1. Organization and Significant Accounting Policies

Organization

The Detroit Medical Center, a parent holding company, and its subsidiaries (jointly The DMC) are major providers of health care services to residents of the Detroit metropolitan area. The DMC constitutes the academic health center of Wayne State University, and works with the University to integrate clinical services, education, and research.

The consolidated financial statements of The DMC include The Detroit Medical Center and the corporations listed below, as well as their subsidiaries:

Children's Hospital of Michigan [(A)]
Children's Choice of Michigan
DMC Insurance Co., Ltd. (see Note 8)
DMC Nursing Homes, Inc.
DMC Partnership Imaging
DMC Physician Group
Detroit Receiving Hospital and University Health Center (Detroit Receiving) [(A)]
Harper-Hutzel Hospital [(A)]
HealthSource
Huron Valley–Sinai Hospital, Inc. [(A)]
Radius Health Care System, Inc.
Rehabilitation Institute of Michigan [(A)]
Southeast Michigan Physician Insurance Company
Total Linen Services (formerly Associated Hospitals Processing Facility)
Novi Regional Imaging, LLC
Sinai-Grace Hospital [(A)]

[(A)] Members of The Detroit Medical Center Obligated Group (see Note 7).

These corporations consist of both membership and stock corporations, the sole member or majority stockholder of which is The Detroit Medical Center. Such corporations are referred to herein as the subsidiaries of The DMC. The consolidated financial statements include the accounts of The Detroit Medical Center and all majority-owned subsidiaries.

1. Organization and Significant Accounting Policies (continued)

All significant intercompany account balances and transactions have been eliminated in consolidation.

The DMC has an investment in CareTech Corporation which is accounted for using the equity method of accounting.

Mission

The DMC is committed to improving the health of the population served by providing the highest quality health care services in a caring and efficient manner without invidious discrimination, regardless of the person's religion, race, gender, ethnic identification, or economic status. Together with Wayne State University, The DMC strives to be the region's premier health care resource through a broad range of clinical services; the discovery and application of new knowledge; and the education of practitioners, teachers, and scientists.

As part of its public mission as the safety net health care provider in Southeast Michigan, The DMC writes off forgone charges associated with providing services to uninsured patients. This public mission support is determined by isolating the amount of bad debts originating from care to uninsured patients less any monies received by The DMC from third parties (Medicare, Medicaid, and Blue Cross) as a qualified disproportionate share hospital (DSH). The DMC also considers payments remitted to Wayne State University faculty physicians as recognition of care provided by such physicians to the uninsured population.

Cash and Cash Equivalents

The DMC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in equity securities and debt securities are measured at fair value in the consolidated balance sheets. Donated securities are stated at fair value at the date of contribution. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) are included in excess of revenue over expenses (expenses over revenue) unless the income is restricted by donor or law.

1. Organization and Significant Accounting Policies (continued)

Investments in limited partnerships, such as private equity investments and hedge funds (alternative investments), are reported using the equity method of accounting based on information provided by management of the respective partnership. The investment information provided by managers of the partnerships is based on current market value, appraisals, or other estimates of fair value of investment holdings of the partnership that require varying degree of judgments. Some of the individual investments within these funds are not readily marketable; therefore their estimated value is subject to uncertainty and may differ from the value that would have been determined had a ready market for the investments existed. If no public market exists for the investments held by the partnership, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Generally, The DMC's holdings in alternative investments reflects net contributions to the partnership and an ownership share of realized and unrealized investment income and expenses. Alternative investments have liquidity restrictions. Amounts can be divested only at specified times based on the terms of the partnership agreement.

Securities Lending Program

The DMC participates in securities lending transactions with Northern Trust, investment custodian, whereby a portion of its investments are loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis of 30 to 60 days. Collateral provided by brokers is maintained at levels approximating 102% of the fair value of the securities on loan and is adjusted for daily market fluctuations. The market value of collateral held for loaned securities is reported as securities lending collateral in the consolidated balance sheets. At December 31, 2009 and 2008, investment securities with an aggregate market value of $39,321,000 and $20,927,000, respectively; were loaned to various brokers. In exchange, The DMC received cash collateral of $40,463,000 and $21,386,000, respectively.

