Rush University Medical Center and Subsidiaries

Consolidated Financial Statements as of and
for the Years Ended June 30, 2011 and 2010,
and OMB Circular A-133 Supplementary Report for
the Year Ended June 30, 2011, and
Independent Auditors' Reports

RUSH

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

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Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rush University Medical Center:

We have audited the accompanying consolidated balance sheets of Rush University Medical Center and Subsidiaries (Rush) as of June 30, 2011 and 2010, 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 Rush'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 Rush'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 have been excluded from Rush's accompanying consolidated financial statements. Accounting principles generally accepted in the United States of America require consolidation of this entity.

In our opinion, except for the matter discussed in the preceding paragraph, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Rush University Medical Center and Subsidiaries as of June 30, 2011 and 2010, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011, on our consideration of RUMC's internal control over financial reporting and our tests of its compliance with certain provision 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 Rush University Medical Center. Such information has been subjected to the auditing procedures applied in the audit of 2011 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 25, 2011
(March 21, 2012 as to the sixth paragraph of the Report)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	As of June 30, 2011	As of June 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 127,797	$ 156,779
Short-term investments	115,613	115,459
Accounts receivable for patient services - net of allowance for doubtful accounts of $42,035 and $41,826 as of June 30, 2011 and 2010, respectively	136,511	127,145
Other accounts receivable - net of reserves of $930 and $705 as of June 30, 2011 and 2010, respectively	55,850	72,028
Self-insurance trust - current portion	24,467	27,953
Other current assets	27,035	31,930
Total current assets	487,273	531,294
ASSETS LIMITED AS TO USE AND INVESTMENTS:		
Investments - less current portion	263,659	244,312
Limited as to use by donor or time restriction	478,561	372,507
Collateral proceeds received under securities lending program	-	56,125
Investments on loan under securities lending program	-	54,348
Self insurance trust - less current portion	101,123	116,844
Project fund	-	60,811
Debt service reserve fund	40,119	41,169
Total assets limited as to use and investments	883,462	946,116
PROPERTY AND EQUIPMENT - net of accumulated depreciation of $789,273 and $727,204 as of June 30, 2011 and 2010, respectively	1,187,178	1,002,879
OTHER ASSETS	25,635	18,503
TOTAL ASSETS	$ 2,583,548	$ 2,498,792
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 122,270	$ 123,464
Accrued expenses	121,448	122,685
Student loan funds	21,210	22,461
Estimated third-party settlements payable	106,076	121,799
Current portion of accrued liability under self-insurance program	29,773	33,599
Current portion of long-term debt	4,550	7,593
Total current liabilities	405,327	431,601
LONG-TERM LIABILITIES:		
Accrued liability under self-insurance program - less current portion	143,674	170,995
Postretirement and pension benefits	138,904	231,228
Long-term debt - less current portion, net	517,779	522,160
Obligation to return collateral under securities lending program	-	56,125
Obligations under capital lease and other financing arrangements	34,627	37,952
Other long-term liabilities	61,612	57,592
Total long-term liabilities	896,596	1,076,052
Total liabilities	1,301,923	1,507,653
NET ASSETS:		
Unrestricted	710,641	478,888
Temporarily restricted	343,248	297,969
Permanently restricted	227,736	214,282
Total net assets	1,281,625	991,139
TOTAL LIABILITIES AND NET ASSETS	$ 2,583,548	$ 2,498,792

See notes to consolidated financial statements.

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

	For the Year Ended June 30, 2011	2010
REVENUE:		
Net patient service revenue	$ 1,221,455	$ 1,183,464
University services:		
Tuition and educational grants	52,171	47,270
Research and other operations	106,754	105,440
Other revenue	60,841	59,042
Total revenue	1,441,221	1,395,216
EXPENSES:		
Salaries, wages, and employee benefits (Note 20)	747,988	692,586
Supplies, utilities, and other	413,128	414,094
Insurance	10,932	30,529
Purchased services	58,869	60,073
Depreciation and amortization	73,023	68,125
Provision for uncollectible accounts	38,768	34,059
Interest expense	15,015	17,298
Total expenses	1,357,723	1,316,764
OPERATING INCOME	83,498	78,452
NONOPERATING INCOME (EXPENSE):		
Investment income and other	18,999	26,809
Unrestricted contributions	7,093	8,124
Fundraising expenses	(6,395)	(5,811)
Change in fair value of interest rate swaps	1,442	(2,956)
Total nonoperating income	21,139	26,166
EXCESS OF REVENUE OVER EXPENSES	$ 104,637	$ 104,618

(Continued)

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

	For the Year Ended June 30, 2011	2010
UNRESTRICTED NET ASSETS		
Excess of revenue over expenses	$ 104,637	$ 104,618
Recovery of impaired endowment corpus	2,446	3,622
Net assets released from restrictions used for purchase of property and equipment and other	34,870	18,773
Postretirement-related changes other than net periodic postretirement cost	89,800	(103,106)
INCREASE IN UNRESTRICTED NET ASSETS	231,753	23,907
RESTRICTED NET ASSETS		
TEMPORARILY RESTRICTED NET ASSETS:		
Pledges, contributions, and grants	50,882	35,976
Net assets released from restrictions	(64,268)	(49,270)
Net realized and unrealized gains on investments	58,665	32,703
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	45,279	19,409
PERMANENTLY RESTRICTED NET ASSETS:		
Pledges and contributions	9,238	7,953
Change in unrealized gains impacting endowment corpus	2,446	3,622
Replenishment of impaired endowment corpus	(2,446)	(3,622)
Investment gains on trustee-held investments	4,216	1,245
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	13,454	9,198
INCREASE IN NET ASSETS	290,486	52,514
NET ASSETS — Beginning of year	991,139	938,625
NET ASSETS — End of year	$ 1,281,625	$ 991,139

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

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Year Ended June 30, 2011	2010
OPERATING ACTIVITIES:		
Increase in net assets	$ 290,486	$ 52,514
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	73,192	68,290
Postretirement-related changes other than net periodic postretirement cost	(89,800)	103,106
Provision for uncollectible accounts	38,768	34,059
Change in fair value of interest rate swaps	(1,442)	2,956
Net unrealized and realized gains on investments	(70,031)	(53,684)
Restricted contributions and investment income received	(36,534)	(27,188)
Investment gains on trustee-held investments	(4,216)	(1,245)
Changes in operating assets and liabilities:		
Accounts receivable for patient services	(48,134)	(21,120)
Accounts payable and accrued expenses	(4,037)	(2,381)
Estimated third-party settlements payable	(15,723)	14,257
Postretirement and pension benefits	(2,601)	(10,976)
Accrued liability under self-insurance program	(31,147)	7,813
Other changes in operating assets and liabilities	10,446	(13,011)
Net cash provided by operating activities	109,227	153,390
INVESTING ACTIVITIES:		
Additions to property and equipment	(256,696)	(270,501)
Purchase of investments	(725,954)	(895,621)
Sale of investments	815,578	800,394
Proceeds from sale of building (Note 21)	-	26,079
Net cash used in investing activities	(167,072)	(339,649)
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and investment income	39,613	23,540
Proceeds from issuance of long-term debt	-	171,668
Payment of bond issuance costs	-	(2,663)
Payment of long-term debt	(7,593)	(6,042)
Payment of obligations under capital lease and other financing arrangements	(3,157)	(3,014)
Net cash provided by financing activities	28,863	183,489
NET DECREASE IN CASH AND CASH EQUIVALENTS	(28,982)	(2,770)
CASH AND CASH EQUIVALENTS — Beginning of year	156,779	159,549
CASH AND CASH EQUIVALENTS — End of year	$ 127,797	$ 156,779

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest — including capitalized interest of $21,487 and $17,955 for the years ended June 30, 2011 and 2010, respectively	$ 36,489	$ 33,381
Noncash additions to property and equipment	$ 187	$ 9,138

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 (Rush). Rush owns and operates an academic medical center located in Chicago, Illinois. Rush is an Illinois not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Rush's operations consist of several diverse activities with a shared mission of patient care, education, research, and community service, and include the following:

Rush University Hospital (RUH) — Consists of an acute care hospital and the Johnson R. Bowman Health Center for the Elderly, a rehabilitation and psychiatric facility, licensed in total for 739 beds. RUH also includes a faculty practice plan, Rush University Medical Group (RUMG), which employed 399 physicians as of June 30, 2011.

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 $137,974 and $126,415 in annual research expenditures during fiscal years 2011 and 2010, respectively.

Rush Oak Park Hospital (ROPH) — A 296-licensed bed acute care, rehabilitation, and skilled nursing hospital located in Oak Park, Illinois, eight miles west of RUH, which includes an employed medical group with 40 physicians as of June 30, 2011. Rush, through a joint venture arrangement with a third party, is responsible for the operations and management of ROPH. As a result, Rush 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 Rush. All significant intercompany transactions have been eliminated in consolidation.

RUH and ROPH together own 50% of Rush Health, a network of providers whose members include the hospitals and approximately 750 physicians and 50 allied health providers who are on the medical staff of the member hospitals, with the other 50% owned by the physicians. The financial results of Rush Health are not consolidated with the financial results of Rush and are accounted for using the equity method of accounting (see Note 18).

Rush has an affiliation with Rush-Copley Medical Center (RCMC), an acute care facility located in Aurora, Illinois, that covers governance and other organizational relationships. Pursuant to the Amended and Restated Master Trust Indenture dated August 1, 2006, Rush and RCMC established an Obligated Group of which both are members. Rush and RCMC are jointly and severally liable for certain debt issued through the Illinois Finance Authority (IFA) (see Note 9). Under accounting principles generally accepted in the United States of America (GAAP), as a result of these affiliations and financial interdependency, the financial accounts of RCMC should be consolidated with Rush, but have been excluded from the accompanying consolidated financial statements.

If the financial statements of RCMC had been consolidated with Rush, financial information as of and for the years ended June 30, 2011 and 2010, respectively, would have been as follows:

	2011	2010
Total assets	$ 2,943,532	$ 2,819,720
Total liabilities	1,486,456	1,680,758
Total net assets	$ 1,457,076	$ 1,138,962
Total revenue	$ 1,741,099	$ 1,685,185
Total expenses	1,643,016	1,595,791
Operating income	98,083	89,394
Nonoperating income	33,383	28,122
Excess of revenue over expenses	$ 131,466	$ 117,516
Increase in unrestricted net assets	$ 258,606	$ 36,908
Net cash provided by (used in):		
Operating activities	$ 151,290	$ 168,559
Investing activities	(193,569)	(364,975)
Financing activities	28,264	189,589
Net decrease in cash and cash equivalents	$ (14,015)	$ (6,827)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Except for the matter discussed in Note 1 related to the consolidation of RCMC, the accompanying consolidated financial statements have been presented in conformity with GAAP as recommended in the audit and accounting guide for health care organizations published by the American Institute of Certified Public Accountants.

Basis of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

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

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors, patients, and others for services rendered. Rush has agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payors. Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Patient accounts receivable are stated at net realizable value. Rush maintains an estimated allowance for uncollectible accounts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Accounts receivable are charged to the provision for uncollectible accounts as they are deemed uncollectible.

