Rush University Medical Center and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended June 30, 2009 and 2008,
and OMB Circular A-133 Supplementary Report for
the Year Ended June 30, 2009, and
Independent Auditors' Reports

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush University Medical Center:

We have audited the accompanying consolidated balance sheets of Rush University Medical Center and Subsidiaries (RUMC) as of June 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of RUMC's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RUMC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the financial position and results of operations of Rush-Copley Medical Center and Rush North Shore Medical Center have been excluded from RUMC's accompanying consolidated financial statements. Accounting principles generally accepted in the United States of America require consolidation of these entities.

In our opinion, except for the matter discussed in the preceding paragraph, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rush University Medical Center and Subsidiaries as of June 30, 2009 and 2008, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the consolidated financial statements, RUMC adopted Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* during fiscal year 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2009, on our consideration of RUMC's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of RUMC taken as a whole. The accompanying schedule of expenditures of federal and state awards, as listed in the foregoing table of contents, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such schedule is the responsibility of management of RUMC. Such information has been subjected to the auditing procedures applied in the audit of the 2009 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Deloitte & Touche LLP

October 22, 2009

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2009 AND 2008
(Dollars in thousands)

ASSETS	2009	2008
CURRENT ASSETS:		
Cash and cash equivalents	$ 159,549	$ 121,438
Short-term investments	95,844	26,465
Accounts receivable for patient services — net of allowance for doubtful accounts of $46,943 in 2009 and $43,157 in 2008	140,084	130,145
Other accounts receivable — net	52,772	49,713
Self-insurance trust — current portion	25,935	28,361
Other current assets	31,392	29,317
Total current assets	505,576	385,439
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Limited as to use by donor or time restriction	384,692	379,433
Collateral proceeds received under securities lending program	32,565	101,576
Investments on loan under securities lending program	33,101	100,495
Self-insurance trust — less current portion	118,642	136,767
Marketable securities	157,242	266,460
Project fund	43,634	
Debt service reserve fund	22,488	9,495
Total assets limited as to use and investments	792,364	994,226
PROPERTY AND EQUIPMENT — At cost:		
Land and buildings	871,997	809,879
Equipment	359,789	330,133
Construction in progress	281,193	102,656
Total property and equipment	1,512,979	1,242,668
Less accumulated depreciation	(694,505)	(638,244)
Net property and equipment	818,474	604,424
OTHER ASSETS	15,203	17,574
TOTAL	$2,131,617	$2,001,663

LIABILITIES AND NET ASSETS	2009	2008
CURRENT LIABILITIES:		
Accounts payable	$ 127,989	$ 84,430
Accrued expenses	112,008	102,014
Student loan funds	23,619	23,578
Estimated third-party settlements payable	107,542	93,471
Current portion of accrued liability under self-insurance programs	27,437	28,714
Notes payable		5,776
Current portion of long-term debt	5,998	5,284
Total current liabilities	404,593	343,267
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance program — less current portion	169,344	174,124
Postretirement and pension benefits	139,098	70,804
Long-term debt — less current portion	357,964	209,695
Obligation to return collateral under securities lending program	33,983	101,576
Other long-term liabilities	48,807	42,765
Obligations under capital leases and deferred financing arrangements	39,203	41,760
Total long-term liabilities	788,399	640,724
Total liabilities	1,192,992	983,991
NET ASSETS:		
Unrestricted	454,981	521,953
Temporarily restricted for specific purposes	278,560	287,514
Permanently restricted endowments:		
Income unrestricted	20,443	20,443
Income restricted for specific purposes	184,641	187,762
Total permanently restricted endowments	205,084	208,205
Total net assets	938,625	1,017,672
TOTAL	$2,131,617	$2,001,663

See notes to consolidated financial statements.

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Dollars in thousands)

	2009	2008
REVENUE:		
Net patient service revenue	$1,136,961	$1,028,021
University services:		
Tuition and educational grants	42,108	40,248
Research and other operations	97,942	93,244
Other revenue	56,284	53,733
Total revenue	1,333,295	1,215,246
EXPENSES:		
Salaries, wages, and employee benefits	671,338	616,390
Supplies, utilities, and other	476,971	429,822
Depreciation and amortization	64,818	59,970
Provision for uncollectible accounts	40,523	35,928
Interest and fees	11,207	12,883
Total expenses	1,264,857	1,154,993
OPERATING INCOME	68,438	60,253
NONOPERATING INCOME (EXPENSE):		
Investment (loss) income	(29,615)	13,575
Unrestricted contributions	9,536	6,854
Fundraising expenses	(5,997)	(4,872)
Net gain on sale of assets		906
Loss on impairment of asset		(2,282)
Loss on extinguishment of debt	(792)	(827)
Change in fair value of interest rate swaps	(3,134)	(9,590)
Total nonoperating (loss) income	(30,002)	3,764
EXCESS OF REVENUE OVER EXPENSES	38,436	64,017

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (Dollars in thousands)

	2009	2008
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 38,436	$ 64,017
Change in unrealized gains and losses on investments		(258)
Funding of impaired endowment corpus	(5,729)	(338)
Net assets released from restrictions used for purchase of property and equipment and other	15,047	5,994
Cumulative effect of adoption of FASB Staff Position 117-1	(32,647)	
Postretirement-related changes other than net periodic postretirement cost	(82,079)	(23,314)
(Decrease) increase in unrestricted net assets	(66,972)	46,101
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges and contributions:		
Restricted by donors for construction	13,477	5,250
Restricted by donors for research and other purposes	25,911	26,720
Net assets released from restrictions	(47,023)	(34,228)
Cumulative effect of adoption of FASB Staff Position 117-1	32,647	
Investment (losses) gains	(8,508)	16,057
Change in unrealized gains and losses on investments	(25,458)	(32,678)
Recovery of impaired endowment corpus		338
Decrease in temporarily restricted net assets	(8,954)	(18,541)
PERMANENTLY RESTRICTED NET ASSETS:		
Pledges and contributions	1,282	30,956
Change in unrealized gains and losses on investments	(5,729)	
Recovery of impaired endowment corpus	5,729	
Investment losses on trustee-held investments	(4,403)	
(Decrease) increase in permanently restricted net assets	(3,121)	30,956
(DECREASE) INCREASE IN NET ASSETS	(79,047)	58,516
NET ASSETS — Beginning of year	1,017,672	959,156
NET ASSETS — End of year	$ 938,625	$ 1,017,672

See notes to consolidated financial statements.

(Concluded)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Dollars in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (79,047)	$ 58,516
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Unrealized losses on investments — trading	49,195	
Realized losses on investments — trading	31,942	
Unrealized losses on investments — other-than-trading	3,471	2,606
Realized losses (gains) on investments — other-than-trading	2,195	(3,416)
Restricted contributions and investment income received	(14,871)	(43,562)
Investment losses on trustee held investments	4,403	
Postretirement-related changes other than net periodic postretirement cost	82,079	23,314
Depreciation and amortization	64,818	59,970
Provision for uncollectible accounts	40,523	35,928
Loss on extinguishment of debt	792	827
Loss on impairment of assets		2,282
Change in fair value of interest rate swaps	3,134	3,814
Other	1,256	205
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(50,462)	(30,150)
Investments designated as trading		(100,339)
Accounts payable and accrued expenses	36,017	(4,406)
Estimated third-party settlements payable	14,071	(11,769)
Pension and postretirement costs	(13,729)	(22,178)
Accrued liability under self-insurance program	(6,057)	10,169
Other changes in operating assets and liabilities	(678)	(7,348)
Net cash provided by (used in) operating activities	169,052	(25,537)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(262,042)	(120,089)
Purchase of trading investments	(4,785,601)	
Sale of trading investments	4,761,051	
Purchase of other-than-trading investments	(7,098)	(7,258)
Sale of other-than-trading investments	4,682	7,619
Proceeds from sales		931
Net cash used in investing activities	(289,008)	(118,797)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	14,764	17,084
Net asset transfer from affiliate	6,298	2,362
Proceeds from issuance of short-term debt		5,776
Repayment of short-term debt	(5,776)	
Proceeds from issuance of long-term debt	288,301	69,037
Refunding of prior debt	(134,203)	(67,050)
Funding of bond issuance costs	(3,540)	(820)
Payment of long-term debt	(5,285)	(2,426)
Payment of obligations under capital lease and other financing arrangements	(2,492)	(2,652)
Net cash provided by financing activities	158,067	21,311
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,111	(123,023)
CASH AND CASH EQUIVALENTS — Beginning of year	121,438	244,461
CASH AND CASH EQUIVALENTS — End of year	$ 159,549	$ 121,438
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest — including capitalized interest of $7,865 in 2009 and $1,571 in 2008	$ 16,754	$ 12,457
NONCASH ADDITIONS TO PROPERTY AND EQUIPMENT	$ 16,623	$ 20,435

See notes to consolidated financial statements.

1. ORGANIZATION AND BASIS OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Rush University Medical Center and Subsidiaries (RUMC). RUMC owns and operates an academic medical center located in Chicago, Illinois. RUMC is an Illinois not-for-profit corporation, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Major operations include the following:

Rush University Hospital — 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 766 beds.

Rush Oak Park Hospital (ROPH) — A 296-licensed bed acute care, rehabilitation, and skilled nursing hospital located approximately eight miles west of RUMC in Oak Park, Illinois.

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 approximately $115,455 in annual research expenditures.

Rush University Medical Group (RUMG) — Faculty practice plan that employed 349 physicians as of June 30, 2009.

RUMC, through a joint venture arrangement with a third party, is responsible for the operations and management of ROPH. As a result, RUMC controls and has an economic interest in ROPH. Substantially all assets, liabilities, and net assets, as well as all revenue and expenses of ROPH are consolidated with the financial results of RUMC, and all significant intercompany activity has been eliminated.

RUMC consolidates the following wholly owned subsidiaries: Vyridian Revenue Management, Health Delivery Management, and RPSLMC Insurance Company, Ltd. Vyridian Revenue Management is a limited liability company that provides physician billing and collection services primarily to RUMG. Health Delivery Management is a limited liability company that operates retail and infusion pharmacies for RUMC and ROPH. RPSLMC Insurance Company, Ltd. is an off-shore insurance company that provides professional and general liability insurance coverage to RUMC. All significant intercompany activity has been eliminated.

RUMC has majority ownership in a number of subsidiaries, including Rush Surgicenter LLP, a limited partnership which operates an outpatient surgery center, and Circle Imaging Partners and Oak Park Imaging, limited partnerships which equip, maintain, and provide outpatient imaging services. The financial results of these subsidiaries are also consolidated with the financial results of RUMC. As of June 30, 2009 and 2008, minority interests in the consolidated subsidiaries totaled $2,764 and $2,285, respectively, included in other noncurrent liabilities.

RUMC has an affiliation with Rush-Copley Medical Center (RCMC), an acute care facility located in Aurora, Illinois, that covers governance and other organizational relationships. Additionally, RUMC and RCMC are parties to a Master Trust Indenture that established an Obligated Group for purposes of issuing long-term debt (see Note 7). Prior to January 1, 2009, RUMC also had an affiliation with Skokie Hospital, formerly known as Rush North Shore Medical Center (RNS), and RNS was a Member of the Obligated Group. Effective January 1, 2009, RNS merged into NorthShore University HealthSystem (NUH), formerly known as Evanston Northwestern Healthcare Corporation, and on December 31, 2008, RNS withdrew from the Obligated Group and its affiliation with RUMC was terminated. Under accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), as a result of these affiliations and financial interdependency, the financial statements of these affiliated organizations should be consolidated with RUMC. The financial statements of RCMC and RNS have been excluded from the accompanying consolidated financial statements.