1. Organization and Significant Accounting Policies (continued)

Patient Service Revenue and Receivables

The majority of The DMC's services are reimbursed under fixed price provisions of third-party payment programs (primarily Medicare, Medicaid, and Blue Cross and Blue Shield of Michigan). Under these provisions, payment rates for patient care are determined prospectively on various bases and The DMC's revenues are limited to such amounts. Payments are also received from third parties for The DMC's capital and medical education costs, subject to certain limits. Additionally, The DMC has entered into agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined per diem rates, capitation, and discounts from established charges.

Net patient service revenue is reported at the estimated net realizable amounts to be received from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that adequate provision has been made in the consolidated financial statements for any adjustments that may result from final settlements.

The DMC receives payments from the state Medicaid program related to support of the DMC's indigent patient volume. The payments are recognized ratably as revenue over the period of support determined by the State.

Revenue from the Medicare and Medicaid programs each accounted for approximately 26% of net patient service revenues during both 2009 and 2008. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

In the normal course of business, The DMC has received requests for information from governmental agencies covering services provided. Management intends to fully cooperate with the governmental agencies in its request for information and believes that adequate provision has been made for any adjustments that may result from settlements.

1. Organization and Significant Accounting Policies (continued)

The provision for bad debts is based upon management's assessment of expected net collections and considers business and economic conditions, trends in health care coverage and other collection indicators including historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible receivables. After receipt of amounts due from third parties, The DMC follows established guidelines for placing certain past due patient balances with collection agencies.

Supplies

Supplies represent medical supplies which are stated at the lower of cost or market. Cost is determined based on the first-in, first-out method.

Property and Equipment

Property and equipment, including amounts under capital leases, are stated at cost or estimated fair value at the date of donation, and are depreciated utilizing the straight-line method over their estimated useful lives. The estimated useful lives for assets range from 3 years to 40 years.

An entity is required to recognize a liability for the fair value of an unconditional asset retirement obligation if the fair value of the liability can be estimated. Because there are no current plans requiring remediation giving rise to an asset retirement obligation and a settlement date has not been specified by others, management believes that sufficient information is not available to record an asset retirement obligation.

Other Noncurrent Assets

Other noncurrent assets include deferred debt issuance costs which are amortized ratably over the terms of the related debt issues using a method that approximates the interest method. Goodwill and ther intangible assets are amortized by the straight-line method over a ten-year period (see Note 2).

1. Organization and Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose, such as capital additions or research. When a donor restriction is satisfied, such as through expenditure for the restricted purpose, temporarily restricted net assets are reclassified as net assets released from restrictions for either operating purposes or for long-lived assets and are included in unrestricted revenues and other support, or as an other increase in unrestricted net assets, respectively. Pledges are recorded as increases in temporarily restricted net assets when the pledge is made.

Permanently restricted net assets have been restricted by the donors to be maintained by The DMC in perpetuity, the income therefrom to be used in accordance with any restrictions by the donor.

Excess of Revenue Over Expenses

The statement of operations and changes in net assets (deficit) includes the excess of revenue over expenses (expenses over revenue). Changes in unrestricted net assets which are excluded from the excess of revenue over expenses (expenses over revenue), consistent with industry practice, include changes in the pension and postretirement benefit liability and net assets released from restrictions for the purchase of long-lived assets.

Charity Care

The DMC provides health care services free of charge or at reduced rates to individuals who meet certain eligibility criteria, based on published Income Poverty Guidelines. Charity care provided by The DMC of approximately $80,853,000 and $91,111,000 for the years ended December 31, 2009 and 2008, respectively. As these amounts were initially billed at the time of service, they have been included in the provision for uncollectible accounts on the statement of operations.

1. Organization and Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

In accordance with ASC 360, *Accounting for the Impairment of Long-Lived Assets*, The DMC performs an evaluation of impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired. If the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets, an impairment charge is recorded and the amount of the impairment is determined based on the fair market value of the asset. During 2009, the DMC recognized an impairment charge of $1,254,000 in the statement of operations related to a facility that is no longer being used by The DMC.

Use of Estimates

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

Income Taxes

The Detroit Medical Center, each of its hospital subsidiaries and certain of its other subsidiaries are nonprofit corporations, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Radius Health Care System, Inc. is a for-profit corporation, which has net operating loss carryforwards that are available to offset its future taxable income. The DMC uses the liability method of accounting for income taxes under which deferred taxes are determined based on the differences between financial statement and tax bases of assets and liabilities, using current tax rates. The DMC has recorded a valuation allowance equal to the deferred tax asset associated with the net operating loss carryforwards, as such amounts are not considered recoverable.

