10. Other Postretirement Employee Benefits (continued)

Included in unrestricted net assets are the following amounts that have not yet been recognized in postretirement benefit cost:

	Year Ended December 31 2009	2008
	(In Thousands)	
Unrecognized prior service cost	$ 75	$ 134
Unrecognized actuarial losses (gains)	315	(582)
Decrease (increase) in unrestricted net assets	$ 390	$ (448)

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during 2010 are $56 and $63, respectively.

Changes in plan assets and benefit obligation recognized in unrestricted net assets during 2009 and 2008 include:

	Year Ended December 31 2009	2008
	(In Thousands)	
Current year actuarial loss	$ 897	$ 134
Amortization of prior service cost	(59)	(582)
Decrease (increase) in unrestricted net assets	$ 838	$ (448)

Net periodic postretirement benefit cost includes the following components:

	Year Ended December 31 2009	2008
	(In Thousands)	
Service cost	$ –	$ 1
Interest cost	948	1,040
Expected return on assets	(161)	(158)
Amortization of prior service cost	59	63
Net periodic postretirement benefit cost	$ 846	$ 946

10. Other Postretirement Employee Benefits (continued)

The weighted-average annual assumed rate of increase in the per capita cost of covered health care benefits (i.e., health care cost trend rate) is 9% for 2009, 11% for 2010 and is assumed to decrease 1% per year to 5% in 2016 and remain at that level thereafter. The weighted-average discount rate used in determining the accumulated postretirement obligation was 6.06% and 6.46% at December 31, 2009 and 2008, respectively. The weighted-average discount rate used in determining the net periodic postretirement benefit cost was 6.46% and 6.60% for the years ended December 31, 2009 and 2008, respectively. The DMC used a measurement date of December 31 in 2009 and 2008, to measure the obligation.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	One-Percentage Point Increase	One-Percentage Point Decrease
	(In Thousands)	
Effect on total of service and interest cost components	$ 58	$ (49)
Effect on postretirement benefit obligation	1,035	(826)

Expected cash flows for the postretirement benefits are as follows (in thousands):

Expected benefit payments for the year ending December 31:	
2010	$ 1,716
2011	1,751
2012	1,758
2013	1,695
2014	1,655
2015–2019	7,023

The DMC funds the majority of the postretirement liability payments from operations.

11. Commitments and Contingencies

The DMC has entered into an information systems outsourcing arrangement with CareTech Corporation (an entity in which The DMC has a 30% equity interest). Under the agreement, The DMC outsourced its entire information system operations for a 10-year period expiring December 31, 2011, with annual fees based on a budget approved annually. During the years ended December 31, 2009 and 2008, expenses incurred under the outsourcing contract, excluding capital related items, were $57,094,000 and $58,841,000, respectively.

In 2007, the DMC entered into an outsourcing agreement with Cerner Corporation related to its clinical information systems. Under the agreement, The DMC has outsourced the operations and maintenance of its clinical information systems for a 10-year period expiring December 31, 2016. The annual fees range from $17,506,000 in 2010 to $16,890,000 in 2017. During the years ended December 31, 2009 and 2008, the DMC paid $12,557,000 and $10,407,000, respectively; under the terms of the agreement. The majority of the costs incurred under the agreement are being accounted for on a straight-line basis over the life of the contract.

The DMC has an agreement with Provider HealthNet Services, Inc. (PHNS) to outsource medical record and transcription services of The DMC. The initial agreement was renegotiated in 2004, for a period of eight years ending May, 2012, with the option of five one-year renewal periods. The term of the medical records outsourcing agreement is eight years with contractually specified minimum annual payments over the term of the agreement. The contractual minimum payments aggregate $90,846,000 over the remaining term of the agreement. The DMC is contingently obligated should PHNS not achieve certain operating targets under The DMC agreement, which may require additional payments or extension of the contract. The DMC has the ability to terminate the agreement, subject to payment of certain penalty amounts. In connection with the initial outsourcing agreement, The DMC received a cash advance which was deferred and is being amortized over the term of the agreement and had a deferred balance of $32,000 and $1,378,000 at December 31, 2009 and 2008, respectively.

