2016	Amount Outstanding at June 30, 2015
Illinois Finance Authority Revenue Bonds:				
Fixed-rate revenue bonds:				
Series 2015 A/B	5.00%	November 15, 2040	$ 482,730	$ 484,380
Variable-rate revenue bonds:				
Series 2008A	Average of 0.12% and 0.04% in FY2016 and FY2015, respectively	November 1, 2045	-	50,000
Series 2016	Average of 1.11% in FY2016	November 1, 2045	50,000	-
Series 2011, Tax-Exempt Private Placement with a commercial bank	Average of 1.38% and 1.27% in FY2016 and FY2015, respectively	November 1, 2024	39,935	39,935
Total variable rate debt			89,935	89,935
Total tax-exempt debt			572,665	574,315
Other Debt:				
Mortgage loan, collateralized by fitness center	4.40%	May 2021	4,821	5,678
Line of credit	1.27%	December 31, 2018	14,454	-
Total Other Debt			19,275	5,678
Total par value of debt			591,940	579,993
Less current portion of long-term debt			(11,102)	(2,507)
Less unamortized premium/(discount), net			74,228	77,305
Long-term debt			$ 655,066	$ 654,791
Estimated fair value based on quoted market prices and other relevant information (Level 2 classification)			$ 687,158	$ 636,419

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

In February 2015, Rush issued Series 2015A/B revenue bonds through the Illinois Finance Authority in the amount of $484,380. The proceeds of the Series 2015A/B bonds along with amounts on deposit in debt service reserve funds were used to advance refund the Series 2006B, Series 2009A/B, and Series 2009C/D Bonds, and to pay certain costs of issuing the Series 2015A/B Bonds. A loss on extinguishment of debt of $117,694 was recorded as a result of the advanced refunding, and is recorded within nonoperating expenses in the accompanying consolidated statements of operations and changes in net assets.

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

Under its various indebtedness agreements, the Obligated Group is subject to certain financial covenants, including maintaining a minimum historical debt service coverage and maximum annual debt service coverage ratios; maintaining minimum levels of days cash on hand; limitations on selling, leasing, or otherwise disposing of Obligated Group property; and certain other nonfinancial covenants. The Obligated Group was in compliance with its financial covenants as of June 30, 2016 and 2015.

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

Years Ending June 30	
2017	$ 11,102
2018	12,368
2019	27,724
2020	14,270
2021	15,121
Thereafter	511,495
Total	$ 592,080

Letters of Credit Arrangements

On June 28, 2016, Rush converted the 2008A variable-rate bonds to a direct placement loan (Series 2016 revenue bonds). The refinancing removed the letter of credit related to the Series 2008A variable-rate bonds. Prior to the refinancing, the Obligated Group's variable-rate revenue bonds were subject to repurchase the bonds if they cannot be sold to a third party. The Obligated Group entered into letters of credit with commercial banks to provide funding for such repurposes, as necessary. Any amounts borrowed under these letters of credit were due and payable more than one year from the date of such borrowing. In absence of such agreement, the Obligated Group would be required to replace it with a similar credit arrangement, convert the related debt from variable to fixed interest rate, or fund required repurchases from available funds. Draws are routinely made from the letter of credit to pay off principal and interest and are reimbursed to the commercial bank on the following business day. As of June 30, 2015 and through the date of the refinancing, there were no outstanding draws against the letter of credit.

Lines of Credit Arrangements

The Obligated Group also had a $100 million short-term line of credit with a bank as of June 30, 2016 and 2015, which matures on December 31, 2018. Any borrowings on this short-term line of credit are due and payable in 180 days. As of June 30, 2016, the Obligated Group had $14,594 outstanding on this line of credit. As of June 30, 2015, the Obligated Group had no amounts outstanding on this line of credit.

10. DERIVATIVES

Derivatives Policy

The Obligated Group uses derivative instruments, specifically interest rate swaps, to manage its exposure to changes in interest rates on variable rate borrowings. The use of derivative instruments exposes the Obligated Group to additional risks related to the derivative instrument, including market, credit, and termination, as described below, and the Obligated Group has defined risk management practices to mitigate these risks.

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

Board approval is required to enter or modify any derivatives transaction. Management periodically reviews existing derivative positions as its risk tolerance and cost of capital changes over time.

Interest Rate Swap Agreements

The Obligated Group has two interest rate swap agreements (the "Swap Agreements"), which were designed to synthetically fix the interest payments on its Series 2006A Bonds. Under the Swap Agreements, the Obligated Group makes fixed-rate payments equal to 3.945% to the swap counterparties and receives variable-rate payments equal to 68% of London InterBank Offered Rate (0.317% and 0.127% as of June 30, 2016 and 2015, respectively) from the swap counterparties, each calculated on the notional amount of the Swap Agreements. As of June 30, 2016 and 2015, the Swap Agreements had a notional amount of $86,100 and $89,350, respectively ($43,050 and $44,675 in notional amount, respectively, with each counterparty), of which $56,400 and $59,650, respectively, is attributable to Rush. Following the refinancing of the Series 2006A Bonds, the Obligated Group used $50,000 in notional amount of the Swap Agreements to synthetically fix the interest on the Series 2008A Bonds. The Swap Agreements each expire on November 1, 2035, and amortize annually commencing in November 2012. The Swap Agreements are secured by obligations issued under the Master Trust Indenture.

The Swap Agreements also require either party to post collateral in the form of cash and certain cash equivalents to secure potential termination payments. The amount of collateral that is required to be posted is based on the relevant party's long-term credit rating. Based on its current rating, the Obligated Group is required to post collateral with the Swap Counterparties in the event that the market value of the Swap Agreements exceeds $(25,000) or $(12,500) for each Swap Agreement. As of June 30, 2016 and 2015, the Obligated Group had no collateral posted under Swap Agreements.

The fair value of the Swap Agreements was as follows as of June 30, 2016 and 2015:

	Reported As	June 30 2016	June 30 2015
Obligations under Swap Agreements	Other long-term liabilities	$ (23,141)	$ (18,092)
Collateral posted under Swap Agreements	Other current assets	-	-
Obligations under Swap Agreements, net		$ (23,141)	$ (18,092)

The fair value of the Swap Agreements reported in Rush's consolidated balance sheets as of June 30, 2016 and 2015, includes an adjustment for the Obligated Group's credit risk and may not be indicative of the termination value that Rush would be required to pay upon early termination of the Swap Agreements.

Management has not designated the Swap Agreements as hedging instruments. Amounts recorded in the accompanying consolidated statements of operations and changes in net assets for the Swap Agreements allocated to Rush for the fiscal years ended June 30, 2016 and 2015, were as follows:

	Reported As	Fiscal Years Ended June 30 2016	Fiscal Years Ended June 30 2015
Change in fair value of interest rate swaps	Nonoperating expense	$ (5,050)	$ (711)
Net cash payments on interest rate swaps	Interest expense	(3,310)	(3,466)

11. OBLIGATIONS UNDER CAPITAL LEASE AND DEFERRED FINANCING ARRANGEMENTS

Rush is party to certain capital lease and long-term financing arrangements relating to medical and office equipment and buildings. Expiration of leases ranges from 2015 to 2020. Annual interest expense under these lease agreements was $2,495 and $2,870 for the years ended June 30, 2016 and 2015, respectively. Assets acquired under capital lease and long-term financing arrangements are included in property and equipment, net, in the accompanying consolidated balance sheets.