1. Organization and Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications were made to the 2008 consolidated financial statements to conform to the 2009 presentation. The reclassifications included (1) a reclassification of $18,330,000 in third party allowances from net accounts receivable to the estimated third party settlement liability, (2) the reclassification of $13,125,000 from prepaid expenses and other to other non-current assets related to the excess insurance receivable and (3) the reclassification of the change in investments, except for the unrealized gain/loss, from operating activities to financing activities on the statement of cash flows. These reclassifications had no impact on the change in net assets previously reported.

New Accounting Standards

In December 2008, the Financial Standards Accounting Board (FASB) issued authoritative guidance regarding employers' disclosures about postretirement benefit plan assets. This guidance requires more detailed disclosures about the fair value measurements of employers' plan assets including: (a) investment policies and strategies; (b) major categories of plan assets; (c) information about valuation techniques and inputs to those techniques, including the fair value hierarchy classifications of the major categories of plan assets; (d) the effects of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets; and (e) significant concentrations of risk within plan assets. The disclosure requirements are effective for fiscal years ending after December 15, 2009, and the provisions are not required for earlier periods presented for comparative purposes. The DMC adopted this guidance for the year ended December 31, 2009. Adoption of the new guidance had no impact on the consolidated financial results.

Effective July 1, 2009, Financial Accounting Standard Board (FASB) SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting principles (GAAP) – a replacement of FASB Statement No. 162* (ASC) became the single official source of authoritative, nongovernmental source for generally accepted accounting principles. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP. All other literature became non-authoritative. ASC is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As ASC was not intended to change or alter existing GAAP, it did not have any impact on the financial position, results of operations or cash flows of The DMC.

1. Organization and Significant Accounting Policies (continued)

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160) (codified in ASC 810, *Consolidation*), which requires enhanced reporting of the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 is effective for fiscal years beginning on or after September 15, 2009. The DMC does not believe the effect that the adoption of SFAS 160 will have on its consolidated financial statements will be significant.

In May 2009, the FASB issued authoritative guidance intended to improve the financial accounting and reporting for not-for-profit mergers and acquisitions and intangible assets. The guidance is effective for mergers that occur during reporting periods beginning on or after December 15, 2009 and for acquisitions that take place during fiscal years that begin on or after December 15, 2009. The DMC will apply this guidance to any future business combinations.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (FAS 165) (codified in ASC 855, *Subsequent Events*). ASC 855 establishes general standards of accounting for and disclosure of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued or available to be issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855. The DMC adopted the provisions of ASC 855 as of December 31, 2009 and evaluated the impact of subsequent events through May 26, 2010, representing the date on which the consolidated financial statements were available to be issued. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the consolidated balance sheet or the accompanying notes to the consolidated financial statements, except for the matters discussed in Notes 13 and 17.

2. Additional Balance Sheet Information

	December 31 2009	December 31 2008
	(In Thousands)	
Property and equipment:		
Land and land improvements	**$ 13,903**	$ 12,610
Buildings and improvements	**850,023**	825,452
Equipment	**1,179,473**	1,133,549
Construction in progress	**6,029**	25,599
	2,049,428	1,997,210
Accumulated depreciation	**(1,605,465)**	(1,536,632)
	$ 443,963	$ 460,578
Other noncurrent assets:		
Goodwill and other intangible assets	**$ 10,888**	$ 10,699
Accumulated amortization	**(10,744)**	(10,333)
	144	366
Deferred debt issuance costs, net of accumulated amortization	**8,765**	9,560
Investment held for deferred compensation	**1,385**	1,222
Investment in unconsolidated affiliates	**7,859**	7,249
Excess insurance recoverable	**13,247**	13,125
Other	**7,142**	6,868
	$ 38,542	$ 38,390
Other noncurrent liabilities:		
Postretirement liability	**$ 12,894**	$ 12,695
Deferred compensation liability	**1,561**	1,479
Minority interest in joint ventures (asset)	**(153)**	340
Other	**40,268**	36,149
	$ 54,570	$ 50,663