The DMC and its affiliates are parties to certain legal actions in addition to professional liability claims (see Note 8). Management believes the resolution of these matters will not materially affect the results of operations or the financial position of The DMC.

At December 31, 2009 The DMC had commitments of approximately $11,078,000 for the purchase of property and equipment.

12. Functional Expenses

The DMC fulfills the health care requirements of residents in the community it serves by providing, as its principal function, a complete array of necessary health care services. Expenses classified by function are as follows:

	Year Ended December 31	
	2009	**2008**
	(In Thousands)	
Health care services	**$ 1,796,394**	$ 1,691,856
Teaching	**95,270**	86,810
General and administrative	**187,087**	169,132
	$ 2,078,751	$ 1,947,798

13. Related-Party Transactions

The DMC purchases teaching and clinical professional services from Wayne State University. Purchases for these services, included in services, supplies and other on the statement of operations, amounted to $78,115,000 and $76,040,000 for the years ended December 31, 2009 and 2008, respectively. During 2006, The DMC and Wayne State University agreed to the terms and conditions related to a long-term agreement. In February, 2009 the agreement with Wayne State University was amended to resolve disputes related to certain amounts under the agreement. In February, 2010, The DMC agreed to terms with Wayne State University related to teaching and clinical professional services for the period beginning July 1, 2010. Under the terms of the agreements, The DMC will become the sponsor of essentially all graduate medical education programs. In addition, Wayne State University will continue to provide services to The DMC for annual payments of approximately $71,162,000.

The DMC has transactions with other affiliated entities, board members, and related parties that are not significant.

14. Sale and Lease of Assets, and Revenue From Service and Facility Agreements

In December, 2005, The DMC completed the sale and lease of assets associated with the cancer service line at Harper-Hutzel Hospital to the Barbara Ann Karmanos Cancer Institute (KCI). Under the terms of the Asset Acquisition and Lease Agreement and related agreements, The DMC agreed to lease certain assets to KCI related to providing inpatient and outpatient cancer services and transferred ownership of certain space to KCI in Harper-Hutzel Hospital through the establishment of condominium units which were sold to KCI.

In addition, The DMC leases an outpatient treatment center to KCI for a period of seven years, at which time ownership to the facility will be transferred to KCI. The lease requires annual payments of $824,000. KCI has the option to purchase the facility at the end of each lease year at predetermined amounts included in the lease.

KCI also leases a radiation oncology center and equipment from The DMC. Under the terms of the ground lease with KCI, The DMC will receive payments of $720,000 annually for an initial term of 5 years and no payments will be received for the remaining 45 years of the initial lease term. The lease has been accounted for as an operating lease, and as such rental income is recognized ratably by The DMC over the lease term. In addition, The DMC leases radiation oncology equipment to KCI for a term of seven years. Payments under the lease are $824,000 annually. Under the terms of the agreement, title to the equipment transfers to KCI at the end of the lease term. The lease has been accounted for as a sales type lease based on the transfer of ownership.

The DMC also leases space to KCI in a professional office building. The initial term is five years, and the annual rental is $750,000. KCI also leases space in a parking facility from The DMC for an annual rental of $398,000. The initial term under the lease is ten years.

The DMC recognized rental income of $6,305,000 and $6,462,000 during the years ended December 31, 2009 and 2008, related to rental of the facilities and equipment to KCI, including certain allocated costs.