If the financial statements of RCMC and RNS had been consolidated, financial information as of and for the years ended June 30, 2009 and 2008, respectively, would have been as follows:

	2009	2008
Total assets	$ 2,447,414	$ 2,412,401
Total liabilities	1,374,684	1,220,249
Total net assets	$ 1,072,730	$ 1,192,152
Total revenue	$ 1,614,739	$ 1,485,445
Total expenses	1,537,817	1,410,551
Operating income	76,922	74,894
Nonoperating (loss) income	(33,163)	482
Excess of revenue over expenses	$ 43,759	$ 75,376
(Decrease) increase in unrestricted net assets before discontinued operations	$ (61,572)	$ 57,533
Total discontinued operations	(42,475)	(1,252)
(Decrease) increase in unrestricted net assets	$ (104,047)	$ 56,281
Net cash provided by (used in):		
Operating activities	$ 218,941	$ 18,477
Investing activities	(345,713)	(161,310)
Financing activities	166,656	20,648
Cash flows from discontinued operations	(4,312)	7,265
Net increase (decrease) in cash and cash equivalents	$ 35,572	$ (114,920)

The assets and liabilities of RNS were eliminated from the consolidated balance sheet of the Obligated Group as of December 31, 2008. As such, the consolidated assets, liabilities, and net assets of the Obligated Group for June 30, 2009, presented above exclude RNS. RNS was a member of the Obligated Group as of June 30, 2008, and the consolidated assets, liabilities, and net assets of the Obligated Group for June 30, 2008, presented above include RNS. The net loss from operations and decrease in net assets of RNS for the six-month period ended December 31, 2008, and the fiscal year ended June 30, 2008, are included in the consolidated (decrease) increase in unrestricted net assets as a discontinued operation and excluded from excess of revenues over expenses during the years ended June 30, 2009 and 2008.

In connection with the withdrawal of RNS from the Obligated Group, all debt outstanding under the Master Trust Indenture for which RNS was the primary obligor was defeased or redeemed (total indebtedness attributable to RNS and secured by the Master Trust Indenture was $52.8 million as of December 31, 2008).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — Except for the matter discussed in Note 1 related to the consolidation of RCMC and RNS, the accompanying consolidated financial statements have been presented in conformity with generally accepted accounting principles as recommended in the audit and accounting guide for healthcare organizations published by the American Institute of Certified Public Accountants.

Use of Estimates — The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 — Marketable securities having an original maturity of 90 days or less are considered to be cash equivalents.

Inventory — Medical supplies, pharmaceuticals, and other inventories are stated at the lower of cost or market.

Investments — Investments in equity and debt securities with readily determinable fair values are designated as trading securities and measured at their fair market value using quoted market prices. Short-term investments having an original maturity greater than 90 days that are available for current operations are reported as current assets. Alternative investments, consisting of hedge funds, real estate investments, and private equity limited partnerships are designated as other-than-trading. Hedge funds are measured at their fair market value based on information provided by the respective fund. Investments in limited partnerships (principally private equity funds) are reported at cost, adjusted for impairment losses, based on information provided by the respective partnership when RUMC's ownership percentage is minor (less than 5%). Investments in limited partnerships where RUMC's ownership percentage is more than minor, but consolidation is not required (5% to 50%), are accounted for on the equity basis. Real estate investments are carried at amortized cost.

Investment gains and losses (including interest, dividends, realized gains and losses, and unrealized gains and losses recognized on trading securities and hedge funds) are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Investment returns on permanently restricted assets are allocated to purposes specified by the donor either as temporarily restricted or unrestricted, as applicable.

Derivative Instruments — Derivative instruments, specifically interest rate swaps, are recorded in the consolidated balance sheets at their respective fair values and 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. During fiscal year 2008, RUMC terminated one of its interest rate swaps and paid settlement costs of $5,776 (see Note 7).

Capitalized Interest — Interest expense from bond proceeds, net of interest income, incurred during the construction of major projects is capitalized during the construction period. Such capitalized interest is amortized over the depreciable life of the related assets on a straight-line basis. Capitalized interest was $7,865 and $1,571 in 2009 and 2008, respectively.

Fair Value of Financial Instruments — Financial instruments consist primarily of cash and cash equivalents, investments, derivative instruments, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and debt. Except as otherwise disclosed (see Notes 6 and 7), the fair value of these instruments approximated their financial statement carrying amount as of June 30, 2009 and 2008, because of their short-term maturity.

Property and Equipment — Property and equipment are recorded at cost. Depreciation and amortization expenses are recognized over the estimated useful lives of the assets using the straight-line method.

Costs of computer software developed or obtained for internal use, including external direct costs of materials and services, payroll, and payroll-related costs for employees directly associated with internal-use software development projects and interest costs incurred during the development period are capitalized and included in property and equipment in the accompanying consolidated balance sheets.

Long-Lived Assets — RUMC continually evaluates whether circumstances have occurred that would indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, RUMC uses an estimate of the undiscounted cash flows over the remaining life of the assets in measuring whether the asset is recoverable. RUMC recognized an impairment adjustment of $2,282 within nonoperating income (expense) during the year ended June 30, 2008, for unamortized bond issuance costs related to the bond insurance on its Series 2006A Variable Rate Demand Bonds (see Note 7).

Other Assets — Other assets include investments in joint ventures accounted for on the equity basis (see Note 15), debt issuance costs (net of amortization, which is computed on the straight-line basis over the life of the related debt), and other items.

Securities Lending — RUMC records, as an asset, the fair value of its beneficial interest in cash collateral pools for securities lent to third parties and records a corresponding liability for the collateral received that will be paid back to the third party.

Charity Care — It is an inherent part of RUMC'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 patient service revenue.

RUMC 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 less than 250% of the poverty level (300% of the poverty level effective July 1, 2009) and will provide services at a discount for patients whose family income is less than 400% of the poverty level. Interest-free payment plans are also provided. These records include 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. RUMC also monitors the unreimbursed cost of patient bad debts.

In December 2006 and again in December 2008, the Centers for Medicare and Medicaid Services approved the Illinois Hospital Assessment Program (the "Program") to improve Medicaid reimbursement for Illinois hospitals. This program increased net patient service revenue in the form of additional Medicaid payments and increased supplies, utilities, and other expense through a tax assessment from the State of Illinois. The net benefit to RUMC from this Program was $16,565 and $14,819 during the years ended June 30, 2009 and 2008, respectively (see Note 3).

The level of charity care provided for the years ended June 30, 2009 and 2008, is as follows:

	2009	2008
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients	$ 59,171	$ 40,367
Net benefit under the Program (2009 component)	(16,565)	
Net benefit under the Program (2008 component)		(14,819)
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program	42,606	25,548
Estimated costs and expenses incurred to provide charity care in the hospitals	16,044	8,715
Total	$ 58,650	$ 34,263

The total number of patients that were either provided charity care directly by RUMC or that were covered by the Program represented 17.9% and 15.1% of RUMC's total patients in 2009 and 2008, respectively. Many of RUMC's patients are reluctant and do not provide the information necessary to qualify for charity care. Therefore, a portion of RUMC's bad debt expense represents patients that do not have the financial ability to pay.

Contributions — Unconditional promises to give 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. The gifts are reported as either 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 as other revenue (if time restricted or restricted for operating purposes) or reported in the consolidated statements of 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.

RUMC is the beneficiary of several split-interest agreements, primarily perpetual trusts held by others. RUMC recognizes its interest in these trusts based on either RUMC'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.

Excess of Revenue Over Expenses — The consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include 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 generally accepted accounting principles to be reported separately (such as extraordinary items, the effect of discontinued operations, postretirement-related changes other than net periodic postretirement cost, and the cumulative effect of changes in accounting principle).

Nonoperating Income (Expense) — Nonoperating income (expense) consists primarily of unrestricted investment returns on the endowment investment pool, 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, realized gains and losses, unrealized gains and losses recognized on trading securities, and unrealized gains and losses recognized on hedge funds during fiscal year 2009) on all other investments, changes in the fair value of interest rate swaps, losses on extinguishment of debt, net gains (losses) on sales, unrestricted contributions, losses on impaired assets, and fundraising expenses.

New Accounting Pronouncements — In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. FASB Statement No. 157 is effective for years beginning after November 15, 2007. In October 2008, the FASB issued Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset when the Market for That Asset is Not Active*. FSP FAS 157-3 clarifies the application of FASB Statement No. 157 in a market that is not active. In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which provides additional guidance for estimated fair value when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FASB Statement No. 157, FSP 157-3, and FSP FAS 157-4 were effective for RUMC during fiscal year 2009. The effect of adopting these standards did not have a material impact on the consolidated financial statements of RUMC.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*. FASB Statement No. 159 permits entities that elect the fair value provisions of FASB Statement No. 157 to choose to measure many financial instruments and certain other items at fair value. It also provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. Accordingly, unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. FASB Statement No. 159 is effective for years beginning after November 15, 2007, and was effective for RUMC in fiscal year 2009. As a result of adopting FASB Statement No. 159, the Obligated Group elected the fair value option for its hedge fund investments and the changes in fair value related to these investments are, therefore, being recorded through the Statement of Operations in fiscal year 2009. For the fiscal year ended June 30, 2009, $612 in unrealized losses were recorded within nonoperating income (expense) in the Consolidated Statements of Operations and Changes in Net Assets related to the changes in fair value of RUMC's hedge fund investments. In addition, purchases and sales of trading securities are included within investing activities in the Consolidated Statements of Cash Flows in fiscal year 2009 as a result of adopting FASB Statement No. 159.

In August 2008, the FASB issued FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006

(UPMIFA) and also requires additional disclosures about an organization's endowment funds related to net asset classification, net asset composition, changes in net asset composition, and spending and investment policies regardless of whether the organization is subject to UPMIFA. RUMC adopted FSP FAS 117-1 during fiscal year 2009 and the State of Illinois adopted UPMIFA on June 30, 2009. As a result of the passage of UPMIFA, RUMC recognized a reclassification of $32,647 of unrestricted net assets to temporarily restricted net assets as of June 30, 2009, which represents the life-to-date appreciation on the unrestricted portion of RUMC's endowment which under UPMIFA is to be classified as temporarily restricted net assets until appropriated for use (see Note 6).

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*, which is effective for RUMC in fiscal year 2010. FASB Statement No. 161 amends and expands the disclosure requirements of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how these instruments and related hedged items are accounted for under FASB Statement No. 133, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flow. To meet these objectives, this statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair values of derivative instruments and their gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements.

In December 2008, the FASB issued Staff Position FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which emends FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits — an amendment of FASB Statements No. 87, 88, and 106*. FSP FAS 132(R)-1 requires sponsors of postretirement benefit plans to disclose additional information about assets held in a defined benefit pension or other postretirement plan, including the fair value of each major category of assets in the plans as of each annual reporting date and the basis for determining the value, descriptions of investment policies and strategies, and more detailed disclosures related to concentrations of credit risk within plan assets. The required disclosures for RUMC's plan assets would be similar to the disclosures about fair value measurements required by FASB Statement No. 157. The additional disclosures are required for fiscal years ending after December 15, 2009, and will be effective for RUMC in fiscal year 2010.

In April 2009, the FASB issued FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions — Including an amendment of FASB Statement No. 142*. This statement establishes principles and requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, including how to account for the combination under either the carryover method or the acquisition method. This statement is effective for RUMC in fiscal year 2011.

Consideration of Events Subsequent to the Balance Sheet Date — RUMC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. RUMC does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date but before the financial statements are issued. For these purposes, RUMC has evaluated events occurring subsequent to the balance sheet date through October 22, 2009, the date the financial statements were issued. RUMC has not evaluated events occurring after October 22, 2009, in these financial statements.

Reclassifications — In 2009, RUMC changed the presentation in the consolidated balance sheet to report all net unconditional promises to give within assets limited as to use by donor or time restriction and reclassified the corresponding 2008 amount to conform to the 2009 presentation.

Accounting Adjustments — During 2008, RUMC recognized its beneficial interest in certain perpetual trusts held by others based on RUMC'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. The fair value of RUMC's interest in these trust assets was $26,478 as of June 30, 2008, recognized as an increase in permanently restricted net assets in the consolidated balance sheets and statements of changes in net assets. This adjustment had no impact on the statements of operations for the periods presented.