3. Net Patient Service Revenue and Accounts Receivable

Net patient service revenue consists of the following:

	Year Ended December 31 2009	2008
	(In Thousands)	
Gross revenue from services to patients	**$ 4,198,159**	$ 3,872,291
Contractual adjustments	**(2,256,583)**	(2,012,773)
Changes in estimate related to favorable prior year third-party payor settlements	**10,574**	10,918
Net patient service revenue	**$ 1,952,150**	$ 1,870,436

Net patient accounts receivable consists of the following:

	December 31 2009	2009
	(In Thousands)	
Gross patient accounts receivable	**$ 634,444**	$ 503,961
Allowances and advances under contractual arrangements	**(441,966)**	(343,457)
Allowance for uncollectible accounts	**(69,697)**	(64,674)
	$ 122,781	$ 95,830

The DMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Significant concentrations of accounts receivable at December 31, 2009 and 2008, include net amounts due from Medicare (18% and 22%), Medicaid (20% and 14%), Blue Cross (10% and 13%), and other payors, (52% and 51%), respectively.

4. Cash, Cash Equivalents, and Investments

The components of cash, cash equivalents, and investments are summarized as follows:

	December 31 2009	2008
	(In Thousands)	
Cash and cash equivalents	**$ 171,497**	$ 121,842
United States government obligations	**29,610**	20,383
Foreign obligations	**18,483**	13,418
Asset and mortgage-backed securities	**53,049**	56,307
Corporate bonds	**64,592**	77,981
Common stock	**149,924**	113,183
Limited partnerships	**32,557**	32,401
Other	**176**	190
	$ 519,888	$ 435,705

Investment return is summarized as follows:

	Year Ended December 31 2009	2008
	(In Thousands)	
Interest and dividends	**$ 8,337**	$ 11,399
Net realized losses	**(9,733)**	(21,913)
Net unrealized gains (losses)	**64,231**	(73,758)
Total investment income (loss)	**$ 62,835**	$ (84,272)
Included in other revenue	**$ 2,352**	$ (356)
Included in change in unrealized gains (losses) on investments	**32,558**	(39,878)
Included in other nonoperating income (loss)	**4,438**	(4,740)
	39,348	(44,974)
Included in temporarily restricted net assets	**23,487**	(39,298)
Total investment income (loss)	**$ 62,835**	$ (84,272)

4. Cash, Cash Equivalents, and Investments (continued)

Investment return on board-designated funds for capital improvements is included in other nonoperating income. All other investment return, which is not restricted by explicit donor stipulations, is included in other revenue, except for unrealized gains/losses which are included as a component of the performance indicator in the statement of operations. Equity earnings (loss) on limited partnerships of $155,000 and $(7,373,000) is included in the realized gain (loss) amount for the years ended December 31, 2009 and 2008, respectively.

The DMC invests in various financial instruments which are publicly traded. Financial instruments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investments will occur in the near term, and that such changes could materially affect the amounts reported in the statement of operations and changes in net assets.

5. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments, other than alternative investments, are recorded at fair value. At December 31, 2009 and 2008, the carrying value and fair value of The DMC's long-term debt, (excluding capital leases), as estimated by discounted cash flow analyses using the current borrowing rate for similar types of borrowing arrangements and adjusted for credit risk of The DMC was $492,383,000 and $431,557,000 at December 31, 2009, respectively; and $505,826,000 and $364,128,000 at December 31, 2008, respectively (see Note 7). Other noncurrent assets and liabilities have carrying values that approximate fair value.

ASC 820 emphasizes that fair value is a market based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

5. Fair Value of Financial Instruments (continued)

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based upon inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Investments are generally classified with Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency. The types of instruments based on quoted market prices in active markets include most agency securities, active listed equities and most money market securities. Such instruments are generally classified within Level 1 of the fair market value hierarchy. The DMC does not adjust the quoted price for such investments.

The types of instruments valued based on quoted prices that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high yield corporate bonds, U.S. government and mortgage securities. Such instruments are generally classified within Level 2 of the fair market value hierarchy.