14. Sale and Lease of Assets, and Revenue From Service and Facility Agreements (continued)

The following is a summary of the rental payments which will be received by The DMC over the following five years (in thousands):

Year ending December 31:	
2010	$ 3,791
2011	3,071
2012	3,071
2013	1,423
2014	1,423

Under the terms of the agreements, The DMC will provide certain ancillary clinical services, management services, and information technology services to KCI. The initial agreement is for a period of five years subject to various renewal options. These services are generally based on costs incurred by The DMC. At December 31, 2009 and 2008, The DMC had a receivable of $8,645,000 and $9,690,000 from KCI for services provided during the years ended December 31, 2009 and 2008. The statement of operations includes $67,459,000 and $65,436,000 related to revenue from service and facility agreements provided to KCI for the years ended December 31, 2009 and 2008, respectively.

15. Endowment

The DMC's endowment consists of approximately 130 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

15. Endowment (continued)

The Board of Trustees of the DMC has interpreted the Michigan Uniform Management of Institutional Funds Act (Michigan UMIFA, "the Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The DMC classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in 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 standard of prudence prescribed by the Act. In accordance with the Act, The DMC considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

(1) The duration and preservation of the fund
(2) The purposes of The DMC and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of The DMC
(7) The investment policies of The DMC

The DMC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that The DMC must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, The DMC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The DMC targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

15. Endowment (continued)

The DMC has an investment subcommittee that reviews the annual performance of the endowment funds and makes recommendations to the Board as to the suggested distribution of the endowment funds. In establishing its recommendation, the Investment Committee considers the long-term expected return on its endowment. Accordingly, over the long term, The DMC expects the current spending policy to allow its endowment to grow at an average of the long term rate of inflation. This is consistent with The DMC's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return. In addition to the DMC Board oversight, the DMC endowments are invested and managed by the DMC Investment Committee.

At December 31, 2009 and 2008, the endowment net asset composition by type of fund consisted of the following:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2008	$ 50,753	$ 35,852	$ 64,846	$ 151,451
Investment return:				
Investment loss	(2,065)	(2,727)	–	(4,792)
Unrealized gain/loss	(15,819)	(20,937)	–	(36,756)
Total investment return (loss)	(17,884)	(23,664)	–	(41,548)
Contributions	–	171	1,001	1,172
Expenditure of assets	(2,411)	(1,312)	–	(3,723)
Transfer of net assets	–	3,395	–	3,395
Other changes	–	(1,867)	–	(1,867)
Endowment net assets, December 31, 2008	30,458	12,575	65,847	108,880
Investment return:				
Investment loss	**(2,269)**	**(3,157)**	**(15)**	**(5,441)**
Unrealized gain/loss	**12,297**	**16,709**	–	**29,006**
Total investment return (loss)	**10,028**	**13,552**	**(15)**	**23,565**
Contributions	–	**185**	**54**	**239**
Expenditure of assets	**(1,204)**	**(871)**	–	**(2,075)**
Transfer of net assets	–	**(3,395)**	–	**(3,395)**
Other changes	–	**(375)**	**(10)**	**(385)**
Endowment net assets, December 31, 2009	**$ 39,282**	**$ 21,671**	**$ 65,876**	**$ 126,829**

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor requires the DMC to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $3,395,000 as of December 31, 2008. There are no deficiencies as of December 31, 2009.

16. Operating Results, Performance Improvement Plans, and Liquidity Matters

The DMC has a working capital deficiency of $45,119,000 and $101,228,000 at December 31, 2009 and 2008, respectively. In addition, The DMC has a deficit in unrestricted net assets of $177,948,000 and $326,205,000 at December 31, 2009 and 2008, respectively. The financial position has resulted from insufficient payments for services rendered, historical declines in trends in patient volumes, continued provision of services to the uninsured, and the deterioration in the investment markets. However, based on current estimates of operating results, The DMC management believes that cash flow from operations, funds designated for capital improvements and board-designated funds will be sufficient to finance both ongoing operations and required capital commitments for fiscal 2010.