Charity Care

It is an inherent part of Rush's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for uncollectible accounts.

Inventory

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

Fair Value of Financial Instruments

Financial instruments consist of primarily cash and cash equivalents, investments, derivative instruments, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and estimated third-party settlements approximated their financial statement carrying amount as of June 30, 2011 and 2010, because of their short-term maturity. The fair value of the other instruments is discussed in Notes 6 and 9.

Assets Limited as to Use and Investments

Assets limited as to use consist primarily of investments limited as to use by donor or time restriction, including pledges, assets held by trustees under debt or other agreements and for self-insurance, and board designated assets set aside for a specified future use.

Investments in equity and debt securities with readily determinable fair values are designated as trading securities and measured at fair value using quoted market prices or model-driven valuations. Short-term investments having an original maturity greater than 90 days that are available for current operations are reported as current assets. Rush also holds an interest in a collective business trust that invests primarily in international 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.

Alternative investments, consisting of limited partnerships that invest in primarily marketable securities (hedge funds), real estate, and limited partnerships that invest in primarily nonmarketable securities (private equity), are designated as other-than-trading. Investments in hedge funds are measured at fair market value based on Rush's interest in the net asset value (NAV) of the respective fund. The estimated valuations of hedge fund investments are subject to uncertainty and could differ had a ready market existed for these investments. Such differences could be material.

Investments in private equity funds are reported at cost, adjusted for impairment losses, based on information provided by the respective partnership when Rush's ownership percentage is minor (less than 5%). Investments in private equity funds where Rush's ownership percentage is more than minor, but consolidation is not required (5% to 50%), are accounted for on the equity basis. These investments are periodically assessed for impairment. The financial statements of hedge funds and private equity funds are audited annually, generally on December 31. Investments in hedge funds and private equity funds are generally not marketable and may be divested only at specified times. Real estate investments are carried at amortized cost. Rush's risk in alternative investments is limited to its capital investment and any future capital commitments (see Note 5).

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

Unconditional Promises to Give

Unconditional promises to give (pledges receivable) are recorded at the net present value of their estimated future cash flows. Estimated future cash flows due after one year are discounted using interest rates commensurate with the time value of money concept. Rush maintains an estimated allowance for uncollectible pledges based upon management's assessment of historical and expected net collections considering business and economic conditions and other collection indicators. Net unconditional promises to give are reported in assets limited by donor or time restriction on the accompanying consolidated balance sheets and amounted to $60,912 and $55,396 as of June 30, 2011 and 2010, respectively (see Note 16).

Derivative Instruments

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

Property and Equipment

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

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 expensed or capitalized depending on whether the costs are incurred in the preliminary project stage, development stage, or operational stage. Capitalized costs of internal use computer software are included in property and equipment in the accompanying consolidated balance sheets.

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.

Asset Impairment

Rush continually evaluates the recoverability of the carrying value of long-lived asset by reviewing long-lived assets for impairment. When circumstances indicate the remaining estimated useful life of long-lived assets may not be recoverable, Rush adjusts the carrying value of a long-lived asset to fair value if an estimate of the undiscounted cash flows over the remaining life are less than the carrying value of the asset.

Asset Retirement Obligations

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

Ownership Interests in Other Health-Related Entities

An ownership interest in another health-related entity of more than 50% in which Rush has a controlling interest is consolidated. As of June 30, 2011 and 2010, non-controlling interests in consolidated subsidiaries amounted to $4,050 and $3,063, respectively. The amounts related to non-controlling interest are not material and accordingly, are not separately presented in the accompanying consolidated financial statements. An ownership interest in another health-related entity of at least 20% but not more than 50% in which Rush has the ability to exercise significant influence over the operating and financial decisions of the investee is accounted for on the equity basis (see Note 18), and the income (loss) is reflected in other revenue. An ownership interest in a health-related entity of less than 20%, in which Rush does not have the ability to exercise significant influence over the operating and financial decisions of the investee, is carried at cost or estimated net realizable value, which is not material to the consolidated financial statements.

Deferred Financing Costs

Debt issuance costs, net of amortization computed on the straight-line basis over the life of the related debt, are reported within other assets on the accompanying consolidated balance sheets. The straight-line basis approximates the effective interest method, which is required under GAAP. Unamortized debt issuance costs amounted to $9,179 and $9,593 as of June 30, 2011 and 2010, respectively.

Securities Lending

Rush records, as an asset, the fair value of its beneficial interest in cash collateral pools for securities loaned to third parties, as well as records a corresponding liability for the collateral received that will be paid back to the third party. Securities on loan are included within assets limited as to use and investments on the accompanying consolidated balance sheets as of June 30, 2010. During fiscal year 2011, Rush terminated all of its securities lending arrangements and no amounts were on loan as of June 30, 2011.

Other Long-term Liabilities

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

Net Assets

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

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. Contributions are either reported as temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations 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 and changes in net assets.

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

Excess of Revenue over Expenses

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

Nonoperating Income (Expense)

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

New Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued new guidance related to the accounting by health care entities for all or a certain portion of the amount billed or billable to patients and amounts related to deductibles and copays for which payment is highly uncertain. Specifically, this guidance requires that health care entities present bad debt expense associated with net patient service revenue, as an offset to net patient service revenue within the statements of operations and changes in net assets. Additionally, the guidance requires enhanced disclosure of the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for Rush in fiscal year 2013 and is not expected to have a material impact to the consolidated financial statements.
In August 2010, the FASB issued new guidance to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. Specifically, this guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. Furthermore, this amendment requires the disclosure of the method used to identify or determine the costs. This guidance is effective for Rush in fiscal year 2012 and is not expected to have a material impact to the consolidated financial statements.

Also in August 2010, the FASB issued new guidance related to the accounting by health care entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. Specifically, this amendment clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. This guidance is effective for Rush in fiscal year 2012 and is not expected to have a material impact on Rush's consolidated financial statements.

Consideration of Events Subsequent to the Consolidated Balance Sheet Date

Rush has evaluated events occurring subsequent to the consolidated balance sheet date through October 25, 2011, the date the consolidated financial statements were available to be issued.

3. NET PATIENT SERVICE REVENUE

The mix of net patient service revenue from patients and third-party payors for the years ended June 30, 2011 and 2010 was as follows:

	2011	2010
Medicare	27 %	26 %
Medicaid	11	11
Blue Cross	30	32
Managed care	24	24
Commercial and self-pay	8	7
Total	100 %	100 %

Changes in estimates relating to prior periods increased net patient service revenue by $13,000 and $1,311 in fiscal years 2011 and 2010, respectively. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount.

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

The 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 Rush is in substantial compliance with current laws and regulations.

4. CHARITY CARE

Rush has an established charity care policy and maintains records to identify and monitor the level of charity care it provides. Rush provides free care to all patients whose family income is 300% of the federal poverty level or less and a 65% discount to all uninsured patients regardless of ability to pay and provides further discounts for patients with a family income up to 400% of the federal poverty level. These charity care 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. Rush also monitors the unreimbursed cost of patient bad debts.

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 Rush from the Program was $16,565 during each of the years ended June 30, 2011 and 2010. For each of the years ended June 30, 2011 and 2010, the Medicaid payment of $42,871 was included in net patient service revenue, representing 4% of the net patient service revenue, and the tax assessment of $26,306 was included in supplies, utilities, and other expenses. The Program is approved through June 30, 2014; however, the future of the Program is uncertain.

The following table presents the level of charity care provided for the years ended June 30, 2011 and 2010:

	2011	2010
Excess of allocated cost over reimbursement for services provided to hospital Medicaid patients — net of net benefit under the Program	$ 50,497	$ 44,589
Estimated costs and expenses incurred to provide charity care in the hospitals	19,123	17,645
Total	$ 69,620	$ 62,234

The total number of patients that were either provided charity care directly by Rush or that were covered by the Program represented 22% of Rush's total patients in fiscal years 2011 and 2010.

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

5. ASSETS LIMITED AS TO USE AND INVESTMENTS

Assets limited as to use and investments consist primarily of marketable equity and debt securities, which are held in investment pools to satisfy the investment objectives for which the assets are held or to satisfy donor restrictions. Rush also holds certain investments in alternative securities consisting of hedge funds, real estate investments, and private equity funds (see Note 2). Assets limited as to use by donor or time restriction also includes unconditional promises to give (see Note 16).

Following is a summary of the composition of assets limited as to use and investments as of June 30, 2011 and 2010.

	2011	2010
Marketable securities and short-term investment funds	$ 67,388	$ 209,336
Government securities	173,261	97,215
Corporate bonds	83,446	151,594
Fixed income mutual funds	79,630	74,350
Other fixed income, including asset backed securities	183,259	127,178
Equity securities and equity mutual funds	231,883	227,455
Equity commingled trust	13,820	10,578
World asset allocation mutual funds	42,902	-
Hedge fund of funds	26,329	24,433
Private equity	29,702	28,890
Real estate	3,474	3,658
	935,094	954,687
Beneficial interest in trusts	27,536	23,320
Interest in cash collateral pools	-	56,125
Total assets limited as to use and investments — excluding pledges receivable	962,630	1,034,132
Net pledges receivable	60,912	55,396
Total assets limited as to use and investments	1,023,542	1,089,528
Less amount reported as current assets	(140,080)	(143,412)
Assets limited as to use and investments — noncurrent	$ 883,462	$ 946,116

The table above comprises all of Rush's investments, including those measured at fair value as well as certain alternative investments in private equity partnerships or real estate measured under the cost or equity method of accounting. The fair value of private equity investments, as estimated by management of the limited partnerships based on audited financial statements and other relevant factors, was $34,932 and $29,447 as of June 30, 2011 and 2010, respectively. Rush's private equity investments have diverse strategies, consisting of the following as of June 30, 2011 and 2010:

Private Equity Fund Allocations	2011	2010
Buyout and growth capital	33%	41%
Distressed debt and special situations	35	26
Diversified private equity fund of funds	18	18
Venture capital	12	12
Direct equity	2	2
Co-investment private equity	-	1
	100%	100%

Investments in private equity funds recorded on the equity basis amounted to $803 and $692 as of June 30, 2011 and 2010, respectively. As many factors are considered in arriving at the estimated fair value, Rush routinely monitors and assesses methodologies and assumptions used in valuing these partnerships. As of June 30, 2011 and 2010, commitments for additional contributions to private equity partnerships totaled $16,167 and $20,319, respectively.

It is Rush's intent to maintain a long-term investment portfolio to support its self-insurance program. Accordingly, the total return on investments restricted for the self-insurance program is reported in the consolidated statements of operations and changes in net assets in two income statement line items. The investment return allocated to operations, reported in other revenue, is determined by a formula designed to provide a consistent stream of investment earnings to support the self-insurance provision reported in insurance expense in the accompanying consolidated statements of operations and changes in net assets. This allocated return, 5% for the years ended June 30, 2011 and 2010, approximates the real return that Rush expects to earn on its investments over the long-term and totaled $6,681 and $7,386 for the years ended June 30, 2011 and 2010, respectively. The difference between the total investment return and the amount allocated to operations is reported in nonoperating income (expense) and totaled $8,381 and $9,043 for the years ended June 30, 2011 and 2010, respectively. There is no guarantee that the investment return expected by management will be realized. For the years ended June 30, 2011 and 2010, the total annual investment return was approximately 11.8% and 11.6%, respectively.