Management believes that this accounting adjustment was not material to the consolidated financial statements as of and for the year ended June 30, 2008. In making this assessment, management considered qualitative and quantitative factors, including the impact to the statements of operations and changes in net assets for the period presented.

3. NET PATIENT SERVICE REVENUE

The mix of net patient service revenue (excluding the reimbursement under the Program) from patients and third-party payors for the years ended June 30, 2009 and 2008, was as follows:

	2009	2008
Medicare	27 %	28 %
Medicaid	11	10
Blue Cross	30	28
Managed care	25	27
Commercial and self-pay	7	7
Total	100 %	100 %

RUMC 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. Patient service revenue is reported at the estimated net realizable amounts from third-party payors, patients, and others for services rendered, including estimated retroactive settlements. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in estimates relating to prior periods increased net patient service revenue by $13,482 in 2009 and $5,198 in 2008. 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.

RUMC 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 when realized.

The healthcare 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 healthcare 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 RUMC is in substantial compliance with current laws and regulations.

In December 2006 and again in December 2008, the Centers for Medicare and Medicaid Services approved the Program to improve Medicaid reimbursement for Illinois hospitals. This program increased net patient service revenue in the form of additional Medicaid payments and increased supplies, utilities, and other expense through a tax assessment from the State of Illinois. The net benefit to RUMC from this Program was $16,565 and $14,819 during the years ended June 30, 2009 and 2008, respectively. For the year ended June 30, 2009, the Medicaid payment of $42,871 was included in net patient service revenue, representing 4% of the total balance, and the tax assessment of $26,306 was included in supplies, utilities, and other expense. For the year ended June 30, 2008, the Medicaid payment of $41,563 was included in net patient service revenue, representing 4% of the total balance, and the tax assessment of $26,744 was included in supplies, utilities, and other expense.

During December 2008, the Program was approved through June 30, 2013; however, the future of the Program is uncertain.

4. ASSETS LIMITED AS TO USE AND INVESTMENTS

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. Investments in equity and debt securities with readily determinable fair values are designated as trading securities. RUMC holds an interest in a collective business trust that invests primarily in equity and equity-related securities, which is also designated as a trading security. The trust is valued and priced daily, and liquidity is available on a daily basis. RUMC also holds certain investments in alternative securities consisting of hedge funds, real estate investments, and limited partnerships, which are designated as other-than-trading.

Assets limited as to use and investments as of June 30, 2009 and 2008, are summarized as follows:

	2009	2008
Assets limited as to use and investments:		
Limited by donor or time restriction	$ 384,692	$ 379,433
Collateral proceeds received under securities lending program	32,565	101,576
Investments on loan under securities lending program	33,101	100,495
Self-insurance trust — less current portion	118,642	136,767
Marketable securities	157,242	266,460
Project fund	43,634	
Debt service reserve fund	22,488	9,495
Total noncurrent investments	792,364	994,226
Short-term investments	95,844	26,465
Self-insurance trust — current portion	25,935	28,361
Total investments	$ 914,143	$ 1,049,052

The composition of assets limited as to use and investments as of June 30, 2009 and 2008, consisted of the following:

	2009	2008
Cash and cash equivalents	$ 188,734	$ 16,350
Government securities	129,737	61,197
Corporate bonds	97,190	40,983
Equity securities	179,779	235,469
Fixed-income mutual funds	133,115	422,286
Equity mutual funds and commingled trust	22,909	28,768
Alternative investments designated as other-than-trading	51,758	54,280
Accrued interest and other	2,555	6,279
	805,777	865,612
Beneficial interest in trusts	22,075	26,478
Interest in cash collateral pools	32,565	101,576
Total investments — excluding pledges receivable	860,417	993,666
Net pledges receivable	53,726	55,386
Total investments	914,143	1,049,052
Less amount reported as current	(121,779)	(54,826)
Investments — noncurrent	$ 792,364	$ 994,226

Hedge funds are recorded at fair value, which represents RUMC's share of the net assets of these entities. Hedge fund investments also include certain liquidity restrictions that may require 60 to 65 days advance notice for redemptions. The fair value of hedge fund investments was $21,790 and $25,077 as of June 30, 2009 and 2008, respectively. Real estate investments are recorded at cost of $7,712, less accumulated depreciation of $3,869 and $3,685 as of June 30, 2009 and 2008, respectively. Investments in limited partnerships (principally private equity funds) that hold restricted securities and are not publicly traded are recorded at cost, adjusted for impairment losses, or on the equity basis based on RUMC's ownership interest percentage. Investments in limited partnerships recorded at cost amounted to $25,264 and $25,365 as of June 30, 2009 and 2008, respectively. The fair value of these partnership investments, as estimated by management of the limited partnerships based on audited financial statements and other relevant factors, was $23,685 and $26,282 as of June 30, 2009 and 2008, respectively. Investments in limited partnerships recorded on the equity basis amounted to $861 and $0 as of June 30, 2009 and 2008, respectively. As many factors are considered in arriving at the estimated fair value, RUMC routinely monitors and assesses methodologies and assumptions used in valuing these partnerships. As of June 30, 2009, commitments for additional contributions to limited partnership funds totaled $24,530.

It is RUMC'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 segments. 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 supplies, utilities, and other expense. This allocated return, 5% and 6% for the years ended June 30, 2009 and 2008, respectively, approximates the real return that RUMC expects to earn on its investments over the long term and totaled $8,209 and $9,925 for years ended June 30, 2009 and 2008, respectively. The difference between the total investment return and the amount allocated to operations is reported in nonoperating income (expense) and totaled $(8,617) and $(3,334) for the years ended June 30, 2009 and 2008, respectively. There is no guarantee that the investment return expected by management will be realized. For the years ended June 30, 2009 and 2008, the total annual investment return was approximately 0.3% and 4%, respectively.

RUMC participates in a securities lending arrangement whereby RUMC provides certain of its marketable securities to be loaned to independent third parties through a commercial bank. These loaned securities are collateralized against loss and/or default by a beneficial interest in various collateral pools maintained by the commercial bank. As of June 30, 2009 and 2008, RUMC loaned approximately $33,101 and $100,495, respectively, in securities and accepted collateral for these loans in the amount of $33,983 and $103,203, respectively, of which $33,983 and $101,576, respectively, represents cash collateral and is included in investments and long-term liabilities in the accompanying consolidated balance sheets. Of the $33,101 and $100,495 on loan as of June 30, 2009 and 2008, $16,727 and $71,600 represent donor-restricted endowment funds, respectively, and $16,374 and $28,895 represent unrestricted investments, respectively. Cash collateral received under the program is invested in a commingled fund managed by the commercial bank. Eligible instruments for investment in the collateral pool include, but are not limited to, government securities, asset-backed and mortgage-backed securities, and corporate debt, all of which are subject to quality and liquidity guidelines established by the fund. The collateral proceeds received under the securities lending program have been reduced by a liability of $1,418 due to the commercial bank as of June 30, 2009, which represents RUMC's portion of a collateral deficiency in the securities lending collateral pool.

The composition and presentation of investment income and the change in unrealized gains and losses on investments for the years ended June 30, 2009 and 2008, are as follows:

	2009	2008
Interest and dividends	$ 26,352	$ 34,045
Unrealized losses	(21,479)	(8,340)
Net realized (losses) gains on sales of securities	(34,137)	14,604
	$ (29,264)	$ 40,309
Reported as:		
Other operating revenue	$ 8,859	$ 10,677
Nonoperating (loss) income	(29,615)	13,575
Temporarily restricted net assets — investment (losses) gains	(8,508)	16,057
	$ (29,264)	$ 40,309
Change in unrealized gains and losses on investments:		
Unrestricted net assets	$ -	$ (258)
Temporarily restricted net assets	(25,458)	(32,678)
Permanently restricted net assets	(10,132)	
	$ (35,590)	$ (32,936)

RUMC reported gains and losses on its alternative investments (designated as other-than-trading) as of 2009 and 2008, are as follows:

	2009	2008
Reported as:		
Nonoperating (loss) income	$ (578)	$ 800
Temporarily restricted net assets — investment (losses) gains	(292)	3,707
	$ (870)	$ 4,507
Change in unrealized gains and losses on other-than-trading investments:		
Unrestricted net assets	$ -	$ (258)
Temporarily restricted net assets	(2,829)	(1,741)
	$ (2,829)	$ (1,999)

5. FAIR VALUE MEASUREMENTS

Effective July 1, 2008, RUMC adopted FASB Statement No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB Statement No. 157 defines fair value 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. Fair value is a market-based measurement and should be determined based on the assumptions that market participants would use in pricing the asset or liability in a hypothetical transaction at the measurement date. FASB Statement No. 157 is applicable when other accounting pronouncements require or permit assets or liabilities to be measured at fair value, but does not require any new fair value measurements. The adoption of FASB Statement No. 157 did not have a material impact on RUMC's financial position and results of operations.

FASB Statement No. 157 establishes a three-level valuation hierarchy which prioritizes the inputs to the valuation of an asset or liability at the measurement date based on transparency, as follows:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets and liabilities in nonactive markets, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 — Unobservable inputs for which there is little or no market data available and are based on the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement.

RUMC's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, RUMC uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology typically applies to domestic and international equities, exchange-traded mutual funds and open-ended mutual funds which redeem at net asset value (NAV) without restriction, and some futures, options, rights, and warrants depending on the pricing method used.

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). Securities typically priced using Level 2 inputs include government bonds (including U.S. Treasuries and Agencies), corporate and municipal bonds, certain collateralized debt obligations, asset-backed securities and mortgage-backed securities, commercial paper, currency options, commingled funds where NAV is corroborated with observable data and some futures, options, rights, and warrants dependent on the pricing method. The fair value of RUMC's obligations under interest rate swap agreements is also included in Level 2 within the fair value hierarchy. Interest rate swaps are valued 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 RUMC's balance sheet includes an adjustment for the Obligated Group's credit risk, but may not be indicative of the value RUMC would be required to pay upon early termination of the swap agreements.

Assets and liabilities that are valued using significant unobservable inputs such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy, which typically includes interests in alternative investments. The Level 3 classification primarily includes RUMC's interest in hedge funds carried at fair value. Hedge fund investments are valued based on RUMC's ownership interest in the NAV of the respective fund as estimated by the general partner. RUMC routinely monitors and assesses methodologies and assumptions used in valuing these interests. Hedge fund investments also include certain liquidity restrictions that may require 60 to 65 days advance notice for redemptions. Investments in limited partnerships (principally private equity funds) that hold restricted securities and are not publicly traded are recorded at cost or on the equity basis based on RUMC's ownership interest percentage (see Note 2). Investments in direct real estate investments are recorded at cost, less accumulated depreciation. FASB Statement No. 157 does not apply to investments carried at cost or on the equity basis.

The assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 by the FASB Statement No. 157 hierarchy defined above, are as follows:

	Level 1	Level 2	Level 3	Total Fair Value	Equity and Cost Method Investments	Total Carrying Value
Assets:						
Cash and equivalents	$ 72,663	$116,071	$ -	$188,734	$ -	$188,734
Government securities		129,737		129,737		129,737
Corporate bonds		96,147	1,043	97,190		97,190
Equity securities	179,779			179,779		179,779
Fixed income mutual funds	3,183	129,932		133,115		133,115
Equity mutual funds and commingled trust	10,905	12,004		22,909		22,909
Alternative investments designated as other-than-trading			21,790	21,790	29,968	51,758
Accrued interest and other	21	2,534		2,555		2,555
	266,551	486,425	22,833	775,809	29,968	805,777
Beneficial interest in trusts			22,075	22,075		22,075
Interest in cash collateral pools		32,565		32,565		32,565
Total assets at fair value	$266,551	$518,990	$44,908	$830,449	$29,968	$860,417
Liabilities:						
Obligations under interest rate swap agreements	$ -	$ 7,852	$ -	$ 7,852	$ -	$ 7,852
Obligation to return collateral under securities lending program		33,983		33,983		33,983
Total liabilities at fair value	$ -	$ 41,835	$ -	$ 41,835	$ -	$ 41,835

A rollforward of the amounts in the balance sheet for financial instruments classified by RUMC within Level 3 of the fair value hierarchy, are as follows:

	Fair Value June 30, 2008	Realized and Unrealized Gains (Losses)	Purchases, Sales, Issuances, and Settlements (Net)	Reclassifications and Transfers In (Out)	Fair Value June 30, 2009
Assets:					
Corporate bonds	$ 4,046	$ (692)	$(270)	$(2,041)	$ 1,043
Alternative investments designated as other-than-trading	25,077	(3,287)			21,790
Beneficial interest in trusts	26,478	(4,403)			22,075
Total assets at fair value	$55,601	$(8,382)	$(270)	$(2,041)	$44,908

Realized and unrealized gains (losses) pertaining to Level 3 investments includes $(1,304) reported within excess of revenue over expenses and $(2,675) and $(4,403) reported within temporarily and permanently restricted net assets under investment gains and losses, respectively. Included in realized and unrealized gains (losses) for 2009 is $(8,365) of unrealized losses pertaining to Level 3 investments that are still held as of June 30, 2009.

The estimated fair value of long-term debt based on quoted market prices and other relevant information was approximately $362,373 as of June 30, 2009.

6. ENDOWMENT FUNDS

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act,* and Enhanced Disclosures for All Endowment Funds (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 and also requires additional disclosures about an organization's endowment funds. RUMC adopted FSP FAS 117-1 during fiscal year 2009. The State of Illinois enacted the Uniform Prudent Management of Institutional Funds Act on June 30, 2009 (UPMIFA). As a result of the passage of UPMIFA, RUMC recognized a reclassification of $32,647 of unrestricted net assets to temporarily restricted net assets as of June 30, 2009. The $32,647 reclassified from unrestricted to temporarily restricted net assets represents the cumulative appreciation on the unrestricted portion of RUMC's endowment which under UPMIFA is to be classified as temporarily restricted net assets until appropriated for use.

RUMC's endowment consists of approximately 341 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law — RUMC has interpreted 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, RUMC 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, RUMC considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

(1) The duration and preservation of the fund;

(2) The purposes of the organization and the donor-restricted endowment fund;

(3) General economic conditions;

(4) The possible effect of inflation and deflation;

(5) The expected total return from income and the appreciation of investments;

(6) Other resources of the organization;

(7) The investment policies of the organization.

Endowment Investment and Spending Policies — RUMC has adopted endowment investment and spending policies to preserve purchasing power over the long term, achieve investment returns while balancing overall investment risk, and provide stable annual support to the programs supported by the endowment. The endowment investment pool provides support for professorships (37%), research (11%), free care (9%), student financial aid (7%), education (9%), scholarships and fellowships (6%), miscellaneous specific purposes (6%), and general purposes (15%).

The Investment Committee of the Board is responsible for defining and reviewing the investment policy to determine an appropriate long-term asset allocation policy. Investments in the endowment pool are diversified by asset class and investment manager and style. The current asset allocation targets and ranges as well as the asset allocation as of June 30, 2009 and 2008, are as follows:

	Asset Allocation Targets			Percentage Plan Assets	
Asset Class	**Minimum**	**Target**	**Maximum**	**2009**	**2008**
Domestic equity	40 %	45 %	50 %	40 %	43 %
International equity	5	10	15	9	11
Fixed income	25	30	35	30	27
Alternatives	10	15	20	21	19

Over long periods of time, RUMC expects the endowment fund to achieve a total annual return appropriate for the risk of the portfolio's investments and the needs of the institution. To satisfy its long-term rate of return objectives, RUMC 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 9.0% based on historical returns. Actual returns in any given year may vary from this amount. RUMC has established market-related benchmarks to evaluate the endowment fund's performance on an ongoing basis.

The Finance Committee of the Board approves the annual spending policy for program support. In establishing the annual spending policy, RUMC'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 5.0% and 4.3% for the fiscal years ended June 30, 2009 and 2008, respectively, and income from the endowment fund provided $20.5 million and $16.8 million of support for RUMC's programs during the fiscal years ended June 30, 2009 and 2008, respectively. The spending rate is based on a three-year moving average of ending market values for pooled assets.

Composition of Endowment Fund and Reconciliation — As of June 30, 2009, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 142,714	$ 205,084	$ 347,798
Board-designated endowment funds	3,054			3,054
Total funds	$ 3,054	$ 142,714	$ 205,084	$ 350,852

Changes in endowment net assets for the fiscal year ended June 30, 2009, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 47,635	$159,713	$208,205	$415,553
Investment return:				
Investment income	1,659	6,975		8,634
Endowment impairment			5,729	5,729
Net depreciation (realized and unrealized)	(10,441)	(39,283)	(10,132)	(59,856)
Total investment return	(8,782)	(32,308)	(4,403)	(45,493)
Contributions			1,282	1,282
Appropriation of endowment assets for expenditures	(3,152)	(17,338)		(20,490)
Transfer of unrestricted endowment appreciation	(32,647)	32,647		-
Endowment net assets — end of year	$ 3,054	$142,714	$205,084	$350,852

As of June 30, 2008, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 44,011	$ 159,713	$ 208,205	$ 411,929
Board-designated endowment funds	3,624			3,624
Total funds	$ 47,635	$ 159,713	$ 208,205	$ 415,553

Changes in endowment net assets for the fiscal year ended June 30, 2008, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 54,863	$190,081	$177,249	$422,193
Investment return:				
Investment income	1,608	7,271		8,879
Net depreciation (realized and unrealized)	(5,954)	(23,705)		(29,659)
Total investment return	(4,346)	(16,434)	-	(20,780)
Contributions			30,956	30,956
Appropriation of endowment assets for expenditures	(2,882)	(13,934)		(16,816)
Endowment net assets — end of year	$ 47,635	$159,713	$208,205	$415,553

Fund Deficiencies — RUMC monitors the accumulated losses on permanently restricted investments to determine whether the endowment corpus has been impaired. A funding of $5,729 was required as of June 30, 2009 to restore the endowment corpus balance. The funding was made through unrestricted net assets and is included in the accompanying consolidated statements of operations and changes in net assets.

7. LONG-TERM DEBT

RUMC's long-term debt is issued under a Master Trust Indenture which established an Obligated Group comprised of RUMC, RCMC, and formerly RNS. Effective December 31, 2008, RNS withdrew from the Obligated Group and all debt outstanding under the Master Trust Indenture for which RNS was the primary obligor was defeased or redeemed. As of June 30, 2009, the Obligated Group consists of RUMC and RCMC.

The Obligated Group is jointly and severally liable for the obligations issued under the Master Trust Indenture. Each Obligated Group member is expected to pay its allocated share of the debt issued on its behalf. As of June 30, 2009, such issuances are secured by a pledge of gross receipts and a mortgage on primary healthcare facilities, as defined, of the Obligated Group members. As of December 31, 2008, the mortgage on the RNS healthcare facilities for the benefit of the Master Trustee was released.

A summary of RUMC's long-term debt as of June 30, 2009 and 2008, is as follows:

	2009	2008
Fixed-rate debt — Illinois Finance Authority Revenue Bonds:		
Series 2009 A, 5% to 7.25%, due annually on November 1, 2013 through 2038	$176,265	$ -
Series 2006B, 5% to 5.75%, due annually on November 1, 2012 through 2028	67,050	67,050
Series 1998A, 5% to 5.25%, due annually on November 1, 2011 through 2024	60,550	60,550
Total fixed-rate debt	303,865	127,600
Variable-rate debt — Illinois Finance Authority Revenue Bonds:		
Series 2008A Variable Rate Demand Bonds, issued December 2008, due in varying amounts through November 2045, secured by a letter of credit from The Northern Trust Company, with an average interest rate of 0.36% in fiscal year 2009.	50,000	
Series 2006A Variable Rate Demand Bonds, due in varying amounts through November 2035, with a standby bond purchase agreement provided by JP Morgan Chase Bank National Association, with an average interest rate of 3.63% in fiscal year 2008, redeemed during July and August 2008.		67,050
Series 1989A, due in varying amounts through October 2010, secured by a letter of credit from The Northern Trust Company, with an average interest rate of 1.27% and 2.85% in fiscal years 2009 and 2008, respectively.	9,645	13,931
Series 1985 C, D, and F, through the Revolving Fund Pooled Financing Program, due in February 2011, secured by letters of credit from JP Morgan Chase Bank National Association, with an average interest rate of 2.64% and 3.05% in fiscal years 2009 and 2008, respectively. The interest rates include 1.3% trustee and Illinois Finance Authority fees.	3,990	4,988
Total variable-rate debt	63,635	85,969
Total debt	367,500	213,569
Less current portion of long-term debt	(5,998)	(5,284)
Less unamortized premium	1,881	1,979
Less unamortized discount	(5,419)	(569)
Long-term debt	$357,964	$209,695
Estimated fair value based on quoted market prices and other relevant information	$362,373	$209,146

Annual maturities of outstanding long-term as of June 30, 2009 and 2008, are as follows:

Years Ending June 30	
2010	$ 5,999
2011	7,636
2012	4,550
2013	5,905
2014	11,320
Thereafter	332,090
Total	$ 367,500

In addition to the debt described above, other Obligated Group members have additional outstanding debt issued under the Master Trust Indenture, for which RUMC is jointly and severally liable, totaling $86,553 and $118,721 as of June 30, 2009 and 2008, respectively. Additional outstanding debt included $65,055 and $59,975 of fixed-rate debt in 2009 and 2008, respectively; $1,698 and $50,976 of variable-rate debt in 2009 and 2008, respectively; $19,800 in notes payable in 2009, refinanced through the issuance of long-term fixed rate debt in July 2009 as described below; and $7,770 in short-term notes payable in 2008.

Subsequent to June 30, 2009, the Illinois Finance Authority (IFA) issued $173,800 of Series 2009C Fixed Rate Revenue Bonds, allocated to RUMC, and $26,200 of Series 2009D Fixed Rate Revenue Bonds, allocated to RCMC, on behalf of the Obligated Group (collectively, the “Series 2009C/D Bonds”). Proceeds from the Series 2009C/D Bonds were used to reimburse the Obligated Group for capital expenditures, establish a project fund for RUMC, refinance $19,800 in borrowings under a taxable line of credit used to reimburse RCMC for prior capital expenditures, and provide financing for costs of issuance and a debt service reserve fund. The Series 2009C/D Bonds are due on November 1, 2039 and are secured by a mortgage on certain real property and a pledge of the gross receipts of the Obligated Group.

The Obligated Group’s revenue bonds with variable interest rates are subject to remarketing provisions that require the Obligated Group to repurchase the bonds if they cannot be sold to a third party. The Obligated Group has entered into various letters of credit with commercial banks to provide funding for such repurchases as necessary. Any amounts borrowed under these letters of credit as a result of a failed remarketing are due and payable more than one year from the date of such borrowing. The letters of credit have varying expiration dates. The letter of credit related to the Series 1989A variable rate debt expires October 2010, the letter of credit related to the Series 1985 pool loans expires February 2011, and the letter of credit related to the Series 2008A Variable Rate Demand Bonds (the “Series 2008A Bonds”), which are described in more detail below, expires December 2011. In the absence of such agreements, the Obligated Group would be required to replace them with similar credit arrangements, convert the related debt from variable to fixed interest rates, or fund required repurchases from available funds. Draws are routinely made from the letters of credit to pay off principal and interest, and are reimbursed to the commercial banks on the following business day. As of June 30, 2009 and 2008, there were no outstanding draws against the letters of credit related to the Series 1989A and Series 1985 Bonds, and, as of June 30, 2009, there was $10 in outstanding draws against the letter of credit related to the Series 2008A Bonds representing interest paid to the bondholders on July 1, 2009.