17. Subsequent Events

On March 19, 2010, The DMC entered into a Letter of Intent (the LOI) with Vanguard Health Systems, Inc. (Vanguard), a Nashville, Tennessee based investor owned entity, whereby substantially all of the assets and liabilities of The DMC would be acquired or assumed by Vanguard, as defined in the LOI. The assets of The DMC will be acquired by a Michigan subsidiary of Vanguard, VHS of Michigan, Inc. (Vanguard-Michigan). Vanguard-Michigan will establish a regional advisory board which will consist of eleven members with a majority representation by Vanguard and remainder of the representatives appointed by The DMC.

As defined in the LOI, assets excluded from the acquisition consist of certain assets whose use is limited or restricted. After closing, The DMC will remain in existence to manage the philanthropic and charitable funds which are currently held by the DMC.

The completion of the transaction is subject to certain conditions including the approval of a Renaissance Zone by Wayne County, the City of Detroit, and the Michigan Strategic Fund related to The DMC's main campus, review by the required regulatory authorities, including the Michigan Attorney General and the Department of Community Health; and completion of a definitive agreement between The DMC and Vanguard. The formation of the Renaissance Zone has been approved by Wayne County, the City of Detroit, and the Michigan Strategic Fund. While management believes the transaction will be completed, management can provide no assurance when or if such transaction will be completed based on the terms included in the LOI.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 144,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

www.ey.com

Consolidated Financial Statements

The Detroit Medical Center and Subsidiaries
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

The Detroit Medical Center and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

Contents

Report of Independent Auditors 1

Consolidated Financial Statements

Consolidated Balance Sheets 2
Consolidated Statements of Operations and
Changes in Net Assets (Deficit) 4
Consolidated Statements of Cash Flows 6
Notes to Consolidated Financial Statements 7

Ernst & Young LLP
One Kennedy Square
Suite 1000
777 Woodward Avenue
Detroit, Michigan 48226-5495
Main Tel: +1 313 628 7100

Report of Independent Auditors

The Board of Trustees
The Detroit Medical Center

We have audited the accompanying consolidated balance sheets of The Detroit Medical Center and subsidiaries (The DMC) as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets (deficit), and cash flows for the years then ended. These financial statements are the responsibility of The DMC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of The DMC's internal control over financial reporting. Our audits included 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 The DMC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Detroit Medical Center and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and changes in net assets (deficit), and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 9 and 10 to the consolidated financial statements, The Detroit Medical Center adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, in 2007, which changed its method of accounting for its defined benefit pension and postretirement benefit plans.

Ernst + Young LLP

May 26, 2009

0901-1016133

The Detroit Medical Center and Subsidiaries

Consolidated Balance Sheets

	December 31 2008	2007
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 38,430**	$ 9,173
Net patient accounts receivable *(Note 3)*	**77,500**	93,517
Estimated third-party payor settlements *(Note 3)*	**7,076**	10,784
Other accounts receivable	**24,331**	28,889
Current portion of assets whose use is limited or restricted	**6,500**	6,009
Securities lending collateral	**21,386**	54,311
Supplies	**23,178**	20,109
Prepaid expenses and other	**24,016**	31,980
Total current assets	**222,417**	254,772
Assets whose use is limited or restricted, less current portion (including securities pledged to creditors of $20,927and $53,058, respectively) *(Note 4):*		
Board-designated funds for capital improvements	**34,245**	36,506
Board-designated funds for specific purposes	**46,105**	71,392
Professional liability funds	**163,747**	204,397
Funds held in trust under bond agreements *(Note 7)*	**32,361**	34,377
Endowment funds	**60,800**	60,264
Pledges receivable	**10,663**	13,955
Donor restricted funds	**53,517**	94,269
	401,438	515,160
Property and equipment, net *(Note 2)*	**460,578**	467,736
Prepaid retirement asset *(Note 9)*	**–**	57,583
Other noncurrent assets *(Note 2)*	**25,265**	30,427
Total assets	**$ 1,109,698**	$ 1,325,678