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

Years Ending June 30	
2017	$ 4,871
2018	5,005
2019	5,413
2020	2,386
2021	13,612
Thereafter	-
Total minimum payments	31,287
Less amount representing interest	(6,164)
Net present value of obligations under capital lease and other financing arrangements	25,123
Less current portions included in accounts payable	(2,763)
Long-term portion of obligations under capital lease and other financing arrangements	$ 22,360

12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

Prior to January 1, 2012, Rush had two defined benefit pension plans, the Retirement Plan and the Pension Plan (collectively, the "Defined Benefit Pension Plans"), covering substantially all of its employees. Benefits are based on the years of service and the employee's final average earnings, as defined. Plan assets and obligations are measured as of June 30 (the "Measurement Date") each year.

Effective as of the close of business on December 31, 2011, the Pension Plan, representing certain union employees, was amended to freeze benefit accruals for all participants. No additional benefits will accrue, and no additional individuals will become plan participants in the Pension Plan as of January 1, 2012. Also, effective December 31, 2011, the Pension Plan was merged into the Retirement Plan with all accrued benefits of the Pension Plan participants preserved as part of the merger. Effective January 1, 2012, the Retirement Plan was amended to include eligible union members previously covered by the Pension Plan.

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

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

In addition to the pension programs, Rush also provides postretirement health care benefits for certain employees (the "Postretirement Healthcare Plans"). Further benefits under the Postretirement Healthcare Plans have been curtailed.

Obligations and Funded Status

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation, and the change in the plan assets of the Defined Benefit Pension Plans and Postretirement Healthcare Plans (collectively, the "Plans"). The table also reflects the funded status of the Plans as of the Measurement Date and amounts recognized in Rush's consolidated balance sheets as of June 30, 2016 and 2015.

Obligations and Funded Status	**Defined Benefit Pension Plans**		**Postretirement Healthcare Plans**	
	2016	**2015**	**2016**	**2015**
Actuarial present value of benefit obligations — accumulated benefit obligation	$ 1,049,136	$ 938,995	$ 7,228	$ 7,119
Change in projected benefit obligations:				
Projected benefit obligation — beginning of measurement period	$ 959,059	$ 959,717	$ 7,120	$ 7,197
Service costs	18,964	19,676	156	170
Interest costs	43,525	42,435	325	318
Employee Contributions	-	-	571	630
Plan settlements	(1,246)	(46,044)	-	-
Actuarial losses	96,152	22,992	73	(214)
Benefits paid	(44,626)	(39,717)	(1,017)	(982)
Projected benefit obligation — end of measurement period	$ 1,071,828	$ 959,059	$ 7,228	$ 7,119
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	$ 849,325	$ 912,878	$ -	$ -
Actual return on plan assets	69,739	21,407	-	-
Employer contributions	67,246	801	446	352
Plan participant contributions	-	-	571	630
Plan settlements	(1,246)	(46,044)	-	-
Benefits paid	(44,626)	(39,717)	(1,017)	(982)
Fair value of plan assets — end of measurement period	$ 940,438	$ 849,325	$ -	$ -

The actuarial cost method used to compute the Defined Benefit Pension Plans liabilities and expenses is the projected unit credit method.

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

Components of Net Periodic Pension Cost Year Ended June 30	**Defined Benefit Pension Plans**		**Postretirement Healthcare Plans**	
	2016	**2015**	**2016**	**2015**
Net periodic pension cost comprised the following:				
Service cost	$ 18,964	$ 19,676	$ 156	$ 170
Interest cost on projected benefit obligation	43,525	42,435	325	318
Expected return on plan assets	(58,977)	(61,173)	-	-
Amortization of prior service cost and other actuarial amounts	(2,051)	(2,051)	(144)	(287)
Recognized actuarial loss (gain)	8,431	10,880	(708)	72
Recognized settlement loss	135	12,464	-	-
Net periodic pension cost (credit)	$ 10,027	$ 22,231	$ (371)	$ 273

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

Accrued Benefit Liability	**Defined Benefit Pension Plans**		**Postretirement Healthcare Plans**	
	2016	**2015**	**2016**	**2015**
Accrued benefit liability - beginning of measurement period	$ 109,734	$ 46,839	$ 7,119	$ 7,198
Fiscal year activity:				
Net periodic pension cost	10,029	9,766	(371)	273
Employer contributions	(67,246)	(801)	(447)	(352)
Postretirement-related changes other than net periodic postretirement cost:				
Actuarial losses (gains)	85,391	62,759	74	(215)
Reclassification adjustment for losses reflected in periodic expense	(6,516)	(8,829)	852	215
Accrued benefit liability - end of measurement period	$ 131,392	$109,734	$ 7,227	$ 7,119
Recognized in the consolidated balance sheets as follows:				
Accrued expenses	$ -	$ -	$ 480	$ 557
Noncurrent liabilities	131,392	109,734	6,747	6,562
	$ 131,392	$109,734	$ 7,227	$ 7,119

In accordance with FASB guidance regarding accounting for defined benefit pension and other postretirement plans, all previously unrecognized actuarial losses and prior service costs are reflected in the consolidated balance sheets. The postretirement-related charges other than net periodic benefit cost related to the pension and Postretirement Healthcare Plans are included as a separate decrease to unrestricted net assets and total $(79,802) and $(41,466) for fiscal years 2016 and 2015, respectively. For fiscal year 2016, this amount includes actuarial losses arising during fiscal year 2016 of $85,465 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2016 of $5,457. For fiscal year 2015, this amount includes actuarial losses arising during fiscal year 2015 of $62,544 and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2015 of $8,614.

The pension plan and postretirement benefit plan items not yet recognized as a component of periodic pension and postretirement medical plan expense, but included within unrestricted net assets, as of and for the years ended June 30, 2016 and 2015, are as follows:

	Defined Benefit Pension Plans		**Postretirement Healthcare Plans**	
	2016	**2015**	**2016**	**2015**
Unrecognized prior service credit	$ 4,336	$ 6,386	$ -	$ 144
Unrecognized net actuarial (loss) gain	(316,810)	(239,986)	390	1,379
Total	$ (312,474)	$ (233,600)	$ 390	$ 1,523

An estimated $1,078 in prior service credit and ($13,074) in net actuarial loss will be included as components of periodic pension expense in fiscal year 2017. An estimated $368 in net actuarial gain will be included as components of periodic postretirement expense in fiscal year 2017.

Assumptions

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

Assumptions Used to Determine Benefit Obligations and Net Periodic Benefit Cost	Defined Benefit Pension Plans				Postretirement Healthcare Plans	
	Retirement Plan		Pre-2015 Separations Plan			
	2016	2015	2016	2015	2016	2015
For the period January 1 through June 30:						
Discount rate — benefit obligation	4.10 %	4.75 %	3.90 %	4.60 %	4.10 %	4.75 %
Discount rate — pension expense	4.75	4.30	4.60	4.25	4.75	4.60
Rate of increase in compensation levels	5.35	5.35	-	-	-	-
Expected long-term rate of return on plan assets	7.00	7.00	7.00	7.00	-	-
Health care cost trend rate (initial)	-	-	-	-	7.20	7.40
Health care cost trend rate (ultimate)	-	-	-	-	4.50	4.50
Year the rate reaches ultimate trend rate	-	-	-	-	2029	2029
For the period July 1 through December 31:						
Discount rate — benefit obligation	4.10 %	4.30 %	3.90 %	4.25 %	4.10 %	4.75 %
Discount rate — pension expense	4.75	4.60	4.60	4.60	4.75	4.60
Rate of increase in compensation levels	5.35	5.35	-	-	-	-
Expected long-term rate of return on plan assets	7.00	7.00	7.00	7.00	-	-

The discount rate used is based on a spot interest rate yield curve based on a broad group of corporate bonds rated AA or better as of the Measurement Date. Rush uses this yield curve and the estimated payouts of the Plans to develop an aggregate discount rate. The estimated payouts are the sum of the payouts under the Defined Benefit Pension Plan(s) and the Postretirement Healthcare Plans. For fiscal years 2016 and 2015, the discount rate was estimated under a bond model approach, which is based on a hypothetical bond portfolio whose cash flow from coupons and maturities match the year-by-year Plans' cash flows using bonds rated AA or better.