Prior to February 1, 2011, Rush participated in a securities lending arrangement whereby Rush provided certain of its marketable securities to be loaned to independent third parties through a commercial bank. These loaned securities were collateralized against loss and/or default by a beneficial interest in various collateral pools maintained by the commercial bank. As of June 30, 2010, Rush loaned approximately $54,348 in securities and accepted cash collateral for these loans in the amount of $56,125, included in investments and long-term liabilities in the accompanying consolidated balance sheet. Of the $54,348 on loan as of June 30, 2010, $54,348 represented donor-restricted endowment funds. Cash collateral received under the program was invested in a commingled fund managed by the commercial bank. Eligible instruments for investment in the collateral pool included, but were not limited to, government securities, asset-backed and mortgage-backed securities, and corporate debt, all of which were subject to quality and liquidity guidelines established by the fund. Rush fully terminated the securities lending arrangement as of February 1, 2011, and no amounts were on loan as of June 30, 2011.

The composition and presentation of investment income and the realized and unrealized gains and losses on all investments for the years ended June 30, 2011 and 2010, are as follows:

	2011	**2010**
Interest and dividends	$ 18,075	$ 17,059
Net realized gains on sales of securities	24,913	6,740
Unrealized gains — unrestricted	7,579	20,406
Unrealized gains — restricted	41,659	28,112
	$ 92,226	$ 72,317
Reported as:		
Other operating revenue	$ 7,900	$ 7,938
Nonoperating income	18,999	26,809
Restricted net assets — net realized and unrealized gains on investments	65,327	37,570
	$ 92,226	$ 72,317

Rush reported gains and losses on its alternative investments (designated as other-than-trading) as of June 30, 2011 and 2010, as follows:

	2011	2010
Reported as:		
Nonoperating income	$ 83	$ 149
Restricted net assets — net realized and unrealized gains on investments	6,858	4,001
	$ 6,941	$ 4,150

6. FAIR VALUE MEASUREMENTS

As of June 30, 2011 and 2010, Rush held certain assets and liabilities that are required to be measured at fair value on a recurring basis, including marketable securities and short-term investments, certain restricted, trusteed and other investments, derivative instruments, interest in cash collateral pools and beneficial interests in trusts. Certain alternative investments measured using either the cost or equity method of accounting are excluded from the fair value disclosure provided herein.

Valuation Principles

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

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

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

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

Fair Value Measurements at the Balance Sheet Date

The following tables present Rush's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010:

Fair Value Measurements as of June 30, 2011	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Marketable securities and short-term investments	$ 7,901	$ 59,487	$ -	$ 67,388
Fixed income securities:				
U.S. government securities	-	173,261	-	173,261
Corporate bonds	-	83,446	-	83,446
Fixed income mutual funds	1,023	73,664	-	74,687
Collateralized securities and other	106	180,145	-	180,251
U.S. equity securities	169,807	-	-	169,807
International equity securities	22,416	36,959	-	59,375
World asset allocation mutual funds	-	36,969	5,933	42,902
Moderate allocation mutual funds {a}	21,464	-	-	21,464
Alternative investments:				
Hedge fund of funds	-	-	26,329	26,329
Accrued interest and other	-	3,008	-	3,008
Beneficial interest in trusts	-	-	27,536	27,536
Total assets at fair value	$ 222,717	$ 646,939	$ 59,798	$ 929,454
Liabilities:				
Obligations under interest rate swap agreements	-	9,366	-	9,366
Total liabilities at fair value	$ -	$ 9,366	$ -	$ 9,366

{a} This class includes investments in mutual funds that allocate assets among equity and fixed income investments, and includes $4,943 (23%) in fixed income securities and $16,521 (77%) in equity securities as of June 30, 2011.

Fair Value Measurements as of June 30, 2010	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:				
Marketable securities and short-term investment funds	$ 4,725	$ 204,611	$ -	$ 209,336
Fixed income securities:				
U.S. government securities	-	97,215	-	97,215
Corporate bonds	15,667	135,558	369	151,594
Fixed income mutual funds	1,054	68,717	-	69,771
Collateralized securities and other	108	124,027	462	124,597
U.S. equity securities	196,769	128	-	196,897
International equity securities	17,659	11,921	-	29,580
Moderate allocation mutual funds {a}	16,135	-	-	16,135
Alternative investments:				
Hedge fund of funds	-	-	24,433	24,433
Accrued interest and other	-	2,581	-	2,581
Beneficial interest in trusts	-	-	23,320	23,320
Interest in cash collateral pools	-	56,125	-	56,125
Total assets at fair value	$ 252,117	$ 700,883	$ 48,584	$1,001,584
Liabilities:				
Obligations under interest rate swap agreements	-	10,808	-	10,808
Obligation to return collateral under securities lending program	-	56,125	-	56,125
Total liabilities at fair value	$ -	$ 66,933	$ -	$ 66,933

{a} This class includes investments in mutual funds that allocate assets among equity and fixed income investments, and includes $4,579 (28%) in fixed income securities and $11,556 (72%) in equity securities as of June 30, 2010.

There were no significant transfers to or from Level 1 and Level 2 during the periods presented.

Valuation Techniques and Inputs for Level 2 and Level 3 Instruments

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

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

U.S. Government Securities – The fair value of investments in U.S. government and agency securities classified as Level 2 was primarily determined using techniques consistent with the market approach, including matrix pricing. Significant observable inputs to the market approach include institutional bids, trade data, broker and dealer quotes, discount rates, issuer spreads, and benchmark yield curves.

Corporate Bonds and Fixed Income Mutual Funds – The fair value of investments in corporate bonds of U.S. and international issuers, including mutual and commingled funds that invest primarily in such bonds, classified as Level 2 was primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yield curves, reported trades, observable broker or dealer quotes, issuer spreads and security specific characteristics. Significant unobservable inputs may be used, including bid or ask/offer quotes that are uncorroborated, which results in a Level 3 classification.

Collateralized Securities and Other – This class encompasses collateralized bond obligations, collateralized loan obligations, collateralized mortgage obligations, and any other asset backed securities, including government asset backed securities. The fair value of collateralized obligations classified as Level 2 was determined using techniques consistent with the market and income approach, such as discounted cash flows and matrix pricing. Significant observable inputs include prepayment spreads, discount rates, reported trades, benchmark yield curves, volatility measures and quotes. Significant unobservable inputs may be used including bid or ask/offer quotes that are uncorroborated, which results in a Level 3 classification.

U.S. and International Equity Securities – The fair value of U.S. and foreign equity securities classified as Level 2 was primarily determined using the calculated NAV at the valuation date under a market approach. This includes investments in commingled funds that invest primarily in domestic and foreign equity securities whose underlying values are based on Level 1 inputs. The NAV is often corroborated through ongoing redemption or subscription activity. Certain common and preferred stocks held by Rush under this classification may not have available current market quotes and were primarily valued using techniques consistent with the market approach utilizing significant observable inputs, such as mid, bid, and ask or offer quotes.

World Asset Allocation Mutual Funds – This class includes investments in fund of funds that seek to provide both capital appreciation and income by investing primarily in both traditional and alternative asset classes. The asset allocation is driven by the fund manager's long range forecasts of asset-class real returns. Investments representing approximately 86% of the fair value in this category, which are invested in mutual funds, are priced as of the New York Stock Exchange (NYSE) close on each day the NYSE is open. The remaining investments in this category, which are invested in a multi-strategy hedge fund, are priced on the last business day of each calendar month. Redemption proceeds for approximately 50% of these investments is daily. Redemption proceeds for the remaining 50% of these investments is monthly and requires at least 14 business days advance notice.

Hedge Fund of Funds – This class includes diversified investments in hedge fund of funds with diverse strategies, including equity long/short, credit long/short, event-driven, relative value, global opportunities, and other multi-strategy funds. Hedge fund of funds investments are valued based on Rush's ownership interest in the NAV of the respective fund as estimated by the general partner, which approximates fair value. Rush routinely monitors and assesses methodologies and assumptions used in valuing these interests. The values for underlying investments are estimated either internally or by an external fund manager based on many factors, including operating performance, balance sheet indicators, growth, and other market and business fundamentals. Hedge fund investments also include certain liquidity restrictions that may require 65 to 95 days advance notice for redemptions. Due to significant unobservable inputs used in estimating the NAV and liquidity restrictions, Rush classifies all hedge fund investments as Level 3.

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

Interest in Cash Collateral Pools and Obligation to Return Collateral Under Securities Lending Program – The fair value of interests in cash collateral pools under the securities lending program and the corresponding liability to return collateral held classified as Level 2 were determined using the calculated NAV. The collateral held under this program is placed in commingled funds that invest primarily in 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 underlying investments were valued using techniques consistent with the market approach, which utilizes significant observable market inputs, such as available trades, quotes, and benchmark yield curves.

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

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

Level 3 Rollforward

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

	Hedge Fund of Funds	Corporate Bonds	Asset Backed Securities & Other	Beneficial Interest in Trusts	Total Assets at Fair Value
Fair value — June 30, 2009	$ 21,790	$ 679	$ 364	$ 22,075	$ 44,908
Actual return on plan assets —					
Realized and unrealized gains	2,643	129	294	1,245	4,311
Purchases, sales, and settlements — net	-	-	(285)	-	(285)
Transfers in and/or out of Level 3	-	(439)	89	-	(350)
Fair value — June 30, 2010	24,433	369	462	23,320	48,584
Actual return on plan assets —					
Realized and unrealized gains	1,948	15	89	4,216	6,268
Purchases, sales, and settlements — net	5,881	(384)	(551)	-	4,946
Transfers in and/or out of Level 3	-	-	-	-	-
Fair value — June 30, 2011	$ 32,262	$ -	$ -	$ 27,536	$ 59,798

For the year ended June 30, 2011, realized and unrealized gains pertaining to Level 3 investments include $128 reported within excess of revenue over expenses and $1,924 and $4,216 reported within temporarily and permanently restricted net assets under investment gains, respectively. For the year ended June 30, 2010, realized and unrealized gains pertaining to Level 3 investments include $483 reported within excess of revenue over expenses and $2,583 and $1,245 reported within temporarily and permanently restricted net assets under investment gains, respectively.

Investments in Entities that Report Fair Value Using NAV

Included within the fair value table above are investments in certain entities that report fair value using a calculated NAV or its equivalent, and are classified as Level 2 or Level 3 investments. The following table summarizes the attributes relating to the nature and risk of such investments as of June 30, 2011:

Entities that Report Fair Value Using NAV	Fair Value (In Thousands)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
International equity securities (equity commingled trust)	$13,820	None	Daily	1 – 7 days
World asset allocation mutual funds	$42,902	None	Weekly; Monthly	1 – 14 days
Hedge fund of funds	$26,329	None	Quarterly	65 – 95 days
Fixed income mutual funds	$73,664	None	Daily	1 – 7 days

7. ENDOWMENT FUNDS

Rush's endowment consists of over 300 individual funds, which are established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

Endowment Investment and Spending Policies

Rush has adopted endowment investment and spending policies to preserve purchasing power over the long-term and provide stable annual support to the programs supported by the endowment, including professorships, research and education, free care, and student financial aid, scholarships, and fellowships. Approximately 17% of Rush's endowment is available for general purposes.