	December 31 2008	December 31 2007
	(In Thousands)	
Liabilities and net assets (deficit)		
Current liabilities:		
Revolving line of credit notes *(Note 6)*	**$ 3,518**	$ 19,252
Accounts payable and accrued expenses	**145,921**	171,239
Accrued compensation and related amounts	**59,261**	54,283
Estimated third-party payor settlements *(Note 3)*	**10,086**	7,948
Advance payment from third-party payor	**31,756**	24,876
Payable under securities lending program	**21,386**	54,311
Current portion of long-term debt *(Note 7)*	**24,622**	25,029
Current portion of accrued professional liability losses *(Note 8)*	**14,000**	18,052
Total current liabilities	**310,550**	374,990
Other liabilities:		
Long-term debt, less current portion *(Note 7)*	**509,752**	533,544
Accrued retirement liability *(Note 9)*	**247,605**	–
Other noncurrent liabilities, less current portion *(Notes 2, 8, and 10)*	**243,667**	250,937
Total other liabilities	**1,001,024**	784,481
Total liabilities	**1,311,574**	1,159,471
Net assets (deficit):		
Unrestricted	**(326,205)**	(2,283)
Temporarily restricted	**58,482**	103,644
Permanently restricted	**65,847**	64,846
Total net assets (deficit)	**(201,876)**	166,207
Total liabilities and net assets	**$ 1,109,698**	$ 1,325,678

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Deficit)

	Year Ended December 31 2008	2007
	(In Thousands)	
Unrestricted revenue and other support		
Net patient service revenue *(Note 3)*	**$ 1,870,436**	$ 1,788,156
Revenue from services and facility agreements *(Note 14)*	**65,436**	61,238
Other revenue	**45,050**	64,635
Net assets released from restrictions for operations	**11,598**	10,164
Total unrestricted revenue and other support	**1,992,520**	1,924,193
Expenses		
Salaries, wages, and benefits	**802,572**	737,892
Services, supplies, and other *(Note 13)*	**744,466**	740,915
Provision for uncollectible accounts	**259,324**	265,594
Professional liability insurance *(Note 8)*	**29,022**	25,108
Interest	**34,436**	36,632
Depreciation and amortization	**77,978**	80,844
Total expenses	**1,947,798**	1,886,985
Income from operations before change in unrealized gains on investments	**44,722**	37,208
Change in unrealized losses on investments	**(39,878)**	(4,837)
Income from operations	**4,844**	32,371
Other nonoperating income:		
Investment (loss) income and other	**(5,015)**	1,396
Excess of (expenses over revenue) revenue over expenses	**(171)**	33,767

Continued on next page.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Deficit) (continued)

	Year Ended December 31 2008	2007
	(In Thousands)	
Unrestricted net assets		
Excess of (expenses over revenue) revenue over expenses	**$ (171)**	$ 33,767
Net assets released from restrictions for long-lived assets	**5,860**	8,176
Change in additional minimum pension liability	–	67,532
Effect of adopting recognition provisions of FAS 158	–	(3,498)
Pension and postretirement liability adjustments	**(323,886)**	–
Transfer of net assets	**(3,395)**	–
Other changes	**(2,330)**	(542)
(Decrease) increase in unrestricted net assets	**(323,922)**	105,435
Temporarily restricted net assets		
Contributions	**6,981**	12,194
Investment (loss) income	**(4,445)**	11,304
Change in unrealized gain (loss) in fair value of investments	**(34,853)**	(2,162)
Net assets released from restrictions for long-lived assets	**(5,860)**	(8,176)
Net assets released from restrictions for operations	**(11,598)**	(10,164)
Transfer of net assets	**3,395**	–
Other changes	**1,218**	137
(Decrease) increase in temporarily restricted net assets	**(45,162)**	3,133
Permanently restricted net assets		
Contributions	**1,001**	96
Increase in permanently restricted net assets	**1,001**	96
(Decrease) increase in net assets	**(368,083)**	108,664
Net assets at beginning of year	**166,207**	57,543
Net assets (deficit) at end of year	**$ (201,876)**	$ 166,207