On February 10, 2009, the IFA issued $176,265 of Series 2009A Fixed Rate Revenue Bonds, allocated to RUMC, and $35,355 of Series 2009B Fixed Rate Revenue Bonds, allocated to RCMC, on behalf of the Obligated Group (collectively, the "Series 2009 A/B Bonds"). Proceeds from the Series 2009 A/B Bonds were used to refinance the borrowings under a line of credit, reimburse the Obligated Group for capital expenditures, establish a project fund and provide financing for costs of issuance and a debt service reserve fund. The Series 2009A/B Bonds are due on November 1, 2038, and are secured by a mortgage on certain real property and a pledge of the gross receipts of the Obligated Group.

On December 9, 2008, the IFA issued $50,000 of Series 2008A Bonds on behalf of the Obligated Group, of which the entire issuance was allocated to RUMC. The Series 2008A Bonds reset weekly and are supported by a letter of credit from The Northern Trust Company. The letter of credit supporting the Series 2008A Bonds expires December 2011. Proceeds from the Series 2008A Bonds were used to reimburse RUMC for capital expenditures, establish a project fund and provide financing for costs of issuance. RUMC used $50,000 in notional amount of the interest rate swap agreements to synthetically fix the interest rate on the Series 2008A Bonds. The terms of the interest rate swap agreements are described in more detail below.

As part of the 2008 refinancing, on July 22, 2008, the Obligated Group drew $52,328 against a line of credit to pay off $52,150 in borrowings against the standby bond purchase agreement supporting the Series 2006A Variable Rate Demand Revenue Refunding Bonds (the "Series 2006A Bonds") and related interest, of which $36,264 represents RUMC's allocated share, and also redeemed $4,450 of outstanding Series 2006A Bonds which were allocated to RNS. On August 18, 2008, the Obligated Group drew $44,573 against a line of credit to extinguish the remaining $44,600 in Series 2006A Bonds related to RUMC and RCMC and pay related interest, of which $30,889 represents RUMC's allocated share. In connection with these redemptions, RUMC reported a loss on extinguishment of debt of $792 within nonoperating income (expense) during the year-ended June 30, 2009. During February 2009, the Obligated Group refinanced the $96,901 drawn against this line of credit with a portion of the proceeds of the Series 2009A/B Bonds.

As of June 30, 2008, the Obligated Group evaluated the carrying value of the unamortized bond issuance costs related to the bond insurance on its Series 2006A Bonds. It was determined that the value of this long-term asset was impaired as of June 30, 2008, and RUMC recognized an impairment adjustment of $2,282 within nonoperating income (expense) in fiscal year 2008.

On May 28, 2008, the Obligated Group converted the interest rate mode of $96,750 of outstanding Series 2006B Auction Rate Securities Revenue Refunding Bonds (the "Series 2006B ARS Bonds") to fixed interest rates varying from 5% to 5.75%. Concurrent with the conversion, the Obligated Group redeemed the $4,450 of outstanding Series 2006B ARS Bonds which were allocated to RNS. Of the total converted Series 2006B ARS Bonds, $67,050 represents RUMC's allocated share of the debt. The conversion was accomplished through a mandatory tender on the conversion date. The Series 2006B ARS Bonds were reoffered as one series, the IFA Series 2006B Fixed Rate Revenue Refunding Bonds (the "Series 2006B Fixed Rate Bonds"). In connection with the conversion, RUMC reported a loss on extinguishment of debt of $827 within nonoperating income (expense) in fiscal year 2008.

On June 14, 2006, in anticipation of the issuance of the Series 2006 Bonds, the Obligated Group entered into two forward starting interest rate swaps at a notional amount of $202,400 to effectively fix the interest payments on the Series 2006 Bonds during the term of the swap arrangements, which expire on November 1, 2035. Under terms of the swaps, the Obligated Group pays the counterparties a fixed amount equal to 3.945% of the outstanding principal on the Series 2006 Bonds. The counterparties pay the Obligated Group a floating amount equal to 68% of the London InterBank Offered Rate (0.31% as of June 30, 2009) of the notional amount.

During the years ended June 30, 2009 and 2008, the Obligated Group terminated $4,450 and $101,200 in notional amount of its interest rate swap agreements at a settlement cost to RUMC of $0 and $5,776, respectively, which is reported in nonoperating income (expense) in the accompanying consolidated statement of operations and changes in net assets. At June 30, 2009, the Obligated Group had $96,750 in notional amount of interest rate swaps outstanding, $50,000 of which synthetically fix the interest rate on the Series 2008A Bonds, as described above, and $46,750 of which was unhedged. RUMC's allocated share of the hedged and unhedged swap was $50,000 and $17,050, respectively. RUMC's share of the interest rate swaps had a notional of $67,050 and a fair value of $(7,852) as of June 30, 2009, which is reported in other long-term liabilities in the accompanying consolidated balance sheets. The fair value of the swap agreements reported in RUMC's balance sheet as of June 30, 2009, includes an adjustment for the Obligated Group's credit risk and may not be indicative of the termination value that RUMC would be required to pay upon early termination of the swap agreements (see Note 5). As of June 30, 2008, the Obligated Group had $101,200 notional amount of interest rate swaps outstanding. RUMC's share of the interest rate swaps had notional amount of $67,050 and a fair value of $(4,717) as of June 30, 2008, reported in other long-term liabilities in the accompanying consolidated balance sheets. The cumulative change in fair value of the swaps of $(3,134) and $(3,814) is reflected in nonoperating income (expense) in the accompanying consolidated statement of operations and changes in net assets for the years ended June 30, 2009 and 2008, respectively.

The Obligated Group had a $50,000 short-term line of credit with a bank as of June 30, 2009 and 2008. This line of credit extends through February 2010. As of June 30, 2009, the Obligated Group had $19,800 in outstanding draws under this line of credit as a result of a draw made by RCMC. As described above, the $19,800 in borrowings were refinanced with proceeds from the issuance of the Series 2009C/D Bonds in July 2009. As of June 30, 2008, the Obligated Group had $13,546 in outstanding draws against this line of credit which were repaid during fiscal year 2009, of which $5,776 represented outstanding draws by RUMC. The borrowings under this short-term line of credit were due and payable in 364 days and, therefore, were classified within notes payable at June 30, 2008.

The Obligated Group also had a $100 million short-term line of credit with a bank as of June 30, 2009 and 2008. This line of credit extends through December 2009. Any borrowings on this short-term line of credit are due and payable in 180 days. As of June 30, 2009 and 2008, the Obligated Group had no amounts outstanding on this line of credit.

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 for days cash on hand; maintaining debt to capitalization at certain levels; limitations on selling, leasing, or otherwise disposing of Obligated Group property; and certain other nonfinancial covenants. The Obligated Group was in compliance with its debt covenants as of June 30, 2009 and 2008.

8. POSTRETIREMENT BENEFITS

Defined Benefit Pension Plans and Postretirement Healthcare Plans — RUMC has 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. The Defined Benefit Pension Plans' assets and obligations are measured as of June 30 (the "Measurement Date") each year. Employer contributions were $26,855 and $31,247 during 2009 and 2008, respectively. The actuarial cost method used to compute the Defined Benefit Pension Plans' liabilities and expenses is the projected unit credit method. The Defined Benefit Pension Plans' assets are primarily invested in marketable equity securities, U.S. Treasury and U.S. Government agency securities, corporate bonds, and insurance contracts.

In addition to the pension programs, RUMC also provides postretirement healthcare benefits for certain employees (the “Postretirement Healthcare Plans”). Further benefits under the Postretirement Healthcare Plans have been curtailed.

The Defined Benefit Pension Plans and Postretirement Healthcare Plans as of the Measurement Date and amounts recognized in RUMC’s consolidated balance sheets and statements of operations and changes in net assets for 2009 and 2008, are as follows:

	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2009	2008	2009	2008
Actuarial present value of benefit obligations — accumulated benefit obligation	$ 602,490	$561,495	$ 9,333	$ 10,154
Change in projected benefit obligations:				
Projected benefit obligation — beginning of measurement period	$ 573,739	$589,579	$ -	$ -
Service costs	13,192	12,463		
Interest costs	39,525	36,686		
Actuarial losses (gains)	10,774	(43,499)		
Benefits paid	(22,931)	(21,490)		
Projected benefit obligation — end of measurement period	614,299	573,739	-	-
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	512,236	530,421		
Actual return on plan assets	(32,536)	(27,942)		
Employer contributions	26,855	31,247	402	478
Plan participant contributions			600	
Benefits paid	(22,931)	(21,490)	(1,002)	(478)
Fair value of plan assets — end of measurement period	483,624	512,236	-	-
Plan assets less than projected benefit obligation	$ (130,675)	$ (61,503)	$ -	$ -
Accrued benefit liability — beginning of year	$ (61,503)	$ (59,158)	$ (10,155)	$ (11,361)
Fiscal year activity:				
Net periodic pension cost	(14,385)	(11,122)	857	1,573
Employer contributions	26,855	31,247	402	478
Postretirement-related changes other than net periodic postretirement cost:				
Actuarial loss arising during 2009	(85,207)	(28,577)	1,215	1,545
Reclassification adjustment for losses reflected in periodic expense in 2009	3,565	6,107	(1,652)	(2,389)
Accrued benefit liability — end of year	$ (130,675)	$ (61,503)	$ (9,333)	$ (10,154)
Net periodic pension cost comprised the following:				
Service cost	$ 13,192	$ 12,463	$ 109	$ 122
Interest cost on projected benefit obligation	39,525	36,686	686	694
Expected return on plan assets	(41,896)	(44,134)		
Amortization of prior service cost and other actuarial amounts	(165)	(70)	(294)	(294)
Recognized actuarial gain	3,729	6,177	(1,358)	(2,095)
Net periodic pension cost (credit)	$ 14,385	$ 11,122	$ (857)	$ (1,573)
Assumptions used to determine benefit obligations at the measurement date and the net periodic pension cost:				
Discount rate — benefit obligation	6.85 %	7.05 %	6.85 %	7.05 %
Discount rate — pension expense	7.05	6.35	7.05	6.35
Rate of increase in compensation levels	5.21	5.21	5.21	5.21
Expected long-term rate of return on plan assets	7.75	8.50		
Health care cost trend rate (initial)			9.00	9.00

The postretirement and pension liability included in the June 30, 2009 and 2008, consolidated balance sheets include $910 and $853, respectively, classified as accrued expenses and $139,098 and $70,804, respectively, classified as noncurrent liabilities. In accordance with FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, all previously unrecognized actuarial losses and prior service costs are reflected in the consolidated balance sheets. For fiscal year 2009, the postretirement related charges other than net periodic benefit cost related to the pension and Postretirement Healthcare Plans are included as a separate charge to unrestricted net assets and total $(82,079). This amount includes actuarial losses arising during fiscal year 2009 of $(83,992) and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2009 of $1,913. An estimate of $9,229 of this amount will be included as a component of pension expense in fiscal year 2010.

The discount rate used by RUMC is based on a hypothetical portfolio of high quality bonds with cash flows matching the Defined Benefit Pension Plans' expected benefit payment stream.

RUMC's overall expected long-term rate of return on assets is 7.75% and 8.5% for 2009 and 2008, respectively. The expected long-term rate of return is based on the total portfolio of the Defined Benefit Pension Plans' investments rather than the accumulation of returns on individual asset categories. RUMC's investment objective is to achieve its targeted long-term rate of return while avoiding excessive risk. Risk is effectively managed through diversification, which is achieved by employing various investment managers and mutual funds to direct investments over a broad spectrum of assets, including domestic equities, international equities, fixed-income securities, and alternative investments (consisting of hedge funds and limited partnerships). During fiscal year 2009, RUMC changed its target allocation for its Defined Benefit Pension Plans' investments with the goal to minimize funding volatility while retaining the ability to generate excess returns to improve funded status. This strategy was employed to more closely align the asset returns of the Master Retirement Trust to the changes in the pension liability.