The Investment Committee of the Board is responsible for defining and reviewing the investment policy to determine an appropriate long-term asset allocation policy. The asset allocation policy reflects the objective with allocations structured for capital growth and inflation protection over the long-term. The current asset allocation targets and ranges as well as the asset allocation as of June 30, 2011 and 2010, are as follows:

	Target Allocation and Range		Percentage of Endowment Assets	
Asset Class	**June 30, 2011**	**June 30, 2010**	**2011**	**2010**
Domestic equity	30%(+/-5%)	45%(+/-5%)	31 %	44 %
International equity	15%(+/-5%)	10%(+/-5%)	14	8
Global asset allocation	10%(+/-5%)	None	10	-
Alternatives (Hedge Funds/Private Equity)	15%(+/-5%)	15%(+/-5%)	19	21
Fixed income	30%(+/-5%)	30%(+/-5%)	26	27

To achieve its long-term rate of return objectives, Rush relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The expected long-term rate of return target of the endowment given its current asset allocation structure is approximately

8.8% based on historical returns. Actual returns in any given year may vary from this amount. Rush has established market-related benchmarks to evaluate the endowment fund's performance on an ongoing basis.

The Finance Committee of the Board approves the annual spending policy for program support. In establishing the annual spending policy, Rush's main objectives are to provide for intergenerational equity over the long term, the concept that future beneficiaries will receive the same level of support as current beneficiaries on an inflation adjusted basis, and to maximize annual support to the programs supported by the endowment. The spending rate was 4.0% and 3.5% for the fiscal years ended June 30, 2011 and 2010, respectively, and income from the endowment fund provided $15.6 million and $14.1 million of support for Rush's programs during the fiscal years ended June 30, 2011 and 2010, 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

The endowment net asset composition by type of fund as of June 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 207,523	$ 227,736	$ 435,259
Board-designated endowment funds	4,715	-	-	4,715
Total funds	$ 4,715	$ 207,523	$ 227,736	$ 439,974

Changes in endowment net assets for fiscal year ended June 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 4,155	$ 162,105	$ 214,282	$ 380,542
Investment return:				
Investment (loss) income	(103)	6,750	-	6,647
Replenishment of endowment impairment	-	-	(2,446)	(2,446)
Net appreciation (realized and unrealized)	663	53,823	6,662	61,148
Total investment return	560	60,573	4,216	65,349
Contributions	-	-	9,238	9,238
Transfer of unrestricted endowment appreciation	-	(15,155)	-	(15,155)
Endowment net assets — end of year	$ 4,715	$ 207,523	$ 227,736	$ 439,974

The endowment net asset composition by type of fund as of June 30, 2010, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 162,105	$ 214,282	$ 376,387
Board-designated endowment funds	4,155	-	-	4,155
Total funds	$ 4,155	$ 162,105	$ 214,282	$ 380,542

Changes in endowment net assets for fiscal year ended June 30, 2010, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	$ 3,054	$ 142,714	$ 205,084	$ 350,852
Investment return:				
Investment (loss) income	(70)	5,747	-	5,677
Replenishment of endowment impairment	-	-	(3,622)	(3,622)
Net appreciation (realized and unrealized)	271	27,345	4,867	32,483
Total investment return	201	33,092	1,245	34,538
Contributions	900	-	7,953	8,853
Transfer of unrestricted endowment appreciation	-	(13,701)	-	(13,701)
Endowment net assets — end of year	$ 4,155	$ 162,105	$ 214,282	$ 380,542

Fund Deficiencies

Rush monitors the accumulated losses on permanently restricted investments to determine whether the endowment corpus has been impaired and restores these losses through unrestricted net assets as necessary. During the years ended June 30, 2011 and 2010, $2,446 and $3,622, respectively, was recovered and replenished through unrestricted net assets representing accumulated losses on permanently restricted investments incurred during fiscal years 2010 and 2009, respectively.

8. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2011 and 2010 consisted of the following:

	2011	2010
Land and buildings	$ 1,048,648	$ 1,010,438
Equipment	382,155	363,904
Construction in progress	545,648	355,741
	1,976,451	1,730,083
Less accumulated depreciation	(789,273)	(727,204)
Property and equipment, net	$ 1,187,178	$ 1,002,879

9. LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Rush's long-term debt is issued under a Master Trust Indenture which established an Obligated Group comprised of Rush and RCMC. The Obligated Group is jointly and severally liable for the obligations issued under the Master Trust Indenture. Each Obligated Group member is expected to pay its allocated share of the debt issued on its behalf. Total Obligated Group debt as of June 30, 2011 and 2010 was $618,920 and $627,786, respectively. As of June 30, 2011 and 2010, such issuances are secured by a pledge of gross receipts and a mortgage on primary healthcare facilities, as defined, of the Obligated Group members.

A summary of Rush's long-term debt as of June 30, 2011 and 2010, is as follows:

	Interest Rates	Final Maturity Date	Amount Outstanding at June 30, 2011	Amount Outstanding at June 30, 2010
Illinois Finance Authority Revenue Bonds:				
Fixed rate revenue bonds:				
Series 2009C/D	6.375% to 6.625%	November 1, 2039	$ 173,800	$ 173,800
Series 2009 A/B	5.0% to 7.25%	November 1, 2038	176,265	176,265
Series 2006B	5.0% to 5.75%	November 1, 2028	67,050	67,050
Series 1998A	5.0% to 5.25%	November 1, 2024	60,550	60,550
Total fixed rate debt			477,665	477,665
Variable rate revenue bonds :				
Series 2008A	Average of 0.22% and 0.25% in FY2011 and FY2010, respectively.	November 1, 2045	50,000	50,000
Series 1989A	Average of 0.26% and 0.25% in FY2011 and FY2010, respectively.	October 1, 2010	-	4,600
Series 1985 C, D, and F	Average of 1.58% and 1.59% in FY2011 and FY2010, respectively.	February 28, 2011	-	2,993
Total variable rate debt			50,000	57,593
Total par value of debt			527,665	535,258
Less current portion of long-term debt			(4,550)	(7,593)
Net discount and premium			(5,336)	(5,505)
Long-term debt			$ 517,779	$ 522,160
Estimated fair value based on quoted market prices and other relevant information			$ 567,317	$ 604,061

Under its various indebtedness agreements, the Obligated Group is subject to certain financial covenants, including maintaining a minimum historical debt service coverage and maximum annual debt service coverage ratios; maintaining minimum levels of days cash on hand; 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, 2011 and 2010.

Annual maturities of outstanding long-term debt, adjusted to reflect the refinancing of the amounts borrowed on a taxable line of credit (described below), are as follows:

Years Ending June 30	
2012	$ 4,550
2013	5,905
2014	11,320
2015	12,140
2016	6,320
Thereafter	487,430
Total	$ 527,665

Letters of Credit Arrangements

The Obligated Group's variable rate revenue bonds 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 entered into letters of credit with commercial banks to provide funding for such repurchases, as necessary. Any amounts borrowed under these letters of credit are due and payable more than one year from the date of such borrowing. The letters of credit related to the Series 1989A variable rate revenue bonds and the Series 1985 C, D, and F pool loans expired during fiscal year 2011 when the final principal payment was made on each series. The letter of credit related to the Series 2008A Variable Rate Demand Bonds (the "Series 2008A Bonds") expires in December 2012. In the absence of such agreement, the Obligated Group would be required to replace it with a similar credit arrangement, convert the related debt from variable to fixed interest rate, or fund required repurchases from available funds. Draws are routinely made from the letter of credit to pay off principal and interest and are reimbursed to the commercial bank on the following business day. As of June 30, 2011 and 2010, there were outstanding draws against the letter of credit related to the Series 2008A Bonds representing interest paid to the bondholders on July 1, 2011 and 2010 of $6 and $10, respectively.

Recent Financing Activity

On July 29, 2009, the IFA issued $173,800 of Series 2009C Fixed Rate Revenue Bonds, allocated to Rush, 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 Rush, 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.

Lines of Credit Arrangements

The Obligated Group had a $50 million short-term line of credit with a bank as of June 30, 2011 and 2010. This line of credit was extended, during fiscal year 2011 through December 2012. As of June 30, 2011, the Obligated Group had no amounts outstanding on this line of credit.

The Obligated Group also had a $100 million short-term line of credit with a bank as of June 30, 2011 and 2010. This line of credit was extended, during fiscal year 2011 through December 2013. Any borrowings on this short-term line of credit are due and payable in 180 days. As of June 30, 2011 and 2010, the Obligated Group had no amounts outstanding on this line of credit.

10. DERIVATIVES

Derivatives Policy

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

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

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

Interest Rate Swap Agreements

The Obligated Group has two interest rate swap agreements (the "Swap Agreements"), which were designed to synthetically fix the interest payments on the Series 2006A Bonds, which were later refinanced. Under the Swap Agreements, the Obligated Group makes fixed rate payments equal to 3.945% to the swap counterparties and receives variable rate payments equal to 68% of LIBOR (0.186% as of June 30, 2011 and 0.237% as of June 30, 2010) from the swap counterparties, each calculated on the notional amount of the Swap Agreements. As of June 30, 2011 and 2010, the Swap Agreements had a notional amount of $96,750 outstanding ($48,375 in notional amount with each counterparty). The Swap Agreements each expire on November 1, 2035, and amortize annually commencing in 2012. The Swap Agreements are secured by obligations issued under the Master Trust Indenture.

Following the refinancing of the Series 2006A Bonds, the Obligated Group used $50,000 in notional amount of the Swap Agreements to synthetically fix the interest on the Series 2008A Bonds. Rush's share of the Swap Agreements had a fair value of $(9,366) and $(10,808) as of June 30, 2011 and 2010, respectively, reported in other long-term liabilities in the accompanying consolidated balance sheets. The fair value of the Swap Agreements reported in Rush's balance sheet as of June 30 2011 and 2010 includes an adjustment for the Obligated Group's credit risk and may not be indicative of the termination value that Rush would be required to pay upon early termination of the Swap Agreements.

Management has not designated the Swap Agreements as hedging instruments. Amounts recorded in the accompanying consolidated statements of operations and changes in net assets for the Swap Agreements allocated to Rush for the fiscal years ended June 30, 2011 and 2010, were as follows:

	Reported As	Fiscal Year Ended June 30 2011	Fiscal Year Ended June 30 2010
Change in fair value of interest rate swaps	Nonoperating income (expense)	$ 1,442	$ (2,956)
Net cash payments on interest rate swaps	Interest expense	(2,528)	(2,523)

The Swap Agreements also require either party to post collateral in the form of cash and certain cash equivalents to secure potential termination payments. The amount of collateral that is required to be posted is based on the relevant party's long-term credit rating. Based on its current rating, the Obligated Group was not required to post any collateral as of June 30, 2011.