5. Fair Value of Financial Instruments (continued)

The following tables summarize The DMC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008, aggregated by the level in the fair value hierarchy defined above:

		Fair Value Measurement Using		
	Fair Value at December 31, 2009	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Cash and cash equivalents	$ 171,497	$ 157,489	$ 14,008	$ –
United States government obligations	29,610	–	29,610	–
Foreign obligations	18,484	–	18,484	–
Asset and mortgage-backed securities	53,049	–	53,049	–
Corporate bonds	64,592	–	64,592	–
Common stock	149,925	82,598	67,327	–
Other	175	–	175	–
Total	$ 487,332	$ 240,087	$ 247,245	$ –
Securities lending collateral	$ 40,463	$ 40,463	$ –	$ –

		Fair Value Measurement Using		
	Fair Value at December 31, 2008	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Cash and cash equivalents	$ 121,842	$ 116,444	$ 5,398	$ –
United States government obligations	20,383	–	20,383	–
Foreign obligations	13,418	1,253	12,165	–
Asset and mortgage-backed securities	56,307	–	56,307	–
Corporate bonds	77,981	–	77,981	–
Common stock	113,183	77,488	35,695	–
Other	190	53	137	–
Total	$ 403,304	$ 195,238	$ 208,066	$ –
Securities lending collateral	$ 21,386	$ 21,386	$ –	$ –

6. Credit Agreement

On May 7, 2007, The DMC and GE Capital executed an amended and restated credit agreement. Under the amended terms of the credit agreement, The DMC has liquidity available of up to $60,000,000 based on eligible accounts receivable which is determined based on net accounts receivable which are less than 120 days old reduced by third-party advances and allowances for doubtful accounts. The DMC has the ability to increase the available liquidity up to $80,000,000 based on eligible accounts receivable. The credit agreement, which expires June 30, 2010, is secured by eligible accounts receivable. Under the terms of the credit agreement, The DMC is required to have days in accounts receivable less than 97 days, for the preceding three month period, maintain liquidity of $50,000,000 at all times and average liquidity of $65,000,000 for the preceding three month period, and maintain a rolling fixed charge coverage ratio of no less than 1.10 any time the month end liquidity is less than $120,000,000. Interest on borrowings can either be fixed or floating subject to monthly adjustments (the interest rate at December 31, 2009 was 1.48%). In addition, The DMC is charged an unused facility fee equal to .25% of the unused liquidity facility. At December 31, 2009 and 2008, the balance outstanding on the line of credit was $20,753,000 and $3,476,000, respectively. The available balance on the line of credit at December 31, 2009 and 2008 was $54,036,000 and $71,313,000, respectively.

7. Long-Term Debt and Leases

Long-term debt consists of the following:

	December 31	
	2009	**2008**
	(In Thousands)	
Michigan State Hospital Finance Authority (MSHFA) bonds:		
Series 1988A and 1988B, interest at 8.125%, due 2009	**$ –**	$ 2,575
Series 1993A, interest at 6.25% to 6.5%, due 2018	**105,230**	107,420
Series 1993B, interest at 5.50% to 5.75%, due 2023	**95,000**	98,579
Series 1995, interest at 6.0% to 6.7%, due 2025	**30,335**	32,150
Series 1997A, interest at 5.0% to 5.5%, due 2027	**147,137**	151,371
Series 1998A, interest at 5.0% to 5.25%, due 2028	**108,650**	108,650
Obligations under capital leases	**19,575**	28,548
Notes payable and other obligations	**6,031**	5,123
	511,958	534,416
Less current portion	**21,681**	24,634
	$ 490,277	$ 509,782

7. Long-Term Debt and Leases (continued)

The Detroit Medical Center and its hospital subsidiaries are members of The Detroit Medical Center Obligated Group, which was created under a Master Indenture and Security Agreement. In addition, The Detroit Medical Center and its hospital subsidiaries became part of Sinai Hospital Obligated Group, which was created under a separate Master Indenture, which also became known as The Detroit Medical Center Obligated Group subsequent to the 1997 acquisition of Sinai Hospital by The DMC. Collectively these Master Indentures are referred to as "Master Indentures." The Master Indentures provide that each member of the Obligated Group is jointly and severally liable for obligations issued thereunder. The Detroit Medical Center serves as Obligated Group Agent.

The MSHFA bonds are tax-exempt revenue bonds secured by obligations issued under the Master Indenture, which the Obligated Group must repay under loan agreements with MSHFA. The bonds mature in annual amounts through 2028, ranging in the aggregate from $13,155,000 in 2010 to $37,585,000 in 2028.