For the years ended June 30, 2016 and 2015, the actual rate of return on plan assets was 8.6% and 2.7%, respectively.

Plan Assets

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

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

In restating the Defined Benefit Pension Plan fair value hierarchy table as of June 30, 2015 to comport with the adoption of ASU 2015-07 as discussed in Note 2, $115.7 million in fund investments were reclassified from Level 2 within the fair value hierarchy to being reported under their NAV (or its equivalent) as a practical expedient and $40.1 million in fund investments and alternative investments were reclassified from Level 3 within the fair value hierarchy to being reported under their NAV (or its equivalent) as a practical expedient. The reconciliation for financial instruments classified as Level 3 investments as of June 30, 2015 was restated to reflect the Level 3 reclassifications to NAV (or its equivalent) as a practical expedient.

The fair value of the Defined Benefit Pension Plan assets as of June 30, 2016 and 2015 is as follows:

Fair Value Measurements as of June 30, 2016	**Level 1**	**Level 2**	**Level 3**	**Valued @ NAV**	**Total Fair Value**
Marketable securities and short-term investments	$ -	$ 26,507	$ -	$ -	$ 26,507
Fixed Income Securities:					
U.S. Government and Agency securities	-	229,307	-	-	229,307
Corporate Bonds	-	388,546	-	-	388,546
Asset Backed Securities and Other	-	52,056	-	-	52,056
Public Equity Securities	118,367	-	-	-	118,367
Fund Investments (Mutual/Commingled):					
Private Equity Funds	-	-	-	95,404	95,404
Multi Asset Class Funds	38,202	-	-	44,106	82,308
Alternative Investments:					
Private Equity Partnerships	137	-	-	25,471	25,608
Other:					
Accrued Income & Other	-	(109)	-	-	(109)
Pending Transactions	-	(77,558)	-	-	(77,558)
Total Plan Assets	$ 156,706	$ 618,750	$ -	$ 164,981	$ 940,436

Fair Value Measurements as of June 30, 2015	**Level 1**	**Level 2**	**Level 3**	**Valued @ NAV**	**Total Fair Value**
Marketable securities and short-term investments	$ -	$ 8,300	$ -	$ -	$ 8,300
Fixed Income Securities:					
U.S. Government and Agency securities	-	181,601	-	-	181,601
Corporate Bonds	-	344,282	-	-	344,282
Asset Backed Securities and Other	-	58,994	-	-	58,994
Public Equity Securities	106,977	-	-	-	106,977
Fund Investments (Mutual/Commingled):					
Private Equity Funds	-	-	-	83,367	83,367
Multi Asset Class Funds	48,477	-	-	45,193	93,670
Alternative Investments:					
Private Equity Partnerships	-	-	-	27,118	27,118
Other:					
Accrued Income & Other	-	16,672	-	-	16,672
Pending Transactions	-	(71,657)	-	-	(71,657)
Total Plan Assets	$ 155,454	$ 538,192	$ -	$ 155,678	$ 849,324

During fiscal year ended June 30, 2015, there were security transfers of $0.2 million from Levels 1 to Level 2 due to a reclassification of an underlying holding.

Cash Flows

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

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Expected contributions in 2017	$ 40,424	$ 480
Estimated Benefit Payments		
2017	$ 54,219	$ 480
2018	56,022	530
2019	60,452	583
2020	63,300	567
2021	64,453	578
2022 through 2026	348,424	2,809
Total	$ 646,870	$ 5,547

Other Postretirement Benefit Plans

Both RUMC and RCMC maintain a voluntary tax-deferred retirement savings plan. Under these defined contribution plans, employees may elect to contribute a percentage of their salary, which may be matched in accordance with the provisions of the plans. Other provisions of the plans may provide for employer contributions to the plans based on eligible earnings, regardless of whether the employee elects to contribute to the plan. Maximum annual contributions are limited by federal regulations. Employer contributions to these Plans were $16,780 and $13,989 for the years ended June 30, 2016 and 2015, respectively.

RUMC also sponsors a noncontributory defined contribution plan covering selected employees ("457(b) Plan"). Contributions to the 457(b) Plan are based on a percentage of qualifying compensation up to certain limits as defined by the provisions of the 457(b) Plan. The 457(b) Plan assets and liabilities totaled $18,271 and $16,693 as of June 30, 2016 and 2015, respectively, and are included in investments — less current portion and other long-term liabilities in the accompanying consolidated balance sheets. The assets of the 457(b) Plan are subject to the claims of the general creditors of RUMC.

Both RUMC and RCMC also sponsor supplemental retirement plans for certain management employees (the "Plans"). The RUMC plans include a Supplement plan, which was frozen as of December 31, 2014, and replaced with the Executive Retirement Plan. The Plans are noncontributory and annual benefits are credited to each participant's account based on a percentage of qualifying compensation, as defined by the provisions of the plan. Assets set aside to fund the Supplemental Plans amounted to $13,303 and $12,596 as of June 30, 2016 and 2015, respectively, and are included in investments — less current portion in the accompanying consolidated balance sheets. These supplemental retirement plans are currently funded at 87% of benefits accrued.

RUMC also maintains a frozen nonqualified supplemental defined benefit retirement plan for certain management employees, which is unfunded. Benefits under the supplemental defined benefit plan, which were curtailed as of December 31, 2004, are paid when incurred from operating funds.

It is Rush's policy to meet the requirement of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

13. CONCENTRATION OF CREDIT RISK

Rush grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable, net of contractual allowances, but before provision for uncollectible accounts, from patients and third-party payors as of June 30, 2016 and 2015, was as follows:

	2016	2015
Medicare	17 %	13 %
Medicare Managed Care	4	3
Medicaid	6	10
Medicaid Managed Care	16	4
Managed Care	46	58
Commercial	2	3
Self-pay	9	9
Total	100 %	100 %

Products sponsored by Blue Cross Blue Shield of Illinois, the largest health insurer in the market, accounted for 39% and 30% of managed care net patient accounts receivable as of June 30, 2016 and 2015, respectively; and 18% of net patient accounts receivable of the Obligated Group for each fiscal year.