11. OBLIGATIONS UNDER CAPITAL LEASE AND DEFERRED FINANCING ARRANGEMENTS

Rush is a party to certain long-term deferred financing arrangements with respect to facilities, equipment, and services with unrelated third parties. Rush is also party to an 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 $4,122 and $4,012 for the years ended June 30, 2011 and 2010, respectively, and increases each year by 2.75%.

In September 2005, Rush 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, Rush pays licensing fees over an initial 6.25-year term, and at the end of the initial term, Rush 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 property and equipment and the related obligation included in obligations under capital lease on the accompanying consolidated balance sheets. The asset has a net book value of approximately $3,224 and $4,473 as of June 30, 2011 and 2010, respectively. In addition to licensing fees, Rush pays maintenance fees for support services received under terms of the agreement, which are recognized as expenses when incurred. Maintenance fees were not significant to the consolidated financial statements during the years ended June 30, 2011 and 2010.

Rush is also party to certain capital lease arrangements relating to medical and office equipment. Expiration of leases ranges from 2012 to 2013. Assets acquired under capital lease arrangements are included in property and equipment, net on the accompanying consolidated balance sheets.

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

Years Ending June 30	
2012	$ 6,268
2013	5,560
2014	4,935
2015	4,762
2016	4,741
Thereafter	31,286
Total minimum payments	57,552
Less amount representing interest	(19,648)
Net present value of obligations under capital lease and other financing arrangements	37,904
Less current portions included in accounts payable	(3,277)
Long-term portion of obligations under capital lease and other financing arrangements	$ 34,627

12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Rush and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and other postretirement benefit plans that together cover substantially all of Rush's employees.

Rush 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 $34,427 and $35,144 during fiscal years 2011 and 2010, respectively. The actuarial cost method used to compute the Defined Benefit Pension Plans' liabilities and expenses is the projected unit credit method. Effective December 31, 2011, the Pension Plan, representing certain union employees, will be amended to freeze benefit accruals for all participants. No additional benefits will accrue, and no additional individuals will become plan participants in the Pension Plan as of January 1, 2012. Effective January 1, 2012, the Retirement Plan will be amended to include eligible union members previously covered by the Pension Plan. The amendments were signed on August 1, 2011.

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

Obligations and Funded Status

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation, and the change in the plan assets of the Defined Benefit Pension Plans and Postretirement Healthcare Plans (collectively, the "Plans"). The table also reflects the funded status of the Plans as of the Measurement Date and amounts recognized in Rush's consolidated balance sheets as of June 30, 2011 and 2010, respectively.

Obligations and Funded Status	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2011	2010	2011	2010
Actuarial present value of benefit obligations — accumulated benefit obligation	$796,003	$780,775	$ 8,730	$ 9,049
Change in projected benefit obligations:				
Projected benefit obligation — beginning of measurement period	$798,568	$614,299		
Service costs	17,648	13,636		
Interest costs	42,732	41,089		
Plan amendments	(14,657)	-		
Actuarial (gains) losses	(18,599)	154,181		
Benefits paid	(28,372)	(24,637)		
Projected benefit obligation — end of measurement period	$797,320	$798,568		
Change in plan assets:				
Fair value of plan assets — beginning of measurement period	$575,670	$483,624	$ -	$ -
Actual return on plan assets	84,603	81,539	-	-
Employer contributions	34,427	35,144	459	529
Plan participant contributions	-	-	560	555
Benefits paid	(28,372)	(24,637)	(1,019)	(1,084)
Fair value of plan assets — end of measurement period	$666,328	$575,670	$ -	$ -
Accrued benefit liability	$130,992	$222,898	$ 8,730	$ 9,049

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

Components of Net Periodic Pension Cost Year Ended June 30	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2011	2010	2011	2010
Net periodic pension cost comprised the following:				
Service cost	$ 17,648	$ 13,636	$ 159	$ 101
Interest cost on projected benefit obligation	42,732	41,089	474	608
Expected return on plan assets	(47,408)	(40,156)	-	-
Amortization of prior service cost and other actuarial amounts	(165)	(165)	(294)	(294)
Recognized actuarial loss (gain)	20,390	11,390	(1,075)	(1,703)
Net periodic pension cost (credit)	$ 33,197	$ 25,794	$ (736)	$ (1,288)

In accordance with FASB guidance regarding accounting for defined benefit pension and other postretirement plans, all previously unrecognized actuarial losses and prior service costs are reflected in the consolidated balance sheets. The postretirement related charges other than net periodic benefit cost related to the pension and postretirement healthcare plans are included as a separate charge to unrestricted net assets and total $89,800 and $(103,106) for fiscal years 2011 and 2010, respectively. For fiscal year 2011, this amount includes actuarial gains arising during fiscal year 2011 of $56,286, unrecognized prior service cost of $14,657, and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2011 of $18,857. For fiscal year 2010, this amount includes actuarial losses arising during fiscal year 2010 of $(112,336) and a reclassification adjustment for losses reflected in periodic expense in fiscal year 2010 of $9,230.

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

Accrued Benefit Liability	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2011	2010	2011	2010
Accrued benefit liability — beginning of year	$ 222,898	$ 130,675	$ 9,049	$ 9,333
Fiscal year activity:				
Net periodic pension cost	33,197	25,794	(736)	(1,288)
Employer contributions	(34,427)	(35,144)	(459)	(529)
Unrecognized prior service cost	(14,657)	-	-	-
Postretirement-related changes other than net periodic postretirement cost:				
Actuarial (gain) loss	(55,794)	112,799	(492)	(463)
Reclassification adjustment for losses reflected in periodic expense	(20,225)	(11,226)	1,368	1,996
Accrued benefit liability — end of year	$ 130,992	$ 222,898	$ 8,730	$ 9,049
Recognized in the consolidated balance sheets as follows:				
Accrued expenses	$ -	$ -	$ 818	$ 719
Noncurrent liabilities	130,992	222,898	7,912	8,330
	$ 130,992	$ 222,898	$ 8,730	$ 9,049

Assumptions

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

Assumptions Used to Determine Benefit Obligations and Net Periodic Benefit Cost	Defined Benefit Pension Plans		Postretirement Healthcare Plans	
	2011	2010	2011	2010
Discount rate — benefit obligation	5.50 %	5.45 %	5.50 %	5.45 %
Discount rate — pension expense	5.45	6.85	5.45	6.85
Rate of increase in compensation levels	5.38/4.89*	5.47/4.95*	-	-
Expected long-term rate of return on plan assets	7.75	7.75	-	-
Health care cost trend rate (initial)	-	-	8.00	8.10

* Represents rate of increase in compensation levels on the Retirement Plan and Pension Plan, respectively.

The discount rate used is based on a spot interest rate yield curve based on a broad group of corporate bonds rated AA or better as of the Measurement Date. Rush uses this yield curve and the estimated payouts of the Plans to develop an aggregate discount rate. The estimated payouts are the sum of the payouts under the Defined Benefit Pension Plans and the Postretirement Healthcare Plans.

Rush’s overall expected long-term rate of return on assets is 7.75% for 2011 and 2010. 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. For the years ended June 30, 2011 and 2010, the actual rate of return on plan assets was 15.3% and 17.6%, respectively.

Plan Assets

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

All of the plan's assets are measured at fair value, including alternative investments. Fair value methodologies used to assign plan assets to levels of FASB's valuation hierarchy are consistent with the inputs described in Note 6. Fair value methodologies used to value interests in private equity limited partnerships that hold restricted securities and are not publicly traded are based on Rush's ownership interest in the NAV of the respective fund as estimated by the general partner, which approximates fair value. Rush routinely monitors and assesses methodologies and assumptions used in valuing these interests. Due to significant unobservable inputs used in estimating the net asset value of private equity limited partnerships, Rush classifies all such investments as Level 3.

The fair value of the Defined Benefit Pension Plan assets as of June 30, 2011 and 2010 are as follows:

	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Fair Value Measurements as of June 30, 2011				
Cash, cash equivalents, and short-term investments	$ 3,675	$ 5,562	$ -	$ 9,237
Fixed income securities:				
U.S. government securities	-	127,183	-	127,183
International government securities	-	17,228	-	17,228
Corporate bonds	-	205,958	1,868	207,826
Collateralized securities and other	-	28,496		28,496
U.S. equity securities	129,192	-	-	129,192
International equity securities	16,389	48,716	-	65,105
World asset allocation mutual funds		18,847	7,119	25,966
Alternative investments:				
Hedge fund of funds	-	-	28,434	28,434
Private equity partnerships {a}	-	-	22,795	22,795
Accrued interest and other	1,060	3,795	11	4,866
Total plan assets	$ 150,316	$ 455,785	$ 60,227	$ 666,328
Fair Value Measurements as of June 30, 2010				
Cash, cash equivalents, and short-term investments	$ -	$ 4,022	$ -	$ 4,022
Fixed income securities:				
U.S. government securities	-	29,005	-	29,005
International government securities	-	18,694		18,694
Corporate bonds	-	270,899	479	271,378
Collateralized securities and other	-	8,018	-	8,018
U.S. equity securities	140,091	16,019	-	156,110
International equity securities	20,960	14,457	-	35,417
Alternative investments:				
Hedge fund of funds	-	-	26,390	26,390
Private equity partnerships	-	-	21,106	21,106
Accrued interest and other	1,455	4,075	-	5,530
Total plan assets	$ 162,506	$ 365,189	$ 47,975	$ 575,670

{a} This class includes investments in funds with diverse strategies, including approximately 42% in buyout and growth capital, 24% in diversified fund of funds, 17% in distressed debt and special situations, 16% in venture capital, and 1% in co-investment private equity funds.

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

Rollforward of Level 3 Investments	Corporate Bonds and Accrued Interest and Other	Asset-Backed Securities & Other	Hedge Fund of Funds	Private Equity Partnerships	Total Assets at Fair Value
Fair value at June 30, 2009	$ 993	$ 1,387	$ 23,541	$ 17,018	$ 42,939
Actual return on plan assets:					
Realized and unrealized gains (losses)	189	40	2,849	2,636	5,714
Purchases, sales, and settlements	466	(1,427)	-	1,452	491
Transfers in and/or out of Level 3	(1,169)	-	-	-	(1,169)
Fair value at June 30, 2010	479	-	26,390	21,106	47,975
Actual return on plan assets:					
Realized and unrealized gains	182	-	2,106	648	2,936
Purchases, sales, and settlements	-	-	7,057	1,041	8,098
Transfers in and/or out of Level 3	1,218	-	-	-	1,218
Fair value at June 30, 2011	$ 1,879	$ -	$ 35,553	$ 22,795	$ 60,227

Cash Flows

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

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Expected contributions in 2012	$ 38,151	$ 818
Estimated Benefit Payments		
2012	$ 31,722	$ 818
2013	35,297	888
2014	38,708	898
2015	43,185	894
2016	47,330	868
2017 through 2021	282,031	3,746
Total	$ 478,273	$ 8,112

Other Postretirement Benefit Plans

Rush maintains a voluntary tax-deferred retirement savings plan. Under this plan, employees may elect to contribute a percentage of their salary, which may be matched in accordance with the provisions of the plan. Other provisions of the plan may provide for employer contributions to the plan based on eligible earnings regardless of whether the employee elects to contribute to the plan. Maximum annual contributions are limited by federal regulations. Employer contributions to this plan were $9,172 and $8,778 in the years ended June 30, 2011 and 2010, respectively.