During the term of the agreements with MSHFA, The DMC is required to maintain debt service reserve funds and make specified deposits with trustees to fund principal and interest payments when due. Also, unexpended bond proceeds are held by the trustee and released to The DMC for approved capital projects. At December 31, 2009 and 2008 unexpended bond proceeds were $3,805,000.

Interest paid was $30,994,000 in 2009 and $32,346,000 in 2008. In addition, The DMC capitalized interest of $174,000 in 2008.

The cost and accumulated depreciation for assets under capital lease were $64,001,000 and $41,462,000 at December 31, 2009, and $60,873,000 and $33,091,000 at December 31, 2008.

7. Long-Term Debt and Leases (continued)

Future maturities of long-term debt and future minimum payments under capital leases are summarized as follows:

	Bonds and Notes Payable	Capital Leases
	(In Thousands)	
2010	$ 13,924	$ 9,025
2011	18,272	5,269
2012	18,318	2,916
2013	21,047	1,924
2014	19,830	1,230
Thereafter	400,992	2,949
	$ 492,383	23,313
Less amounts representing interest		(3,738)
		$ 19,575

Rent expense incurred under operating noncancellable leases was $17,634,000 in 2009 and $16,118,000 in 2008. The DMC has noncancellable lease commitments at December 31, 2009, as follows (in thousands):

2010	$ 14,355
2011	13,157
2012	8,456
2013	5,720
2014	4,549

8. Professional and General Liability Claims

The Detroit Medical Center has established an offshore captive insurance company to provide professional and general liability coverage to The Detroit Medical Center, its hospital subsidiaries, certain medical staff members, and other affiliates. A portion of the risk of loss from professional liability claims is retained by some of the subsidiaries. Through March 31, 2004, The DMC acquired excess professional liability and general liability coverage from a captive insurance company in which it held a minority interest. Effective April 1, 2004, The DMC purchased the excess coverage from the offshore captive owned by The DMC, which in turn reinsured a portion of the losses through commercial insurance companies.

The DMC and its affiliates have accrued their best estimate of the ultimate cost of losses payable by the captive insurance company and the retained portion of losses under other insurance arrangements. These estimates include an amount for claims incurred but not reported.

Accrued professional liability losses are recorded at their estimated present value based on discount rates, which average approximately 5% in 2009 and 2008. At December 31, 2009 and 2008 The DMC has recorded a receivable for excess insurance recoverable of $13,247,000 and $13,125,000, respectively, which is included in other long term assets. Professional liability expense was $28,140,000 in 2009 and $29,022,000 in 2008.

Activity in reserves for professional liability is summarized as follows:

	Year Ended December 31	
	2009	**2008**
Balance at beginning of year	**$ 207,004**	$ 220,436
Less outstanding losses recoverable	**13,125**	10,957
	193,879	209,479
Incurred related to:		
Current year	**30,624**	37,451
Prior year	**(2,484)**	(8,429)
Total incurred	**28,140**	29,022
Paid related to:		
Current year	**(1)**	–
Prior year	**(29,961)**	(44,622)
Total paid	**(29,962)**	(44,622)
Net balance at end of year for retained losses	**192,057**	193,879
Add outstanding losses recoverable	**13,247**	13,125
Balance at end of year	**$ 205,304**	$ 207,004

8. Professional and General Liability Claims (continued)

The changes in the provision for incurred claims for the prior year have been adjusted to reflect the changes in estimates of the ultimate settlement costs of such losses. The favorable development which occurred during 2009 and 2008 relates to a reduction in claim frequency and severity.

9. Retirement Benefits

The DMC maintains a defined contribution retirement plan for employees. The DMC contributes a fixed percentage of employee salaries to the plan and also matches contributions made by employees to the defined contribution plan during the year. During 2008, The DMC changed the matching contribution from a two-to-one match to a three-to-one or a four-to-one match based on years of service. Total expense under the plan was $22,502,000 in 2009 and $21,059,000 in 2008.

The DMC also has a noncontributory defined benefit retirement plan covering substantially all of the employees of The Detroit Medical Center and its subsidiaries hired prior to June 1, 2003. The benefits under the defined benefit plan are based in general on years of service and final average earnings.