14. COMMITMENTS AND CONTINGENCIES

Professional Liability

Rush maintains insurance programs, including both self-insured and purchased insurance arrangements, for certain professional liability claims. Self-insured risks are retained in varying amounts according to policy year and entity. For the year ended June 30, 2016, Rush retained self-insurance risk of $10 million each claim, with a $10 million annual aggregate buffer, excess the $10 million. Rush also maintains excess liability insurance coverage with combined limits of $120 million per occurrence and in the aggregate. For the year ended June 30, 2015, Rush retained self-insured risk of $20 million on the first case and $10 million on any additional cases. Rush also maintained excess liability covered with combined limits of $80 million per occurrence and in the aggregate. Rush has an established irrevocable trust fund to pay claims and related costs, which is recorded within the self-insurance trust in the accompanying consolidated balance sheet. From October 1986 to December 2009, RCMC was insured for professional liability claims through the Chicago Hospital Risk Pooling Program (CHRPP). CHRPP was a pooled insurance program in which claims were paid out of the pooled funds of several hospitals. RCMC's primary coverage limits under CHRPP were $1 million per occurrence and $3 million annual aggregate with excess coverage limits of $10 million per occurrence and $20 million annual aggregate, with a $50K or $100K per occurrence deductible. Although all RCMC claims under the CHRPP coverage have now been fully resolved and closed, under the terms of the CHRPP arrangement, RCMC can be charged retrospective premiums if actuarially determined funding proves inadequate in the future. Starting on January 1, 2010, RCMC implemented a self-insurance program for professional and general liability claims for claims not covered under the CHRPP. Self-insured risks are retained at $2,000 per claim and $10,000 annual aggregate with a $1,000 per claim and $1,000 aggregate buffer. RCMC also maintains excess liability insurance coverage with combined limits of $35,000 per claim and in the aggregate. Amounts above specified self-insured limits are insured through purchased insurance policies. Insurance is purchased on a claims-made basis. RCMC has established an account to pay claims and related costs.

Rush has employed an independent actuary to estimate the ultimate costs of claim settlements. Self-insured liabilities are based on the actuarial estimate of losses using Rush's actual payout patterns and various other assumptions. Rush's self-insured liabilities of $236,084 and $249,897 as of June 30, 2016 and 2015, respectively, are recorded as noncurrent and current liabilities in the accompanying consolidated balance sheets, as appropriate, and based on the estimated present value of self-insured claims that will be settled in the future. If the present value method was not used, Rush's liability for self-insured claims would be approximately $43,783 and $55,302 higher than the amounts recorded in the consolidated balance sheets as of June 30, 2016 and 2015, respectively. The discount rates used in calculating the present value by organization was 4% for fiscal years ended June 30, 2016 and 2015. Insurance recoveries are presented separately within noncurrent and current assets in the accompanying consolidated balance sheets, as appropriate. As of June 30, 2016 and 2015, no insurance recoveries were recorded.

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

Obligations under Operating Leases

Rush is party to various noncancelable operating leases with third parties. Rental expense was approximately $24,979 and $27,252 for the years ended June 30, 2016 and 2015, respectively, and was included in supplies, utilities, and other expenses in the accompanying consolidated statements of operations and changes in net assets. Total minimum payments under noncancelable operating leases as of June 30, 2015, are as follows:

Years Ending June 30	
2017	$ 16,015
2018	12,162
2019	9,371
2020	7,690
2021	6,372
Thereafter	11,461
Total	$ 63,071

Affiliations

The Obligated Group plans to enhance its academic health system to fully integrate clinical, research, education and community priorities under a common corporate parent organization for both Rush and RCMC. A streamlined system parent board will be formed to oversee the system's strategy and vision, and will have joint representation from both Rush and RCMC. Rush and RCMC entered into a non-binding letter of intent on June 7, 2016 and the due diligence and regulatory review period has been initiated, with an expected implementation targeted for fiscal year 2017. There is no assurance that this transaction will be consummated or what the final terms may be.

15. UNCONDITIONAL PROMISES TO CONTRIBUTE

Included in assets limited by donor or time restriction are the following unconditional promises to contribute as of June 30, 2016 and 2015:

	2016	**2015**
Unconditional promises to contribute before unamortized discount and allowance for uncollectibles	$ 18,926	$ 27,179
Less unamortized discount	(98)	(1,098)
Less allowance for uncollectibles	(377)	(627)
Net unconditional promises to contribute	$ 18,451	$ 25,454
Amounts due in:		
Less than one year	$ 6,328	$ 8,128
One to five years	12,448	13,001
More than five years	150	6,050
Total unconditional promises to contribute	$ 18,926	$ 27,179

In addition, Rush has received conditional promises to contribute that are not recognized as assets in the consolidated balance sheets as of June 30, 2016 and 2015. The total is not considered material to the consolidated financial statements.

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes as of June 30, 2016 and 2015:

	2016	2015
Temporarily Restricted Net Assets:		
Construction and purchase of equipment	$ 2,205	$ 7,225
Health education	13,466	11,515
Research, charity, and other	281,819	292,097
Unappropriated endowment appreciation available for operations	49,241	53,369
Total temporarily restricted net assets	$ 346,731	$ 364,206
Permanently Restricted Net Assets, income from which is expendable to support:		
Health education	$ 166,683	$ 157,738
Research, charity, and other	62,039	67,659
Operations	36,659	37,329
Total permanently restricted net assets	$ 265,381	$ 262,726

During fiscal years 2016 and 2015, net assets were released from donor restrictions for purchasing property and equipment of $8,757 and $7,604, respectively, and incurring expenses of $38,193 and $35,432, respectively, both of which satisfied the restricted purposes of the donors. Net assets released from restriction used in operations are included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

17. JOINT VENTURES AND OTHER AFFILIATIONS

Investments in unconsolidated joint ventures, accounted for on the equity method, totaled $6,063 and $6,378 as of June 30, 2016 and 2015, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income recognized from these joint ventures, reported in other revenue, was $1,531 and $1,694 during the years ended June 30, 2016 and 2015, respectively.

The Obligated Group has a majority interest in Rush Health and a majority representation on the Board of Trustees as of June 30, 2015. The addition of RCMC to the network resulted in a restructuring of the governance and membership structure of Rush Health. As of June 30, 2016, Rush has recorded equity in Rush Health based on membership interest of 56% or $3,484. Rush has elected not to consolidate its interest in Rush Health, as it expects control to be temporary and believes the effects of consolidation to be immaterial.

18. FUNCTIONAL EXPENSES

Expenses related to the patient care, education, and research services provided by Rush for the years ended June 30, 2016 and 2015, were as follows:

	2016	2015
Health care	$ 1,664,857	$ 1,608,644
University services, including research	215,127	202,408
General and administrative	148,225	136,283
Illinois Medicaid hospital assessment	45,488	46,462
Total	$ 2,073,697	$ 1,993,797

19. SALE OF INTELLECTUAL PROPERTY

During July 2014, Rush sold its rights to the royalties relating to worldwide sales of Ampyra® to a private equity fund, of which 50% will be paid to the inventors. Rush recognized a gain on the sale of $34,700 within other operating revenue, and $17,400 of expense in supplies, utilities and other expenses for the portion paid to the inventors.

******

SUPPLEMENTAL SCHEDULES

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of Rush University Medical Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rush University Medical Center Obligated Group (including Rush University Medical Center and Rush-Copley Medical Center) (collectively, "Rush"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rush's basic financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rush's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rush's internal control. Accordingly, we do not express an opinion on the effectiveness of Rush's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Rush's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2016-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rush's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rush's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rush's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 27, 2016

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

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB UNIFORM GUIDANCE

To the Board of Trustees of Rush University Medical Center:

Report on Compliance for Each Major Federal Program

We have audited Rush University Medical Center Obligated Group's (including Rush University Medical Center and Rush-Copley Medical Center) (collectively, "Rush") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its Rush's major federal program for the year ended June 30, 2016. Rush's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Rush's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rush's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Rush's compliance.