Rush also sponsors a noncontributory defined contribution plan covering selected employees (“457(b) Plan”). Contributions to the 457(b) Plan are based on a percentage of qualifying compensation up to certain limits as defined by the provisions of the 457(b) Plan. The 457(b) Plan assets and liabilities totaled $9,586 and $7,090 as of June 30, 2011 and 2010, respectively, and are included in investments – less current portion and other long-term liabilities on the accompanying consolidated balance sheets. The assets of the 457(b) Plan are subject to the claims of the general creditors of Rush.

Rush also sponsors a supplemental retirement plan for certain management employees (“Supplemental Plan”). The Supplemental Plan is noncontributory and annual benefits are credited to each participant’s account based on a percentage of qualifying compensation as defined by the provisions of the plan. Assets set aside to fund the Supplemental Plan amounted to $11,172 and $8,371 as of June 30, 2011 and 2010, respectively, and are included in investments – less current portion on the accompanying consolidated balance sheets. This supplemental retirement plan is currently funded at 100% of benefits accrued.

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

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

13. CONCENTRATION OF CREDIT RISK

Rush grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable from patients and third-party payors as of June 30, 2011 and 2010, was as follows:

	2011	**2010**
Medicare	10 %	10 %
Medicaid	13	14
Managed care	65	63
Commercial	3	2
Self-pay	9	11
Total	100 %	100 %

The Chicago metropolitan market has experienced consolidation in the managed care market that has impacted the Obligated Group. Products sponsored by Blue Cross Blue Shield of Illinois, the largest health insurer in the market, accounted for 37.5% of managed care net patient accounts receivable and 24.3% of net patient accounts receivable of Rush for the fiscal year ended June 30, 2011.

14. COMMITMENTS AND CONTINGENCIES

Professional Liability

Rush maintains insurance programs, including both self-insured and purchased insurance arrangements, for certain professional liability claims. Self-insured risks are retained in varying amounts according to policy year and entity. For the years ended June 30, 2011 and 2010, Rush retained self-insured risk of $20,000 on the first case, $15,000 on the second case, and $10,000 on any additional cases. Rush also maintains excess liability insurance coverage with combined limits of $80,000 per occurrence and in the aggregate. Rush has an established trust fund to pay claims and related costs.

Rush has employed an independent actuary to estimate the ultimate costs of claim settlements. Self-insured liabilities are based on the actuarial estimate of losses using Rush’s actual payout patterns and various other assumptions. Rush’s self-insured liabilities of $173,447 and $204,594 as of June 30, 2011 and 2010, respectively, are recorded as noncurrent and current liabilities on the accompanying consolidated balance sheets, as appropriate, and based on the estimated present value of self-insured claims that will be settled in the future. If the present value method was not used, Rush's liability for self-insured claims would be approximately $30,652 and $44,263 higher than the amounts recorded on the consolidated balance sheets as of June 30, 2011 and 2010, respectively. The discount rates used in calculating the present value by organization was 4% for fiscal years ended June 30, 2011 and 2010.

During fiscal years 2011 and 2010, actual experience on Rush's self-insured claims was better than projected. Rush 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 $29,297 and $6,412 in the years ended June 30, 2011 and 2010, respectively, which reduced insurance expense in the consolidated statements of operations and changes in net assets in each respective year.

Rush 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 Rush.

Self-Funded Medical Benefit Plans

Effective January 1, 2005, Rush began sponsoring self-funded medical benefit plans covering substantially all of their 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, 2011 and 2010, the estimated liability for unpaid and unreported claims was $7,738 and $7,082, respectively, and included in accrued expenses on the accompanying consolidated balance sheets. The medical benefit expense was $53,349 and $47,456 for the years ended June 30, 2011 and 2010, respectively, and included in salaries, wages, and employee benefits in the accompanying statement of operations and changes in net assets.

Obligations under Operating Leases

Rush is party to various noncancelable operating leases with third parties. Rental expense was approximately $9,935 and $10,845 for the years ended June 30, 2011 and 2010, respectively, and was included in supplies, utilities, and other expenses in the accompanying consolidated statements of operations and changes in net assets. Total minimum payments under noncancelable operating leases as of June 30, 2011, are as follows:

Years Ending June 30	
2012	$ 9,515
2013	7,216
2014	4,572
2015	3,185
2016	2,402
Thereafter	12,248
Total	$ 39,138

15. CAMPUS TRANSFORMATION COMMITMENTS

In fiscal year 2004, Rush 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 $1,139,000 to complete over a 13-year period (fiscal year 2004 to fiscal year 2016). As of June 30, 2011, $822,435 has been spent on the campus redevelopment plan, and construction commitments outstanding were $102,452.

16. PROMISES TO CONTRIBUTE

Included in assets limited by donor or time restriction are the following unconditional promises to give which are discounted at rates of 0.02% and 0.12% applied to new pledges given during the years ended June 30, 2011 and 2010, respectively:

	2011	2010
Capital campaign	$ 65,556	$ 61,699
Restricted to future periods	1,887	2,054
Unconditional promises to give before unamortized discount and allowance for uncollectibles	67,443	63,753
Less unamortized discount	(4,808)	(6,747)
Less allowance for uncollectibles	(1,723)	(1,610)
Net unconditional promises to give	$ 60,912	$ 55,396
Amounts due in:		
Less than one year	$ 27,241	$ 14,480
One to five years	22,695	29,207
More than five years	17,507	20,066
Total unconditional promises to give	$ 67,443	$ 63,753

In addition, Rush has received conditional promises to contribute that are not recognized as assets in the consolidated balance sheet as of June 30, 2011. The total is not considered material to the consolidated financial statements as of June 30, 2011.

17. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes as of June 30, 2011 and 2010:

	2011	2010
Temporarily Restricted Net Assets:		
Construction and purchase of equipment	$ 30,020	$ 42,051
Health education	6,357	4,406
Research, charity, and other	262,817	215,233
Unappropriated endowment appreciation available for operations	44,054	36,279
Total temporarily restricted net assets	$ 343,248	$ 297,969
Permanently Restricted Net Assets, income from which is expendable to support:		
Health education	$ 141,246	$ 139,140
Research, charity, and other	54,889	45,362
Operations	31,601	29,780
Total permanently restricted net assets	$ 227,736	$ 214,282

During fiscal years 2011 and 2010, net assets were released from donor restrictions for purchasing property and equipment of $34,870 and $18,773, respectively, and incurring expenses of $29,398 and $30,497, respectively, both of which satisfied the restricted purposes of the donors. Net assets released from restriction used in operations are included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

18. JOINT VENTURES AND OTHER AFFILIATIONS

Rush 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 method, totaled $2,190 and $12,158 as of June 30, 2011 and 2010, respectively, and are included in other assets in the accompanying consolidated balance sheets. Income (loss) recognized from these joint ventures, reported in other revenue, was $(44) and $630 during the years ended June 30, 2011 and 2010, respectively.

RML Health Providers, Limited Partnership (RML) was a limited partnership between Rush and Loyola University Medical Center (Loyola) that operated RML Specialty Hospital, a 174-licensed bed, long-term acute care hospital in Hinsdale, Illinois. Both Rush and Loyola owned a 49.5% limited partnership interest in RML. RMLHP Corporation (RMLHP) held a 1% interest as the general partner of RML, and Rush and Loyola were equal members of RMLHP. Rush received a $560 annual distributions from RML Specialty Hospital during fiscal year 2010. Effective July 1, 2010, Advocate Health and Hospitals Corporation (Advocate) purchased limited partnership interests from Rush and Loyola resulting in Advocate, Loyola, and Rush each holding 33% limited partnership interests in RML. Advocate also became a member of RMLHP. As a result, RML then became the operator of both RML Specialty Hospital and Advocate Bethany Hospital. Effective August 1, 2010, Rush recognized an option to sell its remaining partnership share in RML and received a $6,617 promissory note. This promissory note was received on August 1, 2011.

19. FUNCTIONAL EXPENSES

Expenses related to the patient care, education, and research services provided by RUMC for the years ended June 30, 2011 and 2010, were as follows:

	2011	2010
Healthcare	$ 1,078,965	$ 1,057,314
University services, including research	193,474	175,935
General and administrative	58,978	57,209
Illinois Medicaid hospital assessment	26,306	26,306
Total	$ 1,357,723	$ 1,316,764

20. FICA TAX REFUND SETTLEMENT

Rush has historically paid FICA tax on medical residents as if they were employees. In March 2010, the IRS made an administrative determination that teaching hospitals and medical residents are exempt from paying FICA taxes under the student exception for time spent in a residency program between 1994 and April 1, 2005, when new IRS regulations imposing a specific FICA requirement for medical residents were put into place. Teaching hospitals and residents are eligible for a refund of FICA taxes paid, plus interest. As of June 30, 2010, Rush recorded a FICA tax receivable of $19,690, representing the recovered cost of FICA taxes previously paid and expensed, which was reported in other accounts receivable as of June 30, 2010 since the amount was expected to be collectible within one year. As of June 30, 2011, no amounts were received related to the FICA refund and the receivable of $19,690 was reclassified to other assets in the accompanying consolidated balance sheets since Rush no longer expects that the receivable will be collectible within one year. The FICA refund was reported in salaries, wages, and employee benefits in the accompanying consolidated statements of operations and changes in net assets during fiscal year 2010.

Rush has elected not to record any income related to the interest component of the FICA refund and will recognize the interest when received.

21. ASSET SALES

During fiscal year 2010, Rush completed construction of a new ambulatory building designed to house the orthopedic practices at Rush and certain hospital support functions. A portion of this building was sold to a private physician practice for $26,079.

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SUPPLEMENTAL SCHEDULES

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA
Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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

To the Board of Trustees of
Rush University Medical Center:

We have audited the consolidated financial statements of Rush University Medical Center and Subsidiaries (RUMC) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 2011, which expresses a qualified opinion due to the exclusion of certain related entities from the consolidated financial statements. 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

The management of RUMC is responsible for establishing and maintaining effective 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 25, 2011

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA
Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Rush University Medical Center and Subsidiaries' (RUMC) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of RUMC's major federal programs for the year ended June 30, 2011. RUMC's major federal programs are identified in the summary of auditor's 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 U.S. Office of Management and Budget (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 of RUMC's compliance with those requirements.