In 2003, The DMC announced that benefits provided under the defined benefit retirement plan would be frozen effective June 1, 2003. Management elected to freeze the pension benefits to reduce the expected increase in pension expense subsequent to 2003.

The DMC's funding policy for the defined benefit plan is, in general, to fund an amount based on the recommendation of consulting actuaries that is in compliance with the requirements of the Employee Retirement Income Security Act of 1974.

9. Retirement Benefits (continued)

The following table provides a reconciliation of the changes in the defined benefit plan's benefit obligation and fair value of assets for the years ended December 31, 2009 and 2008, and a statement of the funded status as of December 31, 2009 and 2008.

	Year Ended December 31	
	2009	**2008**
	(In Thousands)	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	**$ 833,871**	$ 811,820
Interest cost	**51,172**	51,683
Actuarial loss	**16,786**	3,239
Benefits paid	**(34,008)**	(32,871)
Benefit obligation at end of year	**867,821**	833,871
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	**586,266**	869,403
Actual gain (loss) on plan assets	**131,483**	(250,266)
Benefits paid	**(34,008)**	(32,871)
Fair value of plan assets at end of year	**683,741**	586,266
Funded status at December 31 and accrued retirement liability	**$ (184,080)**	$ (247,605)

The accumulated benefit obligation for the defined benefit plans was $867,821,000 and $833,871,000 at December 31, 2009 and 2008, respectively.

The DMC recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of the pension plan in the consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets represents the net unrecognized actuarial gains and losses. Actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of unrestricted net assets. These amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets at the adoption of ASC 715, *Compensation Retirement Benefits.*

9. Retirement Benefits (continued)

Included in unrestricted net assets at December 31, 2009 and 2008 are unrecognized actuarial losses of $233,273,000 and $327,093,000, respectively that have not yet been recognized in net periodic pension cost. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during fiscal year ending December 31, 2010 is $18,709,000.

The following is a summary of the changes in plan assets and benefit obligation recognized in unrestricted net assets:

	Year Ended December 31	
	2009	**2008**
	(In Thousands)	
Net actuarial (gain)/loss	**$ (65,532)**	$ 325,850
Amortization of net (gain) or loss	**(28,288)**	–
Change in unrestricted net assets	**$ (93,820)**	$ 325,850

A summary of the components of net pension expense is as follows:

	Year Ended December 31	
	2009	**2008**
	(In Thousands)	
Interest cost on projected benefit obligation	**$ 51,172**	$ 51,683
Expected return on assets	**(48,425)**	(72,345)
Amortization of net (gain) or loss	**28,288**	–
Net retirement cost (credit) for defined benefit plan	**31,035**	(20,662)
Defined contribution plan expense	**22,502**	21,059
Total retirement expense	**$ 53,537**	$ 397

9. Retirement Benefits (continued)

The assumptions used to determine the plan benefit obligation are as follows:

	December 31	
	2009	**2008**
Discount rate	**6.06%**	6.46%
Rate of increase in compensations levels	**Frozen at 2003 level**	Frozen at 2003 level
Measurement date	**December 31**	December 31

The assumptions used to determine the net periodic benefit cost are as follows:

	Year Ended December 31	
	2009	**2008**
Discount rate	**6.46%**	**6.60%**
Expected long-term rate of return on assets	**8.50%**	**8.50%**

To develop the expected long-term rate of return on assets assumption, The DMC considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The DMC's pension plan weighted-average asset allocations by asset category are as follows:

		December 31	
	Target	**2009 Actual**	**2008 Actual**
Asset category:			
Cash and cash equivalents	**0%**	**2%**	5%
Equity securities	**56%**	**61%**	51%
Debt securities	**25%**	**20%**	28%
Alternatives and Other	**19%**	**17%**	16%

9. Retirement Benefits (continued)

The plan assets are invested in separately managed portfolios using investment management firms. The plans' objective for all asset categories is to maximize total return without assuming undue risk exposure. The plan maintains a well-diversified asset allocation that best meets these objectives. Plan assets are largely comprised of equity securities, which include companies with all market capitalization sizes in addition to international and convertible securities. Cash and cash equivalents are comprised of money market funds. Debt securities include domestic and foreign government obligations, corporate bonds, and mortgage backed securities. Alternative investments include investments in limited partnerships.

Investments in derivative securities are not permitted for the sole purpose of speculating on the direction of market interest rates. Included in this prohibition are leveraging, shorting, swaps, futures, options, forwards, and similar strategies.