The weighted-average asset allocations of RUMC's Defined Benefit Pension Plans' assets as of June 30, 2009 and 2008, were as follows:

	Target Allocation	Percentage Plan Assets	
Asset Category	**2009**	**2009**	**2008**
Domestic equity securities	30 %	31 %	45 %
International equity securities	10	7	11
Debt securities	50	53	35
Money market securities	0	1	0
Alternative investment securities	10	8	9
Total	100 %	100 %	100 %

RUMC expects to make estimated benefit payments from its Defined Benefit Pension Plans and Postretirement Healthcare Plans, as of June 30, 2009 and 2008, as follows:

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Expected contributions in 2010	$ 33,747	$ 909
Estimated benefit payments:		
2010	$ 28,922	$ 909
2011	31,475	980
2012	34,637	1,060
2013	38,129	1,073
2014	41,291	1,061
2015 through 2019	259,965	4,696
Total	$ 434,419	$ 9,779

Tax-Deferred Savings Plan — RUMC maintains a 403(b) tax-deferred retirement savings plan for all employees. Employee contributions are made to the plan voluntarily and on a pretax basis. Maximum annual contributions are limited by federal regulations. RUMC provides all eligible participants a matching contribution up to 3% of an employee's salary. All participants are fully vested in the value of the matching contribution after three years of vesting service. Matching contributions of $8,950 and $7,158 were made to this plan in the years ended June 30, 2009 and 2008, respectively.

Supplemental Retirement Plans — RUMC sponsored a nonqualified supplemental defined benefit retirement plan for certain management employees. The supplemental plan is unfunded. Benefits under the supplemental plan, which were curtailed as of December 31, 2004, are paid when incurred from operating funds.

Effective January 1, 2007, RUMC adopted a new Supplemental Executive Retirement Plan (SERP). The new SERP is a supplemental defined contribution plan for certain management employees. During 2009 and 2008, assets were set aside equal to SERP defined contribution liabilities for calendar years 2005 through 2009. The SERP assets and liabilities totaling $6,988 and $6,154 as of June 30, 2009 and 2008, respectively, are included in marketable securities and other liabilities in the consolidated balance sheet.

457(b) Defined Contribution Plan — RUMC also sponsors a noncontributory Section 457(b) defined contribution plan (the "457(b) Plan") covering selected employees, in which participants may contribute a percentage of qualifying compensation up to certain limits as defined by the 457(b) Plan. The 457(b) Plan assets and liabilities, totaling $5,426 as of June 30, 2009, and $5,729 as of June 30, 2008, are included in marketable securities and other long-term liabilities, respectively, in the consolidated balance sheets. The assets of this 457(b) Plan are subject to the claims of the general creditors of RUMC.

9. CONCENTRATION OF CREDIT RISK

RUMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable from patients and third-party payors as of June 30, 2009 and 2008, was as follows:

	2009	2008
Medicare	9 %	13 %
Medicaid	17	14
Managed care	61	58
Commercial	3	4
Self-pay	10	11
Total	100 %	100 %

10. CONTINGENCIES

Professional Liability — RUMC maintains insurance programs, including both self-insured and purchased insurance arrangements, for certain professional liability claims. Self-insured risks are retained in varying amounts according to policy year. For the years ended June 30, 2009 and 2008, RUMC retained self-insured risk of $20,000 on the first case, $15,000 on the second case, and $10,000 on any additional cases. RUMC also maintains excess liability insurance coverage with combined limits of $80,000 per occurrence and in the aggregate. Amounts above specified self-insured limits are insured through purchased insurance policies. Insurance is purchased on a claims-made basis. RUMC has established a trust fund to pay claims and related costs.

RUMC 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 RUMC's actual payout patterns and various other assumptions and are recorded at the estimated present value of self-insured claims that will be settled in the future. If the present value method was not used, RUMC's liability for self-insured claims would be approximately $44,262 and $55,766 higher than the amounts recorded on the consolidated balance sheets as of June 30, 2009 and 2008, respectively. The discount rate used in calculating the present value was 5% and 6% in 2009 and 2008, respectively.

During fiscal years 2009 and 2008, actual experience on RUMC's self-insured claims was better than projected. RUMC has experienced significant reserve adjustments in its self-insurance liability each fiscal year since 2006 as a result of favorable claims experience. The amount of the reserve adjustments were $24,117 and $25,383 in the years ended June 30, 2009 and 2008, respectively, which reduced supplies, utilities, and other expense in the consolidated statements of operations and changes in net assets in each respective year.

RUMC is subject to various other regulatory investigations, legal proceedings, and claims which 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 RUMC.

Guarantee of Indebtedness — RUMC provides a $1,550 guarantee on a $3,500 loan through the IFA Pooled Financing Program for RML Specialty Hospital, a joint venture with another healthcare provider. This loan calls for monthly payments of $33 through December 2012, at which time a balloon payment of $1,700 is due.

Other Arrangements With Affiliates — In connection with its initial affiliation, RUMC advanced $12,410 from August 1988 to May 1995 to RCMC for use in the construction of its new hospital and medical office facilities, which was accounted for as a transfer of net assets in RUMC's consolidated financial statements. Under the terms of the affiliation, repayment of this advance is to be made under certain circumstances. Repayments totaling $600 were made as of June 30, 2005. In March 2006, RUMC and RCMC reached an agreement on the repayment of the remaining $11,810. The agreement called for monthly payments of $197 through February 2011, which could be accelerated under certain circumstances. As a result of this agreement, RUMC recognized a receivable and corresponding increase in unrestricted net assets during 2006. As of June 30, 2008, $2,362 of the receivable is included in other current assets and $3,937 is included in other assets. During 2009, payments were accelerated and RCMC repaid the remaining amount owed of $6,299.

Self-Funded Medical Benefit Plans — Effective January 1, 2005, RUMC sponsors self-funded medical benefit plans covering substantially all of its employees and their dependents. The medical benefit expense is based on actual medical and prescription claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. As of June 30, 2009 and 2008, the estimated liability for unpaid and unreported claims was $8,881 and $6,309, respectively, included in accrued expenses. The medical benefit expense was $44,964 and $41,698 for the years ended June 30, 2009 and 2008, respectively.

11. LEASE COMMITMENTS AND FINANCING OBLIGATIONS

Obligations Under Capital Leases and Deferred Financing Arrangements — RUMC is party to a deferred financing arrangement with a third party to lease a medical office building adjacent to ROPH for a remaining period of 13 years. Under the terms of this arrangement, the annual expense, excluding maintenance and repairs, taxes, and other operating expenses was approximately $3,905 in 2009 and $3,800 in 2008 and increases each year by 2.75%.

In September 2005, RUMC entered into a long-term contract with a vendor for the licensing, implementation, and maintenance of a clinical, patient management, and patient accounting system. Under terms of the contract, RUMC will pay licensing fees over an initial 6.25-year term and, at the end of the initial term, RUMC has the right to convert the arrangement to a perpetual license for a fee. The arrangement has been treated in the manner of a capital lease, with the present value of future license payments included in equipment and the related obligation included in obligations under capital lease. The asset has a net book value of approximately $5,721 as of June 30, 2009. In addition to licensing fees, RUMC pays maintenance fees for support services received under terms of the agreement. Related costs are recognized as expenses when incurred. Maintenance fees were not significant in 2009.

RUMC is also party to other capital lease arrangements relating to medical and office equipment. Expiration of these leases ranges from 2009 to 2012.

Total future minimum payments under these capital lease and deferred financing arrangements, together with the present value of these minimum payments, as of June 30, 2009, are as follows:

Years Ending June 30	
2010	$ 6,036
2011	5,863
2012	5,881
2013	5,116
2014	4,491
Thereafter	40,641
Total minimum payments	68,028
Less amount representing interest	(26,152)
Net present value of capital lease and deferred financing arrangement obligations	41,876
Less current portion included in accounts payable	(2,673)
Long-term portion	$ 39,203

Obligations Under Operating Leases — RUMC is party to various noncancelable operating leases with third parties. Rental expense under these noncancelable leases was approximately $9,814 and $9,412 for 2009 and 2008, respectively.

Total minimum payments under noncancelable operating leases as of June 30, 2009, are as follows:

Years Ending June 30	
2010	$ 6,568
2011	5,724
2012	5,090
2013	2,249
2014	1,555
Thereafter	3,705
Total	$ 24,891

12. CAMPUS TRANSFORMATION COMMITMENTS

In fiscal year 2004, RUMC began a Campus Transformation project that currently includes the addition of new facilities, including a new hospital, and the renovation of existing facilities. The project is driven by a redesign of patient care processes to improve efficiency and patient safety and to provide a more inviting environment to physicians, patients, and visitors. The project is estimated to cost approximately $1,000,000 to complete over a 13-year period (fiscal year 2004 to fiscal year 2016). As of June 30, 2009, $353,000 has been spent on the campus redevelopment plan and construction commitments outstanding were $155,600.

13. PROMISES TO CONTRIBUTE

As of June 30, contributions receivable included the following unconditional promises to give:

	2009	2008
Capital campaign	$ 60,173	$ 62,829
Restricted to future periods	2,085	2,165
Unconditional promises to give before unamortized discount and allowance for uncollectibles	62,258	64,994
Less unamortized discount	(6,956)	(7,998)
Less allowance for uncollectibles	(1,576)	(1,610)
Net unconditional promises to give	$ 53,726	$ 55,386
Amounts due in:		
Less than one year	$ 16,097	$ 17,475
One to five years	25,061	27,129
More than five years	21,100	20,390
Total	$ 62,258	$ 64,994

Net unconditional promises to give are reported in assets limited by donor or time restriction in the accompanying consolidated balance sheets. A discount rate of 0.2% and 1.9% was applied to new pledges given during 2009 and 2008, respectively.

In addition, RUMC has received conditional promises to contribute that are not recognized as assets in the consolidated balance sheet as of June 30, 2009. The total is not considered material as of June 30, 2009.

14. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by RUMC has been limited by donors to a specific time period or purpose and represent amounts that are to be used for capital acquisitions or operating purposes. Temporarily restricted net assets are available for the following purposes or periods as of June 30, 2009 and 2008, are as follows:

	2009	2008
Health care services:		
Construction and purchase of equipment	$ 39,546	$ 39,372
Indigent care	1,313	1,265
Health education	4,396	3,259
Women’s board	8,401	3,598
Specific-purpose pledges	36,081	37,874
Other special purposes	47,574	42,095
Unappropriated endowment appreciation	32,647	
Restricted investment income	108,602	160,051
Total	$ 278,560	$ 287,514

Permanently restricted net assets are those required by donors to be maintained by RUMC in perpetuity. Investment income earned on permanently restricted net assets is recorded as temporarily restricted net assets until appropriated for use (see Note 6).

During 2009 and 2008, net assets were released from donor restrictions by purchasing property and equipment of $15,047 and $5,994, respectively, and incurring expenses of $31,976 and $28,234, 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.

15. JOINT VENTURES AND OTHER AFFILIATIONS

RUMC has affiliations with and interests in other organizations which are not consolidated. These organizations primarily operate inpatient and outpatient health services and managed care contracting services.

Investments in unconsolidated joint ventures, accounted for on the equity basis, totaled $12,023 and $10,961 as of June 30, 2009 and 2008, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income recognized from these joint ventures was $559 and $1,859 in 2009 and 2008, respectively, and is included in other revenue in the accompanying consolidated statements of operations. RUMC received $109 and $415 in annual distributions from RML Specialty Hospital during 2009 and 2008, respectively, reflected in the consolidated statements of cash flows within operating activities.