In our opinion, RUMC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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

March 21, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

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		$ 38,715,861
NIH-American Recovery Reinvestment Act (ARRA)	93.701		9,298,597
ARRA-Passed through the National Science Foundation:			
Effective Communication with robotic assistants for the elderly: Integrating Speech Vision and Haptics	47.082	IIS-0905239	64,999
ARRA-Passed through the National Science Foundation:			
Bioluminesence in Dinoflagellates triggered by voltage-gated Proton Channels	47.082	MCB-0943362	61,425
ARRA-Passed through the University of Iowa:			
GBV-C effects on CD4 activation and expansion	93.701	R01 AI058740	164,077
ARRA-Passed through Suny Research Foundation:			
Role of Soluble and Cellular Biomarkers in HIV Disease Progression in the WIHS	93.701	U01AI031834	665,922
ARRA-Passed through the University of Utah:			
Modulation of surface markers by HIV-1 VPU/VPR and sensitivity to NK cells lysis	93.701	R21 AI081681	141,253
ARRA-Passed through Social and Scientific Systems:			
Community Health Promotor Program	93.701	U01 AI068636	57,772
International Maternal Pediatric Adolescent Aids Clinical Trials Group	93.701	U01 AI068632	8,052
International Maternal Pediatric Adolescent Aids Clinical Trials Group	93.701	U01 AI068632	13,075
International Maternal Pediatric Adolescent Aids Clinical Trials Group	93.701	U01 AI068632	4,540
ARRA-Passed through the University of North Carolina:			
UNC Disabilities Research Center	93.701	P30 HD003110	16,052
ARRA-Passed through the University of California:			
Then Epilepsy/Genome Project	93.701	U01 NS053998	24,770
ARRA-Passed through the University of California:			
Alzheimer's Disease Neuroimaging Initiative Grand Opportunity	93.701	RC2 AG036535	20,357
ARRA-Passed through Brigham and Women's Hospital:			
Partial Meniscectomy vs Nonoperative Mgmt in Meniscual tear with OA: AN RCT	93.701	R01 AR05557	10,703
ARRA-Passed through the University of Washington:			
Genome wide association analysis of Alzheimer's Disease	93.701	RC2 AG036528	1,403
ARRA-Passed through the University of Pittsburgh:			
Racial differences in Atherosclerosis, Plague Vulnerability and CVD	93.701	R01 HL089292	37,516
ARRA-Passed through Govenors State University;			
Building Complex Language: Effect of Treatment and Dosage	93.701	R15 DC011165	23,043
ARRA-Passed through John Wayne Cancer Institute:			
A Phase III, Randomized Trial of Surgical Resection with or without BCG versus Best Medical Therapy as initial treatment in Stage IV Melanoma	93.701	P01 CA012582	10,000
ARRA-Passed through University of Illinois at Chicago:			
Functional MR Imaging of Motor Control	93.701	R01 NS052318	63,592
ARRA-Passed through Hektoen Institute			
Stability of the Genital Microbiota in HIV and HIV Women (Chicago WIHS)	93.701	U01 AI034993	34,853

(Continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-through Grantor's Number		Federal Expenditures
Passed through the University of Rochester:				
A longitudinal Observational follow up of the Precept Study Cohort	93.853	5 U01 NS050095	$	48,777
Prospective Huntington at Risk Observation Study	93.172	5 R01 HG002449-05		60
Blood Alpha Synuclein, gene expression and smell testing as diagnostic and prognostic biomarkers in Parkisnon's disease	12.420	W81XWH07-1-0007		5,349
Passed through the Mayo Clinic Rochester:				
A Phase I/II Trial of Sorafenib and CCI-779 in Patients with Recurrent Glioblastoma	93.395	U10 CA025224		3,746
Passed through Hektoen Institute:				
Women's Interagency HIV Study	93.856	AI34993		120,703
Women's Interagency HIV Study	93.856	AI34993		154,397
Women's Interagency HIV Study	93.856	AI34993		148,345
Acquisition and Processing of WIHS CIMT	93.855	U01 AI034993		18,094
Trust in Healthcare and Racial Disparities in an aging population	93.866	R01 AG033172		214,280
Passed through Columbia University:				
A Randomized Multicenter Clinical trial of Unruptured Brain Arteriovenous Malformations	93.853	U01 NS051483		232
Genetics Consortium for late onset Alzheimer's Disease	93.866	U24 AG026395		46,151
Passed through Mt. Sinai:				
Stoke and APL: Community based Clinicopathological study	93.837	R01 HL096944		204,974
Passed through Jaeb Center for Health Research:				
Comparison of time Domain oct and Spectral Domain Oct Retinal thickness measurement in Diabetic Macular Edema	93.847	U10 EY14231		2,502
Passed through Northwestern University:				
Development of Tissue Explant Models for Microbicide Evaluation	93.855	R33 AI076968		46,263
Synaptic Substrates of Age-Dependent memory deficits	93.866	R01 AG017139		344,537
HIV/AIDS Clinical Trials	93.855	U01 AI069471		831,228
Chicago Community acquired Pneumonia consortium	93.185	U18 IP000301		423,056
Molecular Neuropathology and Mechanisms of Bace1 Elevation in Alzheimer's Disease	93.866	1 R01 AG030142		(1,652)
Chicagoland Metropolitan Asthma Net Consortium	93.837	U10 HL098096		77,727
The Study of Soy Isoflavones in Asthma	93.838	U01 HL087987		300
Passed through Social and Scientific Systems, Inc.:				
AIDS Clinical Trials Group network	93.856	AI068636		226,906
A Pilot Study for Collection of Anit-Influenza A H1N1 Immune Plasma	93.856	CRB-DCR01-S-09-00292		1,953
Passed through Southwest Oncology Group:				
Selenium and Vitamin E Cancer Prevention Cancer	93.399	CA37429		29,845
Passed through University of Illinois:				
The Audible Human Project	93.286	R01 EB012142		110,899
Training in Cellular Signaling in the Cardiovascular System	93.837	T32 HL007692		23,418
Motor Deficit-Experimental and Clinical Correlates	93.853	R01 NS028127		49,931
PKC Alpha as a Marker for Logical Therapeutic approaches to Breast Cancer	93.395	1 R01 CA122914		40,362
Neural Control of Movement and Posture	93.853	R01 NS040902		22,507
Blocking HIV/HSV by mannose binding	93.856	U01 AI066709		11,154

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-through Grantor's Number	Federal Expenditures
Validation of the NINDS VCI Neuropsychological Protocols	93.853	R01 NS057514	$ 1,912
Health promotion in minority childhood center survivors	93.837	R01 CA116750	(1,929)
Intensive Nutrition on ARDS: A Clinical trial	93.837	R01 HL093142	83,167
MR Monitoring of Engineered Tissues	93.286	E5081	46,879
Survival	93.307	P60 MD003424	22,093
Passed through the Montefiore Medical Center:			
Immunologic predictors of HPV Infection and the development of Cervical Neoplasis	93.855	U01 AI068636	(7,679)
Passed through ISIS Inc.			
Improving Outcomes in Acute Rehabilitation for TBI	93.865	R01 HD050439	4,804
Passed through Westat Inc.			
International and Domestic Pediatric and Maternal HIV studies Coordination Center	93.HHSN	HHSN267200800001C	411,090
Passed through Yale University:			
The Insulin Resistance Intervention After Stroke Trial	93.853	U01 NS044876	62,364
Passed through Lifespan/Tufts:			
To support the Joint Symposium on HIV Research in Women	93.855	P30 AI042853	5,000
Passed through Ohio State University:			
Cooperative Tissue Bank of HIV Malignancies	93.395	CA66531	63,820
Individualized Planning for the first year following Acute Rehabilitation	84.133	H133AO80023	32,750
Passed through University of Texas-Houston:			
Parkinson's Disease Neuroprotection Clinical Trial: Statistical Center	93.853	U01 NS043127	21,775
Passed through Cornell University:			
Effects of Coenzyme Q10 in Parkinson's Disease	93.853	U01 NS50324	24,737
Perinatal Choline Therapy in a Mouse Model of Down Syndrome and Alzheimer's Disease	93.865	R01 HD057564	132,562
Passed through LaJolla Institute:			
Anti-herpevirus signaling by cytokines	93.855	R01 AI48073	60,543
Passed through the American College of Obstetricians and Gynecologists:			
Tissue bank for the Gynecologic Oncology reviewer of slides	93.395	CA27469	1,040
NIAID (DHHS) Contract:			
Clinical Trials Observation/Study of Women's Health Initiative	93.N01	NO1-WH 42124	60,000
VQA Contract	93.N01	NO1-AI-50044	2,413,903
NIH:			
Testing of Oxidiazole-Oxide Chemotype as a Therapeutic Drug for the Control of Schistosomiasis	93.HHSN	HHSN268201000220P	273,929
To cover costs for Audiovisual and Technical Services, Space rental and Travel expense for the STD/HIV Symposium Speakers	93.HHSN	HHSN26300106	25,287
Passed through Medical University of South Carolina:			
Stenting vs Aggressive Medical Management for Preventing Recurrent events in Intracranial Stenosis	93.853	U01 NS058728	34,603
Passed through University of Miami:			
Mechanics of Stroke in Intracranial Stenosis	93.853	R01 NS069938	59,908
Passed through University of California:			
Solid Organ Transplantation in HIV	93.855	U01 AI052748	73,456
Ca and INSP3 Receptor Signaling in Cardiac Myoctyes	93.837	P01 HL080101	458,110
Fragile X Research Center	93.865	HD022274	57,274

(Continued)

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-through Grantor's Number	Federal Expenditures
Joint Symposium on HIV Research in Women in Chicago	93.855	P30 AI027763	$ 5,000
The Epilepsy Phenome/Genome Project	93.853	R01 NS053998	144,304
Trial of the Effects of DHS in slowing the Progression of Alzheimer's Disease	93.866	U01AG10483	21,823
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	25,961
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	32,695
Study of Woman's Health across the Nation IV: Chicago site	93.866	POB228-X84	4,499
Passed through Loyola University:			
Develop an Oral HIV Vaccine using Papilloma Virus-like Particles as a Vector	93.121	R01 DE019075	43,790
Passed through Health and Human Services:			
Health Surveillance Collaborative Workshop and Planning for Building a Healthier Chicago	93.08T02	08T020011	969
Passed through Duke University Medical Center			
Surgical Treatment for Ischemic Congestive Heart Failure	93.837	U01 HL069015	9,570
Accelerating Adoption of Comparative Effectiveness Research in Premature Infants	93.726	R18 AE000028	1,921
Passed through University of Washington:			
Alzheimer's Disease Data Coordination Center	93.866	5 U01 AG16976	23,642
Mesothelin as Biomarker and Therapeutic target	93.394	R01 CA134487	82,126
Multicenter Career development program for Physical and Occupational Therapy	93.929	K12 HD055931	121,876
The role of Cerebral Hemodynamics in Moya Moya Disease	93.853	R01 NS051631	52
Annual Symposium for HIV Research in Women	93.855	P30 AI027757	5,000
Two Preclinical Latent Scores to Predict Occurrence of DAT	93.866	R01 AG034119	34,105
Passed through University of Florida:			
Neurodevelopment Effects of Antiepileptic Drugs	93.853	R01 NS38455	16,775
Passed through Eastern Cooperative Oncology Group:			
ECOG	93.400	ECOG-00101102	26,587
Passed through Emory University:			
Clinical Studies of Dystonia and Related Disorders	93.853	U54 NS065701	243,509
Passed through Health Research and Educational Trust:			
Promoting Safety and Quality through Human Resources Practices	93.HHSA	HHSA290200600022	22,522
Passed through University of Pennsylvania			
Alzheimer's Disease Genetics Consortium	93.866	U01 AG032984	16,673
Passed through Radiation Therapy Group:			
Randomized trial of two doses and two high doses schedules for delivering Prophylactic cranial irradiation for patients with limited disease small lung cancer	93.392	U10 CA21661	61,605
Passed through Albert Einstein College of Medicine:			
Inflammatory and Immune Mechanisms of Athersclerosis in HIV Infected Women	93.837	R01 HL095140	152,354
Passed through Fred Hutchinson Cancer Research Center:			
Early Detection of Ovarian Tumor Angiogenesis by Contrast Enhanced Ultrasound	93.397	P50 CA083636	2,146