Opinion on Compliance for Each Major Federal Program

In our opinion, Rush complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Rush is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rush's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rush's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

December 7, 2016

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures	Amounts Disbursed to Subrecipients
RESEARCH AND DEVELOPMENT:				
U.S. Department of Health and Human Services:				
National Institute of Health	93.RD		$ 41,791,633	$ 6,767,890
ARRA-Passed through the Medical College of Wisconsin:				
Platelet-Oriented inhibition in new Tia and Monor Ischemic Stroke Trial	93.701	U01 NS062835	719	
Passed through Hektoen Institute:				
Center for Disease Control and Prevention	93.283	U54 CK000161	181,546	
Chicago Consortium for the Women's Interagency HIV Study	93.855	U01 AI034993	90,900	
Chicago Prevention and Intervention Epicenter Supplement (Chicago PIE)	93.283	U54 CK0000161	83,355	
Chicago Prevention and Intervention Epicenter (Chicago PIE)	93.823	U54 CK0000161	375,371	
Chicago Prevention and Intervention Epicenter Supplement (Chicago PIE) LTACH Microbiome Study 2	93.084	U54 CK0000161	252,106	
Passed through Columbia University:				
HIV and the Menopausal transition: Effects on Musculoskeletal Health	93.855	R01 AI095089	95,631	
Epidemiology of Familial late-onset Alzheimer's Disease	93.866	R01 AG041797	27,465	
Interdisciplinary Research to Understand the Interplay of Diabetes Cerebrovascular Disease and Alzheimer's Disease	93.866	RF1 AG051556	3,973	
Passed through Jaeb Center for Health Research:				
Prompt Panretinal Photocoagulation versus Intravitreal Ranibizumab with deferred Panretinal Photocoagulation for Proliferative Diabetic Retinopathy	93.867	U10 EY14231	861	
Peripheral DR Lesions on Ultrawide-field Fundus Images and Risk of Diabetic Retinopathy Worsening Over time (Protocol AA)	93.867	U10 EY014231	3,816	
Passed through Northwestern University:				
A Family-Genetic Study of Autism and Fragile X Syndrome	93.242	R01 MH091131	83,307	
Chicagoland Metropolitan Asthma Net Consortium	93.837	U10 HL098096	(51,336)	
Vitamin D add-on therapy enhances Corticosteroid responsiveness in Asthma	93.837	U10 HL098096	191,582	
Chicago Clinical Trials Unit	93.855	UM1AI069471	35,324	
Stroke Trials Network: Regional Coordinating Stroke Centers	93.853	U10NS086608	12,494	
Knee OA: Predicators and Outcomes of Physical Inactivity-Activity Transitions	93.846	R01AR054155	14,515	
NIAMS Multidisciplinary Clinical Research Center	93.846	P60AR064464	10,526	
A Phase 3, Double-Blind, Placebo-Controlled, Parallel Group Study of Isradapine as a Disease Modifying Agent in Patients with Early Parkinson's Disease / STEADY-PD3	93.853	U01 NS080818	45,629	
Chicago Clinical Trials Unit	93.855	UM AI069471	55,162	
PERL: A multicenter clinical trial of allopurino to prevent GFR loss in T1D	93.847	1UC4 DK101108	25,000	
Sedentary Bhavior Characteristics, Sedentary Profiles, and Subsequent Functional Loss	93.846	R21 AR068500	7,482	
Planning Activivty and Nutrition Trial in Lupus to Energize and Renew	93.846	U34 AR064513	15,495	
Passed through Social and Scientific Systems, Inc.:				
ACTG Protocol A5303	93.855	BRS-ACURE-S-11-001960	52,251	
Passed through University of Chicago:				
Home Sleep and circadian phase: Mediators of Racial disparities in Diabetes risk	93.847	R01 DK095207	50,211	
Enhancing Sleep and Physical Activity Measurement in the FRS Family of Studies	93.866	R01 AG051175	20,192	
Acceleration PrEP Diffusion through Network Change Agents	93.855	R01 AI120700	11,288	
Passed through University of Illinois:				
BAILA: Being Active Increasing Latino's Healthy Aging	93.361	R01 NR013151	9,577	
Community-Based End-of-Life Intervention for African American Caregivers	93.866	R01 AG043485	8,862	
Leadership Education in Neurodevelopmental and Related Disorders Training Program	93.110	T73MC11047	4,244	
The Asthma Action at Erie Trial	93.838	R01 HL123797	67,081	
BAILA: Being Active, Increasing Latinos Healthy Aging	93.361	R01 NR013151	15,991	
The Effect of Penile Microbiome on BV, GUD and Genital Epithelial Trauma	93.855	R01 AI110369	41,175	
Plasticity Circuits in Alzheimer's Disease	93.866	R01 AG033570	122,043	

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures	Amounts Disbursed to Subrecipients
Passed through Westat Inc:				
NICHD International and domestic Pediatric and Maternal HIV Studies Coordinating Center	93.HHSN	HHSN275201300003C	$ 189,296	$ -
International and Domestic Pediatric and Maternal HIV Studies Coordinating Center	93.HHSN	HHSN 275201300003C	38,552	
NICHD International and Domestic Pediatric and Maternal HIV Studies Coordinating Center	93.HHSN	HHSN275201300003C	40,093	39,522
Passed through Yale University:				
Risk Stratification in Older Patients with Acute Myocardial Infraction: SILVER AMI	93.837	R01 HL115295	(22,949)	
Clinical Pathological Study of Cognitive Impairment in Essential Tremor	93.853	R01 NS086736	17,335	
Passed through University of Texas-Houston:				
A Randomized Recruiment Intervention/RECRUIT	93.307	U24 MD006941	11,410	
NIAID (DHHS) Contract:				
Virology Quality Assurance Program	93.HHSN	HHSN272201200023C	694,455	
Virology Quality Assurance Program	93.HHSN	HHSN272201200023C	124,786	124,786
Virology Qulaity Assurance Program	93.HHSN	HHSN272201200023C	79,919	79,919
Virology Quality Assurance Program	93.HHSN	HHSN272201200023C	1,929,164	
Virology Quality Assurance Program	93.HHSN	HHSN272201200023C	99,664	99,664
Virology Quality Assurance Program	93.HHSN	HHSN272201200023C	249,225	249,224
Passed through University of Miami:				
Leukadherins as novel compounds for treating restenosis	93.837	R01 HL109582	78,189	
Role of Obesity and breast fat tissue inflammation in breast cancer promotion	93.396	R21 CA176055	1,223	
Mechanisms of Early Recurrence in Intracranial Atherosclerotic Disease	93.853	R01 NS084288	435	
Passed through University of California:				
Effects of traumatic brain injury and post traumatic stress disorder on Alzheimer's disease in Veterans using ADNI	12.420	W91XWH-12-2-0212	27,676	
Changing Lives by Eradicating Antibiotic Resistance	93.226	HS019388	58,404	
CAMKII and Ins-P3 Mediated signaling in Cardiac Myoctyes	93.837	P01 HL080101	262,257	
Alzheimer's Disease Neuroimaging initiative	93.866	AG24904	5,535	
Multi-Center Trial to Evaluate Home-Based assessment methods for Alzheimer's Disease prevention research in people over 75 years old	93.866	U01 AG10483	2,932	
Expressive languages sampling as an outcome measure	93.865	R01 HD074346	124,648	
Therapeutic Effects of Intranasally-Administered Insulin (INI) in Adults with Amnestic Mild Cognitive Impairment (aMCI) or Mild Alzheimer's Disease	93.866	RF1 AG041845	(3,427)	
Anti-Amyloid treatment in Asymptomatic Alzheimer's Disease	93.866	U19 AG010483	67,605	
Decreasing BioBurden to Reduce Healthcare-Associated Infections and Re-admissions	93.310	UH3 AI113337	107,733	
A Cognitive Test Battery for Intellectual Disabilties	93.865	R01 HD076189	51,598	
A Phase 2a, Multi-Center, Study of 18F-FDG PET, Safety & Tolerability of AZD0530 in Mild Alzheimer's Disease (ADC-049-FYN)	93.310	UH3TR000967	28,419	
A Phase 2a Multi-Center Study of 18F-FDG-PET, Safety, and Tolerability of AZD0530 in Mild Alzheimer's Disease (ADC-049-FYN)	93.866	UH3 TR000967	32,904	
Effects of traumatic brain injury and post traumatic stress disorder on Alzheimer's disease in Veterans using ADNI	12.420	W81XWH-12-2-0012	125	
ADC-046-INI / Therapeutic Effects of Intranasally-Administered Insulin (INI) in Adults with Amnestic Mild Cognitive Impairment (aMCI) or Mild Alzheimer's Disease (AD)	93.866	RF1AG041845	3,109	
Alzheimer's Disease Neuroimaging Initiative 2 (ADNI2)	93.866	U01AG024904	7,224	
A Cognitive Test Battery for Intellectual Disabilities	93.865	R01 HD076189	(16)	
Passed through University of Washington:				
Two Preclinical Latent Scores to Predict Occurrence of DAT	93.866	R01 AG034119	720	
National Alzheimer's Coordinating Center	93.866	U01AG016976	28,293	
Passed through Eastern Cooperative Oncology Group:				
ECOG	93.400	ECOG-00101102	460	