	2009			
	Equity Ownership Interest	Venture Net Revenue	Equity Interest Recognized by RUMC	Income Recognized by RUMC
RML Specialty Hospital	49.5 %	$ 44,026	$ 9,543	$ 574
Rush Health Associates	50.0	8,731	2,386	(15)
Rush System for Health, Inc.	50.0	1,206	94	
Total			$ 12,023	$ 559

	2008			
	Equity Ownership Interest	Venture Net Revenue	Equity Interest Recognized by RUMC	Income Recognized by RUMC
RML Specialty Hospital	49.5 %	$ 44,174	$ 9,076	$ 1,462
Rush Health Associates	50.0	8,146	1,791	396
Rush System for Health, Inc.	40.0	1,226	94	1
Total			$ 10,961	$ 1,859

16. SALE OF ASSETS

During fiscal year 2008, RUMC sold its ownership interest in Rush-Barton Senior Living Supportive Living Center, a low-income senior assisted-living development. As a result of this transaction, RUMC recorded a gain on sale of $906 during 2008.

17. FUNCTIONAL EXPENSES

Expenses related to the patient care, education, and research services provided by RUMC for the years ended June 30, 2009 and 2008, were as follows:

	2009	2008
Healthcare	$ 974,593	$ 891,349
University services, including research	163,974	149,466
General and administrative	99,984	87,434
Illinois medicaid hospital assessment	26,306	26,744
Total	$1,264,857	$1,154,993

* * * * * *

SUPPLEMENTAL SCHEDULES

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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 the consolidated financial statements of Rush University Medical Center and Subsidiaries (RUMC) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 22, 2009, which expresses a qualified opinion due to the exclusion of certain related entities from the consolidated financial statements and includes an explanatory paragraph regarding the adoption of Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* during fiscal year 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered RUMC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of RUMC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RUMC's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RUMC's consolidated financial statements are free of 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*.

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees, management of RUMC, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

October 22, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
Rush University Medical Center:

Compliance

We have audited the compliance of Rush University Medical Center and Subsidiaries (RUMC) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. RUMC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RUMC's management. Our responsibility is to express an opinion on RUMC's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 RUMC'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. Our audit does not provide a legal determination on RUMC's compliance with those requirements.

In our opinion, RUMC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our audit procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 09-1.

Internal Control Over Compliance

The management of RUMC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered RUMC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 RUMC's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We do not consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

RUMC's responses to the findings identified in our audits are described in the accompanying schedule of findings and questioned costs. We did not audit RUMC's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees, management of RUMC, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

November 17, 2009

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures
Research and Development:			
U.S. Department of Health and Human Services:			
National Institute of Health	93.RD		$ 35,703,814
NIH-American Recovery Reinvestment Act (ARRA)	93.701		25,456
Passed through the University of Rochester:			
A longitudinal observational follow-up of the Precept Study Cohort	93.853	5 U01 NS050095	1,477
Prospective Huntington at Risk Observation Study	93.172	5 R01 HG002449-05	2,227
Passed through Hektoen Institute:			
Women's Interagency HIV Study	93.856	AI34993	100,084
Women's Interagency HIV Study	93.856	AI34993	316,277
Women's Interagency HIV Study	93.856	AI34993	133,133
Women's Interagency HIV Study	93.855	AI034993	6,464
Chicago initiative to raise asthma health equity	93.837	U01 HL72496	26,810
Gender difference in Antibody Dependent Cell-Medicated Cytotoxicity against HIV	93.855	AI034993	14,118
Passed through Columbia University:			
Genetic Epidemiological Studies of Parkinson Disease	93.853	NS36630	23,083
Genetics Consortium for late onset Alzheimer's Disease	93.866	U24 AG026395	123,438
Passed through Mt. Sinai — Estrogen and the Aging Brain	93.866	AG016765	9,542
Passed through Jaeb Center for Health Research — A Pilot Study of Laser Photocoagulation for Diabetic Macular Edema	93.867	U10 EY14231	26,792
Passed through Northwestern University:			
Development of Tissue Explant Models for Microbicide Evaluation	93.855	R33 AI076968	58,854
HIV/AIDS Clinical Trials	93.855	U01 AI069471	932,785
Molecular Neuropathology and Mechanisms of Bace1 Elevation in Alzheimer's Disease	93.866	1 R01 AG030142	26,178
Agreement 0600-370-C347	93.400	U10 CA30969	(3,473)
Passed through Social and Scientific Systems, Inc. — Aids Clinical Trials Group network	93.856	AI068636	358,722
Passed through Southwest Oncology Group — Selenium and Vitamin E Cancer Prevention Cancer	93.399	CA37429	39,081
Passed through University of Illinois:			
Training Cellular Signaling in Cardiovascular System	93.987	T32 HL07692	49,199
Motor Deficit-Experimental and Clinical Correlates	93.853	R01 NS028127	97,766
PKC Alpha as a Marker for Logical Therapeutic approaches to Breast Cancer	93.395	1 R01 CA122914	41,752
Neural Control of Movement and Posture	93.853	R01 NS040902	38,645
Blocking HIV/HSV by mannose binding	93.856	U01 AI066709	56,625
Validation of the NINDS VCI Neuropsychological Protocols	93.853	R01 NS057514	25,804
Health promotion in minority childhood center survivors	93.837	R01 CA116750	9,655
Life Support Decisions for Extremely Premature Infants	93.361	R01 NR07904	11,929
IL Lend Grant	93.110	T73 MC11047	5,000
Passed through Pacific Ovarian Cancer Research — Circulating Free and Antibody Bound Mesothelin in Infertility and Ovarian Cancer	93.397	P50 CA83636	49,790
Passed through ISIS Inc. — Improving Outcomes in Acute Rehabilitation for TBI	93.865	R01 HD050439	16,588
Passed through Westat Inc. — International and Domestic Pediatric and Maternal HIV studies Coordination	93.HHSN	HHSN267200800001C	494,804

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures
Passed through Yale University — The Insulin Resistance Intervention After Stroke Trial	93.853	U01 NS044876	$ 15,012
Passed through University of Colorado Health Sciences — Immunopathogenesis of Acute HIV-1 Infection	93.856	AI055356	1,145
Passed through Ohio State University — Cooperative Tissue Bank of HIV Malignancies	93.395	CA66531	37,199
Passed through Evanston Northwestern Healthcare — Weekly Symptom Telemanagement in Advance Lung Cancer	93.399	5 R01 CA115361	47,203
Passed through Cornell University:			
Effects of Coenzyme Q10 in Parkinson's Disease	93.853	U01 NS50324	694
Perinatal Choline Therapy in a Mouse Model of Down Syndrome and Alzheimer's	93.865	R01 HD057564	153,318
Passed through LaJolla Institute — Anti-herpevirus signaling by cytokines	93.855	R01 AI48073	42,087
Passed through the American College of Obstetricians and Gynecologists — Tissue bank for the Gynecologic Oncology reviewer of slides	93.395	CA27469	13,236
NIAID (DHHS) Contract:			
Clinical Trials Observation/Study of Women's Health Initiative	93.N01	NO1-WH 42124	42,097
VQA Contract	93.N01	NO1-AI-50044	3,075,695
Passed through CONRAD — Pre-NDA Development of Cellulose Sulfate as a Contraceptive Antimicrobial Product	93.CIG	CIG 99-39	18,537
Passed through Loyola University — Develop an Oral HIV Vaccine using Virus-like Particles as a Vector	93.121	R01 DE019075	121,439
Passed through University of California:			
Solid Organ Transplantation in HIV	93.855	U01 AI052748	56,126
Ca and INSP3 Receptor Signaling in Cardiac Myoctyes	93.837	P01 HL080101	401,482
Fragile X Research Center	93.865	HD022274	58,420
Cartilage Integration: In Vitro in Vivo Translation	93.286	1 R21 EB004950	61
The Epilepsy Phenome/Genome Project	93.853	R01 NS053998	83,793
Trial of the Effects of DHS in slowing the Progression of Alzheimer's Disease	93.866	U01AG10483	6,144
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	28,681
Develop improved methods which will lead to uniform standards for acquiring longitudinal multi site MRI and Pet data on patients with AD, MCI, and normal control	93.866	U01 AG024904	18,896
Passed through Upstairs Solutions — Using Technology to Deliver Evidence Based Interventions to Alzheimer Caregivers	93.866	R41 AG032159	41,093
Passed through Health and Human Services — Health Surveillance Collaborative Workshop and Planning for Building a Healthier Chicago	93.08T	08T020011	8,945
Passed through Duke Clinical Research Institute — Insomnia Classification Project	93.242	5 R01 MH067057	39,996
Passed through University of Washington — Alzheimer's Disease Data Center	93.866	5 U01 AG16976	75,666
Passed through Oregon Health and Science University — Genetic Associations with Alzheimer free survival	93.866	R01 AG026916	5,921
Passed through University of Florida — Neurodevelopment Effects of Antiepileptic Drugs	93.853	R01 NS38455	13,903

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures
Passed through Eastern Cooperative Oncology Group — ECOG	93.400	ECOG-00101102	$ 121,888
Passed through Los Alamos National Laboratory — Establishing the Chemistry of the Metabolic process for Protocell Program	93.UNK	W-7405-ENG-36	(23,754)
Passed through Health Research and Educational Trust — Promoting Safety and Quality through Human Resources Practices	93.HHSA	HHSA290200600022	29,960
Passed through Omeros Corporation — Novel 5HT Treatment for Meth Post Addiction	93.279	R44 DA016496	35,500
Passed through Radiation Therapy Group — Randomized trial of two doses and two high doses schedules for delivering prophylactic cranial irradation for patients with limited disease small lung cancer	93.392	U10 CA21661	5,923
Passed through Albert Einstein College of Medicine — Inflammatory and Immune Mechanisms of Athersclerosis in HIV Infected Women	93.837	R01 HL095140	40,319
Passed through Fred Hutchinson Cancer Research Center — Early Detection of Ovarian Tumor Angiogenesis by Contrast Enhanced Ultrasound	93.397	P50 CA083636	19,674
Passed through John Hopkins:			
Studies of Ocular Complications of Aids	93.867	EY08057	54,896
Multi Uveitis steroid treatment trial	93.867	U10 EY014660	18,380
Passed through Wayne State University — Tuberculosis curriculum coordination center	93.837	HR36157	7,444
Passed through Cleveland Clinic — Mechanisms of incontinence following vaginal distension	93.865	R01 HD038679	25,650
Passed through Affinergy — Improve Orthopedic implant surface coatings	93.061	2 R44 AR051264	53,609
Passed through New England Research Institute:			
The Transfusion Medicine/Hemostatis Clinical Trials Network. Rituxan for the Treatment of Inhibitors in Congenital Hemophilia A	93.839	U01 HL072268	936
Passed through University of Kentucky			
LDLR genetics, splicing and AD risk	93.866	R01 AG026147	13,541
Passed through Massachusetts General Hospital:			
Coenzyme Q10 in Huntington's Disease	93.853	U01 NS052592	266
Evolutionary Lead optimization for immunology of marburg and ebola viruses	93.855	U01 AI070330	52,193
Passed through Harvard Medical School — Genomic analysis of human aging and cognitive decline	93.866	R01 AG027040	55,173
Passed through NSABT			
A Phase II Clinical Trial Comparing Trastuzumab given concurrently with Radiation Therapy and Radiation Therapy alone for Women with HER-2 Positive Ductal Carcinoma in Situ Resected by Lumpectomy	93.B-43	B-43	35,815
Breast Cancer Prevention Trial	93.399	U10 CA37377	67,350
Passed through University of Minnesota:			
Internal Network for Strategic Initiatives in Global Trials	93.855	U01 AI068641	139,912
Psychosocial Factors and Stroke Risk	93.837	R01 HL084209	106,108
Passed through Case Western Reserve University — Basic and Comparative Studies of CCR5 Inhibition to Prevent HIV Transmission	93.855	U19 AI076981	24,416
Passed through South Carolina — Parkinson's Disease Clinical Trial	93.853	NS43127	31,744
Passed through South California — HCV and Progression of HIV and HAART response in women	93.856	R01 AI52065	91,433