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-through Grantor's Number		Federal Expenditures
Passed through John Hopkins:				
Studies of Ocular Complications of Aids	93.867	EY08057	$	69,901
Multi Uveitis steroid treatment trial	93.867	U10 EY014660		92,187
ICH Removal: Minimally Invasive Surgery +RT-PA	93.853	NS046309		(1,239)
Clot Lysis: Evaluating accelerated resolution of Intraventricular Hemorrhage	93.853	U01 NS062851		17,232
Mitochondrial Dysfunction in Cardiac Hypertrophy and Failure	93.837	R01 HL101235		31,058
Passed through Brigham and Women's Hospital:				
Partial Meniscectomy vs Nonoperative Mgmt. in Meniscal Tear with OA: An RCT	93.846	R01 AR055557		2,783
Passed through Cleveland Clinic:				
Mechanisms of incontinence following vaginal distension	93.865	R01 HD038679		16,213
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		308
Passed through Osmic Enterprises:				
Regulatory approval for the Olfact test battery	93.173	R44 DC006369		113,375
Passed through Massachusetts General Hospital:				
Coenzyme Q10 in Huntington's Disease	93.853	U01 NS052592		18,984
Evolutionary Lead Optimization for Immunology of Marburg Andebola Viruses	93.855	U01 AI070330		(6,906)
Creatine Safety, Tolerability and efficacy in Huntington's Disease	93.213	U01 AT000613		37,970
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		151,008
Breast Cancer Prevention Trial	93.399	U10 CA37377		7,339
Passed through University of Minnesota:				
Depression Adipocytokines and Metabolic Dysregulation in black and white woman	93.837	R21 HL091290		8,413
Psychosocial Factors and Stroke Risk	93.837	R01 HL084209		89,976
Passed through Case Western Reserve University:				
Basic and Comparative Studies of CCR5 Inhibition to Prevent HIV Transmission	93.855	U19 AI076981		150,564
Defining the Pathogenesis of Immune Deficiency in Chronic HIV Infection	93.855	P01 AI076174		82,288
Passed through South Carolina:				
Parkinson's Disease Clinical Trial	93.853	NS43127		129
Passed through University of Louisville Research Foundation:				
Genetic and Environmental risk factors for PSP	93.866	R01 AG024040		2,141
Passed through Salk Institute:				
Stress and CRF Signaling in Alzheimer's Disease Pathogenesis	93.866	R01 AG032755		30,829
Passed through MCHC Chicago Hospital Council:				
CPDH Hospital Preparedness Program	93.889	18426		38,929

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-through Grantor's Number	Federal Expenditures
Passed through Great Lakes Hemophilia:			
Maternal Child Health Bureau	93.110B	5 H30 MC00032	$ 27,756
Center for Disease Control	93.283	CCU513116	38,679
Passed through Minneapolis Medical Research Foundation:			
Aspirin in reducing events in the elderly	93.866	U01 AG029824	200,684
Total U.S. Department of Health and Human Services			59,385,409
U.S. Army Medical Research Acquisition Activity:			
RV144 Study to Measure Changes in Anti HIV-Innate Immune Responses over time among Vaccines who did not Develop HIV Infection	12.420	W81XWH-07-2-0067	45,574
Modulating WNT Signaling Pathway to Enhance Allograft Integration in Orthopaedic Trauma Treatment	12.420	W81XWH-10-1-1054	122,670
Detection of Ovarian Cancer by Contrast-Enhanced Ultrasound Targeted Imaging	12.420	W81XWH-10-1-0523	95,041
Laser Application on Orthopedic Bone Repair	12.420	W81XWH-10-1-0627	24,008
The Impact of Colonic Microbiota in Breast Cancer	12.420	W81XWH-08-1-0670	94,207
Lysosome Medicated Cell Death and Autophagy-Dependent Multidrug Resistance in Breast Cancer	12.420	W81XWH-07-1-0505	46,493
Classic Density Function of fluids: IONS at a Dielectric Interface	12.431	W911NF-09-1-0488	121,132
Guardian	12.420	W81XWH-09-1-0662	687,288
Geographic Utilization of Artificial Intelligence in real-time for disease identification and notification for Biological Threat agents	12.420	W81XWH-06-1-0785	436,949
Total U.S. Army Medical Research Acquisition Activity			1,673,362
Research and Development (Continued):			
Department of Defense:			
Alpha Synuclein and PD	12.420	W81XWH-07-1-0659	88,624
Total Department of Defense			88,624
Department of Armed Forces Services Corporation			
Advance Trauma Training Program and Mental Resilience	93.7562BA 09-D-0099	10-106-0099/04	20,846
Total Department of Defense			20,846
Department of Energy:			
Genetic and Environmental Risk Factors for PSP	81.490	DE-SC0002138	262,859
Total Department of Energy			262,859

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-through Grantor's Number	Federal Expenditures
TOTAL RESEARCH AND DEVELOPMENT			$ 61,431,100
Student Financial Assistance:			
U.S. Department of Education:			
Stafford Loan	84.032		40,932,377
Stafford Grad Plus	84.032		8,338,170
Parent Loans for Undergraduate Students	84.032		13,787
Perkins Loan	84.038	P038A041271	-
Pell Grant Program	84.063	P063P105336	149,836
Supplemental Educational Opportunity Grant	84.007	P007A101271	113,344
Federal Work Study	84.033	P033A101271	406,142
ARRA-Federal Work Study			-
Total U.S. Dept of Education			49,953,656
U.S. Department of Health and Human Services:			
Loans for Disadvantaged Students - outstanding loan balance at measurement date	93.342		2,478,843
Nursing Student Loan-Undergraduate - outstanding loan balance at measurement date	93.364		601,391
Nursing Student Loan-Graduate - outstanding loan balance at measurement date	93.364		560,909
Primary Care Loan/HPSL - outstanding loan balance at measurement date	93.108		1,547,539
Perkins Loan - outstanding loan balance at measurement date	93.038		11,727,608
Nurse Faculty Loan Program - outstanding loan balance at measurement date	93.408		220,158
Primary Care Loan/HPSL-Revolving fund	93.108		428,176
Perkins Loan-Revolving fund	93.038		1,449,747
Nursing Student Loan	93.364	E4DHP19180	81,000
Professional Nurse Traineeship	93.358	A10HP00230	120,100
Loans for Disadvantaged Students	93.342	E36HP14870	119,952
Scholarship for Disadvantaged Students	93.925	T08HP18808	110,516
Scholarship for Disadvantaged Students-ARRA	93.407	T0AHP18515	72,999
Nurse Faculty Loan Program	93.264	E01HP18923	8,486
Nurse Faculty Loan Program-ARRA	93.408	E0AHP18909	220,158
Total U.S. Department of Health and Human Services			19,747,582
TOTAL STUDENT FINANCIAL ASSISTANCE			69,701,238

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor/ Pass-through Grantor's Number	Federal Expenditures
Other Federal Assistance:			
U.S. Department of Health and Human Services:			
Passed through City of Chicago			
Title V—Chicago Department on Aging	17.235, 93.041	PO 20545	$ 15,940
Passed through State of Illinois Department of Human Services			
Early Intervention Services	84.181	10CM001607	741,527
Family Planning Program	93.217	10CM001607	78,716
Family Planning Program	93.667	10CM001607	49,792
Family Planning Program	93.994	10CM001607	2,680
Adolescent Health/Adolescent Health DFI	93.667	10CM001607	273,800
Passed through State of Illinois Department of Public Health			
IDPH-Asthma Hospital Prevention	98.283	03283002	144,774
Older American Evidence-Based Grant	93.048	03288004	12,981
Matter of Balance Program	93.048	13288005	11,973
Regional Perinatal Network	93.994	13789006	432,749
Total Other Federal Assistance			1,764,932
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 132,897,270

(Continued)

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Pass-through Grantor's Number	Federal Expenditures
Passed through the Illinois Department of Public Health:		
Asthma Hospital Prevention	83283007	$ 1,661
Genetic Counseling/Clinical Services	13780246	62,000
Regional Perinatal Network	13789006	-
Sickle Cell Program	13780259	15,500
Total Illinois Department of Public Health		79,161
Passed through the Illinois Department of Human Services:		
Family Planning Program (Parents Too Soon)	10CM001607	10,677
Adolescent Health Promotion	10CM001607	41,038
Early Intervention Services	10CM001607	1,949,249
Client/Family Support	10CM001607	-
Total Illinois Department of Human Services		2,000,964
Passed through the Illinois Department of Commerce		
Rush Modernization Program	10-203047	7,499,657
Expand Recycling Program	09-442055	3,516
		7,503,173
Passed through the Illinois National Guard		
Training Program Development	W91SMC-09-C-0004	1,437,606
Training Program Development	W91SMC-06-C-0017	81,830
Training Program Development	W91SMC-07-R-0036	132,146
Total Illinois National Guard		1,651,582
Passed through the City of Chicago:	2134470G 2038670G,2045720	
Chicago Board of Education Contract	2075607G,2094108G	39,966
Total City of Chicago		39,966
TOTAL EXPENDITURES OF STATE AWARDS		11,274,846
TOTAL EXPENDITURES FEDERAL AND STATE AWARDS		$ 144,172,116

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2011

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. SUBRECIPIENTS

For the year ended June 30, 2011, RUMC provided $9,647,199 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	$6,508,120
National Institutes of Health — ARRA	93.701	Various	2,377,594
Virology Quality Assessment	93.856	New England Research Institute	305,922
		Frontier Science Foundation	151,535
		Research Triangle Institute	26,958
Westat Contract	93.HHSN	Hektoen Institute	44,166
Defining the Pathogenesis of Immune deficiency in Chronic HIV infection	93.855	Drexel University	308
ARRA — Bioluminesence in Dinoflagellates triggered by voltage-gated Proton Channels	47.082	Emory University	7,891
U.S. Army Medical Research Acquisition Activity	12.431	University of Chicago	30,642
Chicago Community acquired Pneumonia consortium	93.185	Hektoen Institute	194,063
			$9,647,199

3. NONCASH ASSISTANCE

RUMC did not receive any noncash federal awards or in-kind contributions during fiscal year 2011.

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?	_____	yes	X	no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.RD	Research and Development Cluster
84.032	Student Financial Assistance

Dollar threshold used to distinguish between type A and type B programs: $3,269,425

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

Part II — Financial Statement Findings

None noted.

Part III — Federal Award Findings and Questioned Costs

None noted.

RUSH UNIVERSITY MEDICAL CENTER AND SUBSIDIARIES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Part II — Financial Statement Findings

None noted.

Part III — Federal Award Findings and Questioned Costs

None noted.