(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures	Amounts Disbured to Subrecipients
Passed through Emory University:				
Clinical Studies of Dystonia and Related Disorders	93.853	U54 NS065701	$ 2,992	$ -
Discovery of Novel Proteomic Targets for Treatment of Alzheimer's Disease	93.866	U01 AG046161	47,318	
Passed through University of Pennsylvania:				
Targeted Proteomics of resilient cognition in Aging	93.866	R01 AG039478	82,504	
Passed through Albert Einstein College of Medicine:				
Role of Innate Immunity in HIV related vascular disease; biomarkers and mechanisms	93.837	R01 HL126543	35,656	
Passed through John Hopkins:				
Multi Uveitis Steroid treatment trial	93.867	U10 EY024527	14,251	
Clot Lysis: Evaluating accelerated resolution of Intraventricular Hemorrhage	93.853	U01 NS062851	200	
A Phase III, Randomized, Open-Label, 500-Subject Clinical Trial of Minimally Invasive Surgery Plus rt-PA in the Treatment of Intracerebral Hemorrhage	93.853	U01 NS080824	1,174	
Passed through Brigham and Women's Hospital:				
Role of the Innate Immune System in Aging and Development of Alzheimer's Disease	93.310	R01AG043975	112,137	
Altered monocyte function in relation to the CD33 Alzheimers disease locus	93.866	R01 AG043617	110,290	
Exploring the role of the brain transciptome in cognitive decline	93.866	R01 AG036836	21,970	
LaboratoryCenter, AIDS Clinical Trial Group (ACTG)	93.855	1UM AI106701	295,290	
Influence of Genotype on Monocyte and Microgila Phenotype and function in PD	93.853	R56 NS089674	23,298	
Aids Clincial Trial Group Network	93.855	AI068636	181,075	
Identifying, Validating and Targeting AD Susceptibility Networks in Monocytes	93.866	R01 AG048015	121,579	
AIDS Clincial Trial Group Network	93.855	AI068636	66,365	
Influence of Genotype on Monocyte/Microglia and Function in PD	93.866	R01 NS089674	44,029	
Neurpathology for Disrupted Multiscale Activity Control in Alzheimer's Disease	93.866	R01 AG048108	28,766	
Passed through Massachusetts General Hospital:				
Role of Dynamin for Podocytes Structure and function	93.847	R01DK093773	63,014	
Creatine Safety, Tolerability and efficacy in Huntington's Disease	93.213	U01 AT000613	7,709	
Rapidly-Acting Treatments for Treatment-Resistant Depression (RAPID)	93.HHSN	HHSN271201100006I	177,810	
Randomized Trial to Prevent Vascular Events in HIV - REPRIEVE	93.837	U01 HL23336	15,078	
COEnzyme Q10 in Huntington's Disease	93.853	5 U01 NS052592	12,823	
Passed through NSABT:				
Breast Cancer Prevention Trial	93.399	U10 CA37377	98	
Passed through MCHC Chicago Hospital Council:				
MCHC - Chicago Hospital Council Subaward Agreement	93.889	25088	37,500	
Passed through Great Lakes Hemophilia:				
Public Health Surveillance for the Prevention of complications of Bleeding and Clotting Disorders	93.184	U27 DD000862	26,690	
Regional Program	93.184	H30 MC24052	41,867	
Publis Health Surveillance for Bleeding Disorders	93.080	NU27 DD001155-01-00	15,829	
Passed through University of Colorado:				
Exploratory study of different doses of endurance exercise in people with Parkinson's disease	93.853	R01 NS074343	35,612	
Passed through Upstairs Solution:				
Using technology to deliver evidence-based interventions to Alzheimer caregivers	93.866	R42 AG032159	30	
Passed through University of Florida:				
Pharmacotherapy for Alcohol consumption in HIV infected women	93.273	U01 AA020797	2,269	
Southern HIV Alcohol Research Consortium (SHARC) Admin and Research Support Core	93.273	U24 AA022002	41	
Passed through University of Kentucky:				
Role of Impaired cognitive States and risk factors in conversion to mixed Dementias	93.866	R01 AG038651	55,481	
Passed through University of Pittsburgh:				
Translational Evaluation of Aging, Inflammation & HIV in Lung Dysfunction	93.838	R01 HL120398	17,615	
Signaling Mechanisms of Focal Adhesion Protein Kindlin-2 in Chondrogenesis	93.846	R01 AR068950	227,665	
A Novel Kindlin-2 Regulatory Pathway in Bone Remodeling	93.846	R21 AR064874	147,313	