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures
Passed through TriService Nursing Research — Evaluation of Individual Differences in HPA and SAM Axis activity in students attending basic enlisted Submarine School	12.750	HU0001-1-TS02	32
Passed through MCHC Chicago Hospital Council — Bioterrorism Training and Curriculum Development Program	93.996	T01 HP01413	33,351
Passed through Great Lakes Hemophilia:			
Maternal Child Health Bureau	93.110B	5 H30 MC00032	41,199
Center for Disease Control	93.283	CCU513116	68,963
Passed through National Childhood Cancer — Children's Oncology Group	93.395	U10 CA30969	(688)
Total U.S. Department of Health and Human Services			44,380,441
National Science Foundation:			
DHB Collaborative: Lifespan Dynamics of Cognition and action	47.075	BCS-0728967	8,822
Tissue engineered Cartilage for Drug discovery	47.041	DMI-0422194	7,251
Total National Science Foundation			16,073
U.S. Army Medical Research Acquisition Activity:			
Ovarian Autoantibodies Predict Ovarian Cancer	12.420	W81XWH-08-1-0203	60,088
The Impact of Colonic Microbiota in Breast Cancer	12.420	W81XWH-08-1-0670	108,783
Lysosome Medicated Cell Death and Autophagy-Dependent Multidrug Resistance in Breast Cancer	12.420	W81XWH-07-1-0505	113,028
Geographic Utilization of Artificial Intelligence in real-time for disease identification and notification for Biological Threat agents	12.420	W81XWH-06-1-0785	1,160,902
Total U.S. Army Medical Research Acquisition Activity			1,442,801
Department of Justice — Emergency Response Training	42.302	2006-DD-BX-0420	216,651
Total Department of Justice			216,651
Department of Defense — Alpha Synuclein and PD	12.420	W81XWH-07-1-0659	573,557
Total Department of Defense			573,557

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-Through Grantor's Number	Federal Expenditures
Department of Energy — Design and Construction of the Regional Center for Advanced Medical Response	12.420	DE-FG02-04CH11192	$ 71,575
Total Department of Energy			71,575
TOTAL RESEARCH AND DEVELOPMENT			46,701,098
Student Financial Assistance:			
U.S. Department of Education:			
Stafford Loan	84.032		26,721,162
Stafford Grad Plus	84.032		2,915,250
Parent Loans for Undergraduate Students	84.032		99,220
Perkins Loan	84.038	P038A041271	1,009,327
Pell Grant Program	84.063	PO63P085336	100,355
Supplemental Educational Opportunity Grant	84.007	P007A081271	100,289
Federal Work-Study	84.033	PO33A081271	396,702
Total U.S. Department of Education			31,342,305
U.S. Department of Health and Human Services:			
Nursing Student Loan — Undergraduate	93.364	6876831-07	198,930
Professional Nurse Traineeship	93.358	A10HP00230-08	86,112
Loans for Disadvantaged Students	93.342	6876108	91,001
Nurse Anesthetist Traineeship	93.124	A22HP08249-02-00	15,558
Scholarship for Disadvantaged Students-Med	93.925	T08HP09342-01-00	217,779
Total U.S. Department of Health and Human Services			609,380
TOTAL STUDENT FINANCIAL ASSISTANCE			31,951,685
Other Federal Assistance:			
U.S. Department of Health and Human Services:			
Passed through City of Chicago			
Bioterrorism Preparedness Plan and other Health disasters	93.889	PO 10945	113,199
Title V — Chicago Department on Aging	17.235, 93.041	PO 17723	29,680
City of Chicago-Grant 90AM3112/012	17.235, 93.041	PO 19927	7,150
City of Chicago	93.069	PO 16889	83,626
Passed through State of Illinois Department of Human Services:			
Early Intervention Services	84.181	10CK001607	689,629
Early Intervention (ARRA)	84.393	10CK001607	554,317
Family Planning Program	93.217	10CK001607	102,700
Family Planning Program	93.667	10CK001607	48,200
Adolescent Health/Adolescent Health DFI	93.667	10CK001607	273,800
Passed through State of Illinois Department of Public Health			
Regional Perinatal Network	93.994	93789006	432,749
Total Other Federal Assistance			2,335,050
TOTAL EXPENDITURES OF FEDERAL AWARDS			80,987,833

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

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:		
Asthma Hospital Prevention	83283007	$ 189,309
Genetic Counseling/Clinical Services	93780246	62,000
Alzheimer's Association	83280006	7,862
Alzheimer's Association	93280002	28,101
Preparedness and Response	87181096	2,127
Sickle Cell Program	93890351	14,841
Perinatal Obstetric Hemorrhage Project	93789018	67,321
	96180114	2,309
Total Illinois Department of Public Health		373,870
Passed through the Illinois Department of Human Services:		
Family Planning Program (Parents Too Soon)	10CK001607	15,507
Adolescent Health Promotion	10CK001607	41,400
Early Intervention Services	10CK001607	1,445,890
Client/Family Support	10CK001607	111,097
Total Illinois Department of Human Services		1,613,894
Passed through the Illinois National Guard		
Training Program Development	W91SMC-07-R-0036	120,457
Total Illinois National Guard		120,457
	PO 1737504,1737506	
	PO 1709911,1709900	
Passed through the City of Chicago:	PO 1689003,1689004	
Chicago Board of Education Contract 1686677	PO 1690379,1690378	232,000
Total City of Chicago		232,000
TOTAL EXPENDITURES OF STATE AWARDS		2,340,221
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS		$83,328,054

(Concluded)

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards (the "Schedule") includes the federal and state grant activity of Rush University Medical Center and Subsidiaries (RUMC). The Schedule has been prepared on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. STUDENT LOAN PROGRAMS

For the year ended June 30, 2009, in addition to processing new loans under the Stafford Loan and Parents Loan for Undergraduate Students program, RUMC also administers existing loans under the Disadvantaged Students, Nursing Students Loan — Undergraduate, Nursing Student Loans — Graduate, Primary Care Loan, and Perkins Loan programs. As of June 30, 2009, the outstanding loan balances for these programs were approximately $96,483, $21,283, $31,250, $25,155, and $275,647, respectively. These balances are not included in the accompanying Schedule.

3. SUBRECIPIENTS

For the year ended June 30, 2009, RUMC provided $3,570,316 to subrecipients, as detailed in the table below. Such payments to subrecipients are included in federal expenditures presented in the accompanying Schedule.

Program Title	CFDA	Subrecipient	Amount Provided
National Institutes of Health	93.RD	Various	$2,999,369
Virology Quality Assessment	93.856	New England Research Institute	265,577
		Frontier Science Foundation	109,576
		Research Triangle Institute	47,308
Westat Contract	93.HHSN	Hektoen Institute	79,060
Department of Defense	12.420	University of Illinois	6,426
			$3,507,316

4. NONCASH ASSISTANCE

RUMC did not receive any noncash federal awards or in-kind contributions during fiscal year 2009.

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RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Part I — Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: qualified due to the exclusion of certain related entities from the consolidated financial statements — see Note 1

Internal control over financial reporting:

• Material weakness(es) identified?	_____	yes	X	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	X	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: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	X	yes	______	no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
Various	Research and Development Cluster
84.181, 84.393	Early Intervention Services Cluster

Dollar threshold used to distinguish between type A and type B programs: $2,405,310

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

Part II — Financial Statement Findings

None noted.

Part III — Federal Award Findings and Questioned Costs

Finding 09-01 — Research and Development Cluster

Criteria — Reporting requirements per the grant and contract agreements with the federal awarding agency.

Condition and Effect — CFDA No. 93.RD: At the end of a competitive segment, the financial status report was submitted approximately four months after the due date. RUMC maintained documentation from the awarding agency signifying that there were no restrictions placed on the grant. Such written correspondence was received at the time of the late submission and not prior to the report due date.

CFDA No. 12.420: Required requests for reimbursement were not submitted according to the provisions of the grant agreement, which stipulated that Standard From 270 (SF-270), Request for Advance or Reimbursement, should be submitted monthly, but not less frequently than quarterly. RUMC submitted four SF-270 requests covering the entirety of the fiscal year, but the time periods for which the requests were submitted were not for the four quarters of the fiscal year.

Cause — RUMC did not complete the reports by the required due dates and did not obtain timely written documentation from the awarding agency to note that late submission was acceptable.

Questioned Costs — Not applicable.

Recommendation — RUMC should ensure that all reporting requirements are submitted on a timely basis. In the event that a reporting deadline will not be achieved, RUMC should obtain written documentation from the awarding agency prior to the due date.

Corrective Action Plan (Auditee Prepared)

93.RD: The Assistant Director of Fund Accounting will obtain written notification from the Grants Management Officer prior to the due date.

12.420: The first invoice was submitted late due to a misunderstanding of the terms and conditions of the award. When the Department of Defense was contacted, the Office of Research Affairs was made aware that this particular award was approved for a three-year term instead of an annual term. After clarification, an invoice was submitted immediately. The Department of Defense approved the invoice, and payment was received. Beginning with the quarter ended June 30, 2009, the invoice was submitted according to the terms of the award. The Assistant Director of Fund Accounting will continue to monitor timely submission of invoices.

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Finding 08-01: Significant Deficiency — Accounting and Reporting for Securities Lending Transactions

Criteria — All of RUMC's investments in security lending transactions should be recorded in the financial statements in accordance with Financial Accounting Standards Board (FASB) Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of FASB Statement No. 125*.

Condition and Effect — In July 2008, RUMC's management discovered that balances related to investments and other long-term liabilities were understated due to errors in recording security lending transactions. This error has been corrected in the accounting records and is appropriately reflected in the 2008 financial statements. At June 30, 2007, balances related to investments on loan under securities lending program and other long-term liabilities were understated by approximately $13 million.

Cause — This error appears to be the result of a lack of clear understanding of the security lending reports received from RUMC's custodian, which excluded certain asset classes and ultimately affected the balances reported in the June 30, 2007, financial statements for RUMC's beneficial interest in cash collateral pools under the program.

Recommendation — Management should evaluate its processes for tracking and accounting for all security lending arrangements and review reporting for these transactions with its custodian.

Corrective Action Plan (Auditee Prepared) — Management agrees with the recommendation. Our custodian has provided additional training on reporting capabilities to the General Accounting department. Monthly meetings between the General Accounting department and the Treasury department have also been established to stay abreast of any changes in the securities lending arrangements and other investment programs. The Controller will be responsible for oversight of these meetings.

Current Status — No instances of noncompliance were noted during testing in the current year. Results of testing appear to indicate that management has resolved the issues noted above.

Finding 08-02: Significant Deficiency — Accounting and Reporting for Beneficial Interests in Trusts

Criteria — RUMC's beneficial interests in trusts should be recorded in accordance with FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises and Holds Contributions for Others*.

Condition and Effect — In July 2008, RUMC's management discovered balances related to investments and net assets were understated due to errors in recording RUMC's beneficial interest in trusts. This error has been corrected in the accounting records and is appropriately reflected in the 2008 financial statements. At June 30, 2007, balances related to beneficial interests in trusts and permanently restricted net assets were understated by approximately $27 million.

Cause — This error appears to be the result of inadequate understanding of the requirements for recognizing beneficial interests in trust assets under FASB Statement No. 136.

Recommendation — Management should ensure that new trust agreements are evaluated and recorded under the guidelines of FASB Statement No. 136.

Corrective Action Plan (Auditee Prepared) — Management agrees with the recommendation. Routine meetings are held between the General Accounting department and the Philanthropy department to review new trusts that are established naming RUMC as a beneficiary. Management also works closely with its advisors to monitor and implement changes in investments reporting and disclosure related to requirements under generally accepted accounting principles and, during 2009, the Controller plans to oversee a comprehensive internal review of existing policies and procedures over significant financial statement accounts to ensure compliance with these standards.

Current Status — No instances of noncompliance were noted during testing in the current year. Results of testing appear to indicate that management has resolved the issues noted above.