In each investment account, investment managers are responsible to monitor and react to economic indicators, such as GDP, CPI, and the Federal Monetary Policy, that may affect the performance of their account. The performance of all managers and the aggregate asset allocation are formally reviewed on a quarterly basis, with a rebalancing of the asset allocation occurring at least once a year. The current asset allocation objective is to maintain a certain percentage with each class allowing for a 10% deviation from the target.

9. Retirement Benefits (continued)

The following table summarizes the Company's pension assets measured at fair value on a recurring basis as of December 31, 2009 aggregated by the level in the fair value hierarchy within which those measurements are determined as disclosed in Note 5. Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 5. Fair value for Level 3 represents the DMC's ownership interest in the net asset value of the respective partnership, which approximates fair value.

		Fair Value Measurement Using		
	Fair Value at December 31, 2009	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Cash and cash equivalents	$ 11,910	$ 13,411	$ (1,501)	$ –
United States government obligations	9,859	–	9,859	–
Foreign obligations	12,182	–	12,182	–
Asset and mortgage-backed securities	31,385	–	31,385	–
Corporate bonds	84,366	–	84,366	–
Equity securities	413,448	121,215	292,233	–
Alternative investments	120,591	–	–	120,591
Total investments	$ 683,741	$ 134,626	$ 428,524	$ 120,591

Level 3 Rollforward	Alternative Investments
Fair value as of January 1, 2009	$ 119,124
Unrealized gains, net	12,227
Purchases, sales and settlements, net	(10,760)
Fair value as of December 31, 2009	$ 120,591

9. Retirement Benefits (continued)

Expected cash flows for the defined benefit retirement plan are as follows:

	Pension Benefits
	(In Thousands)
Expected employer contributions for the year ending December 31:	
2010	$ 13,616
Expected benefit payments for the year ending December 31:	
2010	$ 42,459
2011	45,093
2012	48,011
2013	50,670
2014	53,195
2015-2019	304,232

The expected employer contributions above represent amounts to be paid to the trust and the benefit payment amounts above represent total benefits expected to be paid from the trust.

10. Other Postretirement Employee Benefits

Certain DMC hospitals sponsor defined benefit health care plans for retirees who meet eligibility requirements, and one hospital has committed to continue postretirement health care benefits to certain union employees meeting certain age and service requirements. Additionally, two hospitals provide postretirement life insurance benefits to eligible employees and retirees. The plans are frozen and no new employees are eligible to participate.

On December 8, 2003, the Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to certain sponsors of postretirement health care benefit plans that provide a prescription drug benefit to their enrollees that is at least actuarially equivalent to Medicare Part D. The DMC's estimate of its postretirement obligation, net periodic postretirement benefit cost, and the corresponding disclosures include the effect of the Act.

10. Other Postretirement Employee Benefits (continued)

The DMC recognizes the funded status (i.e., the difference between the fair value of plan assets and the accumulated benefit obligations) of its postretirement benefit plan in the consolidated balance sheets, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets represents the net unrecognized actuarial losses and unrecognized prior service costs. These amounts will be subsequently recognized as net periodic postretirement benefit cost pursuant to The DMC historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic postretirement benefit plan cost in the same periods will be recognized as a component of unrestricted net assets. These amounts will be subsequently recognized as a component of net periodic postretirement benefit cost on the same basis as the amounts recognized in unrestricted net assets at the adoption of ASC 715, *Compensation Retirement Benefits*.

The following table presents the amounts recognized for all the plans in the consolidated financial statements:

	Year Ended December 31	
	2009	**2008**
	(In Thousands)	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	**$ 15,981**	$ 18,906
Service cost	**–**	1
Interest cost	**948**	1,040
Participant contributions	**184**	191
Actuarial loss (gain)	**869**	(1,937)
Benefits paid	**(1,710)**	(2,220)
Benefit obligation at end of year	**16,272**	15,981
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	**3,286**	3,205
Actual return on plan assets	**133**	123
Employer contributions	**1,669**	2,178
Benefits paid from plan assets	**(1,710)**	(2,220)
Fair value of plan assets at end of year	**3,378**	3,286
Funded status at December 31, included in other noncurrent liabilities	**$ (12,894)**	$ (12,695)