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures	Amounts Disbursed to Subrecipients
Passed through University of Michigan/Michigan State:				
Dynamic Social Networl Structures in Aging: A Complex Systems Approach	93.866	AG048937	$ 13,438	$ -
Nortriptyline-mediated attenuation of Alpha-Synuclein Pathology in Parkinson's Disease	93.853	R01 NS094460	246,427	
Passed through Vanderbilt University:				
Predictors of Opioid Analgesic responses and common endogenous Opioid mechanisms	93.279	R01 DA031726	231,325	
Reduced Opioid Analegsic Requirements via Improved Endogenous Opiod Function	93.279	R01 DA037891	75,965	
Passed through Pacific Northwest National Lab				
Development of Lewy Bodies Biofluid Signatures by Targeted Proteomics	93.853	U18NS082140	53,094	
Phase II Double-blinded Placebo Controlled Study of Bebacizumab with or without AMG 386 in Patients with Recurrent Glioblastoma or Gliosarcoma	93.395	U10 CA021661	(3,661)	
Passed through Nutrabiotix:				
Use of Novel Prebiotic Fiber of Targeted Dietary Management of Irritable Bowel Syndrome	93.847	2R44DK088525	136,249	
Passed thru Washington University:				
Genetics-Informatics Trial of Warfarin to Prevent DVT	93.839	R01 HL097036	12,535	
Passed thru University of North Carolina at Chapel Hill:				
Oxidative Stress and the Development of Osteoarthritis	93.866	R01 AG044034	42,114	
Passed thru Harvard Pilgrim Health Care:				
Defining and Preventing Venitlator-Associated Complications in Pediatrics	93.226	1R18HS021636	70	
Passed thru Icahn School of Medicine at Mount Sinai:				
Assay Development to Discover Therapeutics Against Human Cytomegalovirus	93.855	R01 AI101820	15,881	
Passed thru University of Indiana:				
National Cell Repository for Alzheimer's Disease (NCRAD)	93.866	U24 AG021886	11,411	
Passed thru Virginia Polytechnic Institute and State University:				
Promoting Healing of Tendinopathies using Metabiologic Stimulation	93.846	R01 AR063144	64,597	
Passesd thru Gynecologic Oncology Group:				
Gynecologic Oncology Group	93.395	27469-09	6,350	
Passed thru The Broad Institute:				
Pathway Discovery, Validation and Compound Identification for Alzheimer's Disease	93.866	U01 AG046152	270,664	
Pathway Discovery, Validation and Compound Identification for Alzheimer's Disease	93.866	U01 AG046152	302,457	
Passed through University of Missouri:				
IFITM-Mediated inhibition of HIV Infection and Viral Countermeasures	93.855	R01AI112381	33,700	
Passed through Harvard Medical School:				
Targeting a Novel Regulator of Brain Aging and Alzheimer's Disease	93.866	R01 AG046174	49,263	
Genome Engineering an IPSC Model of Alzheimer's Disease	93.866	RF1 AG048056	19,192	
Passed through Boston University/Boston Childrens Hospital:				
The Brain Transcriptome & Lifetime Obesity Measures: The Framingham Study	93.847	R01 DK099269	151,673	
Passed through Boston Childrens Hospital:				
Development of Synaptopathies associated with TSC, PTEN and SHANK3	93.853	U54 NS092090	43,161	
Passed through Rosalind Franklin University:				
Synaptic Mechanisms Maintaining Persistent Cocain Craving	93.279	R01 DA15835	41,903	
Passed through St. Joseph's Hospital and Medical Center:				
Neurobiology and Cognitive Impairment of the Elderly	93.866	P01 AG014449	63,464	
Passed through Queens College / CUNY:				
Assessing Aberrant Motor Learning in Parkinson's Patients	93.853	R21 NS083578	10,986	
Passed through Rehabilitation Institute of Chicago:				
Altering Activation Patterns in the Distal Upper Extremity after Stroke	93.865	R02 HD075813	13,535	
Passed through Lurie Childrens Hospital:				
Employing eSBI in a Community-based HIV Testing Environment for at-risk Youth	93.279	R01 DA041071	74,914	
Passed through Children's Hospital of Philadelphia:				
RNAi Therapy for Spinocerebellar Ataxia Type 1	93.853	UH2 NS094355	168	
Passed through Wake Forest University Health Sciences:				
Developing Research at the Interface of HIV and Aging	93.866	R24 AG044325	28,970	

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures	Amounts Disbursed to Subrecipients
Passed through Mayo Clinic:				
Phase I/II Study of Dasatinib/Bevacizumab in Recurrent Glioblastoma	93.395, 93.399	N0872	$ 836	$ -
Passed through Indiana Hemophilia and Thrombosis Center Inc:				
Hemophilia Inhibitor Research Study (HIRS)	93.CDC	MOA: 284-14-5C	3,532	
Passed through New England Institutes:				
BEST-CLI	93.839	U01 HL107407	185	
Passed through Radiation Oncology Group:				
Phase II Randomized Study of Rituximab, Methotrexate, Procarbazine, Vincristine, and Cytarabine With and Without Low-Dose Whole-Brain Radiotherapy for Primary Central Nervous System Lymphoma	93.395	U10 CA021661	747	
Passed through American College of Radiology:				
Radiation Therapy Oncology Group	93.395	U10 CA021661	(2,736)	
Passed throught NCI-NCTN (ECOG, ALLIANCE, NRG, SWOG)				
Phase III Trial of Enzalutamide versus Enzalutamide, Abriaterone and Prednisone for Castration Resistant Metastic Prostate Cancer	93.NCI	A031201	332	
A Phase II/III Trial of Veliparib or Placebo in combination with Adjuvant Temozolomide in newly Diagnosed Glioblastoma with MGMT Promoter Hypermethylation	93.NCI	A071102	243	
Androgen Deprivation Therapy and high dose Radiotherapy with or without Whole-Pelvic Radiotherapy in Unfavorable Intermediate or Favorable High Risk Prostate Cancer: A Phase III Randomized Trial	93.NCI	RTOG-0924	110	
Phase II/III Biomarker-Driven Master Protocol for Second line Therapy of Squamous Cell Lung Cancer	93.NCI	S1400	78	
Molecular Anaysis for Therapy Choice (MATCH)	93.NCI	EAY131	49	
Passed through Minneapolis Medical Research Foundation:				
Aspirin in reducing events in the elderly	93.866	U01 AG029824	84,227	
Total U.S. Department of Health and Human Services			52,263,253	
U.S. Army Medical Research Acquisition Activity:				
Targeting Prolyl Peptidases in Triple-Negative Breast Cancer	12.420	W81XWH-16-1-0025	4,074	
Battlefield-acquired immunogenicity to metals affects Orthopedic implant outcome	12.420	W81XWH-10-2-0138	14,383	
Geographic Utilization of Artificial Intelligence in real-time for disease identification and notification (Guardian)	12.420	W81XWH-11-1-0711	411,478	104,125
Guardian	12.420	W81XWH-09-1-0662	1,013,438	500,000
Tumor-Associated Microvessel Targeted Ultrasound Molecular Imaging Probes Detect Ovarian Cancer Early Stage	12.420	W81XWH-14-1-0315	120,582	23,812
Total U.S. Army Medical Research Acquisition Activity			1,563,955	
Department of Education:				
National Center for Education Research	84.305	R305 A110143	139,103	37,785
VESIP: Virtual Environment for Social information processing assessment tool for Upper Elementary and Middle School Children	84.305	R305A150189	445,713	
Total Department of Education			584,816	
Department of National Science Foundation:				
Tribochemically Induced Gelation and Film Formation at Metal Interfaces	47.041	1160951	28,144	
Collaborative Research: Electrokinetic Transport and Seperation in MEMS-fabricated Nanofluidic Channels	47.041	1402897	41,264	
Total Department of National Science Foundation			69,408	
TOTAL RESEARCH AND DEVELOPMENT			54,481,432	

(Continued)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures	Amounts Disbursed to Subrecipients
STUDENT FINANCIAL ASSISTANCE:				
U.S. Department of Education:				
Stafford Loan	84.268	P268K5336	$ 36,726,045	$ -
Grad Plus	84.268	P268K5336	10,098,735	
Parent Loans for Undergraduate Students	84.268	P268K5336	84,341	
Perkins Loan	84.038	P038A031271	1,545,345	
Perkins Loan Outstanding - Beginning Balance	84.038		9,318,951	
Pell Grant Program	84.063	P063P125336	224,065	
Supplemental Educational Opportunity Grant	84.007	P007A121271	89,092	
Federal Work Study	84.033	P033A121271	396,913	
ARRA-Federal Work Study			-	
Total U.S. Dept of Education			58,483,487	
U.S. Department of Health and Human Services:				
Loans for Disadvantaged Students Outstanding - Beginning Balance	93.342		2,418,176	
Nursing Student Loan-Undergraduate Outstanding - Beginning Balance	93.364		171,191	
Nursing Student Loan-Graduate Outstanding - Beginning Balance	93.364		453,879	
Primary Care Loan/HPSL Outstanding - Beginning Balance	93.342		2,130,792	
Nurse Faculty Loan Program Outstandig - Beginning Balance -ARRA	93.408		301,879	
Nurse Faculty Loan Program Outstanding - Beginning Balance	93.264		766,462	
Primary Care Loan/HPSL	93.342	E26 HP24311	185,096	
Nursing Student Loan	93.364	E4 DHP19180	132,008	
Loans for Disadvantaged Students	93.342	E36HP24350	347,292	
Scholarship for Disadvantaged Students	93.925		-	
Nurse Anesthetist Traineeship	93.124	A22HP29894	-	
Nurse Faculty Loan Program	93.264	E01HP28838	102,590	
Nurse Faculty Loan Program-ARRA	93.408	E0 AHP18909	-	
Total U.S. Department of Health and Human Services			7,009,365	
TOTAL STUDENT FINANCIAL ASSISTANCE			65,492,852	
OTHER FEDERAL ASSISTANCE:				
U.S. Department of Health and Human Services:				
Advanced Education Nursing Traineeship	93.358	A10 HP25129	360,677	
Passed through State of Illinois Department of Human Services:				
Early Intervention Services	84.181	FCSUO00924	982,093	
Passed through State of Illinois Department of Public Health:				
Family Planning Program	93.217,93.667,93.994	66180069D	68,250	
School Based Health Center	93.994,93.667	66380037D	315,280	
City of Chicago Health Promotion Services for Older Adult Program	93.043	32344	28,096	
City of Chicago Health Promotion Services for Older Adult Program	93.043	32347	43,591	
City of Chicago Health and Wellness Program	14.218	34348	4,357	
Regional Perinatal Network	93.994	66380007D	293,767	
TOTAL OTHER FEDERAL ASSISTANCE			2,096,111	
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 122,070,395	$ 8,026,727

(Concluded)

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2016

State Grantor/Pass-Through Grantor/Program or Cluster Title	State Grantor/ Pass-Through Grantor's Number	State Expenditures
PASSED THROUGH THE ILLINOIS DEPARTMENT OF PUBLIC HEALTH:		
Genetic Counseling/Clinical Services	63780204D	$ 19,000
Regional Perinatal Network	66380007D	122,170
Sickle Cell Program	63780219D	72,000
Total Illinois Department of Public Health		213,170
PASSED THROUGH THE ILLINOIS DEPARTMENT OF HUMAN SERVICES:		
Early Intervention Services	FCSSO00924	2,105,404
Total Illinois Department of Human Services		2,105,404
TOTAL EXPENDITURES OF STATE AWARDS		2,318,574
TOTAL EXPENDITURES FEDERAL AND STATE AWARDS		$ 124,388,969

1. BASIS OF PRESENTATION

The accompanying Schedules of Expenditures of Federal Awards and State Awards (the "Schedules") include the federal and state grant activity of Rush University Medical Center Obligated Group ("Rush"). The Schedules have been prepared on the accrual basis of accounting. The information in the Schedules is presented in accordance with the requirements of U.S. Office of Management and Budget Uniform Guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award.*

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Expenditures reported on the Schedules are presented on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in OMB Uniform Guidance in 2 CFR Part 200 wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Rush did not elect to utilize the de minimis indirect cost rate as allowed under Uniform Guidance.

3. LOANS WITH CONTINUING REQUIREMENTS

The outstanding balances as of June 30, 2016 for those loan programs for which the Federal Government imposes continuing compliance requirements are as follows:

Perkins Loan	$ 8,812,445
Loans for Disadvantaged Students	2,268,355
Nursing Student Loan-Undergraduate	117,314
Nursing Student Loan-Graduate	460,610
Primary Care Loan/HPSL	2,353,170
Nurse Faculty Loan Program- ARRA	270,018
Nurse Faculty Loan Program	804,863

4. NONCASH ASSISTANCE

Rush did not receive any noncash federal awards or in-kind contributions during fiscal year 2016. In addition, Rush did not have any federal insurance in effect during the year ended June 30, 2016, to specifically cover federal expenditures.

RUSH UNIVERSITY MEDICAL CENTER OBLIGATED GROUP

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Part I—Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified Internal control over financial reporting:

• Material weakness(es) identified?	______	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X	yes	______	none reported
• Noncompliance material to consolidated financial statements noted?	______	yes	X	no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	______	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______	yes	X	none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 of OMB Uniform Guidance?	______	yes	X	no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
Various	Student Financial Aid

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as low-risk auditee?	X	yes	______	no

Part II—Financial Statement Findings

Reference Number: 2016-01

Criteria

General information technology controls related to access and monitoring of access are expected to be properly designed and implemented.

Condition

Access to the EPIC and GEAC applications is not adequately restricted in all circumstances and a process is not in place to review or monitor production changes made by certain system users.

Effects

Controls are not adequate to restrict access or to monitor production changes made by certain system users such that changes affecting the functionality and integrity of the application's data could potentially be made without knowledge and approval of management. No such instances were noted.

Underlying Cause

Access control restrictions for Rush's EPIC and GEAC applications do not provide adequate restrictions of certain users.

Recommendation

Management should consider performing a comprehensive review of information technology and vendor staff with the ability to change application code and data, utilize administrative functions, and update security configurations in the production environment. Segregation of duties should be maintained between those designing and configuring changes and those promoting those changes to production. Consider strengthening documentation around user administration controls.

Views of Responsible Officials and Planned Corrective Actions

Rush Information Technology management has restricted access to implement changes into production for the Epic Application. For those that need elevated access, management is implementing periodic monitoring controls to provide oversight and review access provided. The application GEAC has been deactivated, and management designed access controls in consideration of this finding within the new Lawson/Link application replacing GEAC. Rush has enhanced its education and available resources related to the user provisioning process for system administrators. Internal Audit will perform testing of the effectiveness of system access processes and controls established by management.

Part III—Federal Award Findings and Questioned Costs

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Reference Number: 2015-01

Criteria

General information technology controls related to access and monitoring of access are expected to be properly designed and implemented.

Condition

Access to the EPIC and GEAC applications is not adequately restricted in all circumstances and a process is not in place to review or monitor production changes made by certain system users.

Effects

Controls are not adequate to restrict access or to monitor production changes made by certain system users such that changes affecting the functionality and integrity of the application's data could potentially be made without knowledge and approval of management. No such instances were noted.

Underlying Cause

Access control restrictions for Rush's EPIC and GEAC applications do not provide adequate restrictions of certain users.

Planned Corrective Actions

Rush information technology management has restricted access to implement changes into production for the Epic Application (Programmer Prompt, Data Courier access) and for the GEAC application. A small number of necessary Epic vendor accounts remain with elevated access to the system, and management is currently working to obtain logging functionality to monitor and provide oversight of the remaining accounts with this elevated access. Rush information technology management has removed elevated access for the noninformation technology individuals identified with the elevated GEAC access.

Status

Partial corrective action was taken. See finding 2016-01 as repeat finding in the current year and related corrective action plan described therein.