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31 2008	2007
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	$ **(368,083)**	$ 108,664
Adjustments to reconcile (decrease) increase in net assets to cash provided by operating activities:		
Depreciation and amortization	**77,978**	80,844
Provision for uncollectible accounts	**259,324**	265,594
Additional minimum pension liability *(Note 9)*	**–**	(67,532)
Effect of adopting recognition provisions of FAS 158	**–**	3,498
Change in pension and postretirement liability	**323,886**	–
Changes in operating assets and liabilities:		
Investments	**113,231**	(5,791)
Patient accounts receivable	**(243,307)**	(260,305)
Estimated third-party payor settlements	**5,846**	(3,557)
Other current assets	**9,453**	(683)
Accounts payable and accrued expenses	**(25,318)**	(7,803)
Other current liabilities	**4,978**	2,557
Advance from third-party payor	**6,880**	(22,854)
Accrued retirement liability	**(19,478)**	(57,611)
Accrued professional liability losses	**(13,432)**	13,088
Other operating activities	**6,728**	(660)
Cash provided by operating activities	**138,686**	47,449
Investing activities		
Purchase of property and equipment	**(69,038)**	(64,084)
Other investing activities	**244**	6,444
Cash used in investing activities	**(68,794)**	(57,640)
Financing activities		
Borrowings on line of credit	**373,853**	453,759
Repayments on line of credit	**(389,587)**	(434,507)
Repayment of long-term debt	**(24,901)**	(23,679)
Cash used in financing activities	**(40,635)**	(4,427)
Increase (decrease) in cash and cash equivalents	**29,257**	(14,618)
Cash and cash equivalents at beginning of year	**9,173**	23,791
Cash and cash equivalents at end of year	$ **38,430**	$ 9,173

See accompanying notes.

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:

Associated Hospitals Processing Facility
Berry Center, LLC
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)]
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.

The DMC has an investment in and accounts for CareTech Corporation using the equity method of accounting. All significant intercompany account balances and transactions have been eliminated in consolidation.

1. Organization and Significant Accounting Policies (continued)

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. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Donated items 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 and 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 the respective partnership. The investment information provided by the respective partnerships is based on current market value, appraisals, or other estimates of investment holdings of the partnership that require varying degree of judgments. The components of some of the individual investments within these funds are not readily marketable, their estimated value is subject to uncertainty and may differ from the value that would have been 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. There is inherent uncertainty in such valuations and the estimated fair values may differ from the values that would have been used had a ready market for the securities existed. 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 sheet. At December 31, 2008 and 2007, investment securities with an aggregate market value of $20,927,000 and $53,058,000, respectively; were loaned to various brokers and are returnable upon demand. In exchange, The DMC received cash collateral of $21,386,000 and $54,311,000, respectively. During 2008, The DMC elected to exit the securities lending program in an orderly fashion over a period of time.

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 agreements, 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 accounted for approximately 26% and 26% in 2008, respectively, and 24% and 25% in 2007, respectively, of net patient service revenues. 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 insurance, 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 ranges from 3 years to 40 years.

FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), clarifies the term "conditional asset retirement obligation" as used in FASB Statement 143, *Accounting for Asset Retirement Obligations* (FASB 143). FIN 47 states that the obligation to perform an asset retirement activity is unconditional if there is a legal obligation to perform the retirement. Accordingly, an entity is required to recognize a liability for the fair value of a conditional 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. Other 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 post retirement 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 may also be provided to other patients at the discretion of the management of the hospital providing the care. Charity care provided by The DMC of approximately $91,111,000 and $95,278,000 for the years ended December 31, 2008 and 2007, respectively, is 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 the Financial Accounting Standards Board (FASB) Statement No. 144, *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.

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)

Adoption of New Accounting Standards

On January 1, 2008, the DMC adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. In February 2008, the FASB issued FASB Staff Position FASB 157-2 *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of this Statement for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on a recurring basis (at least annually). The effective date for nonfinancial assets and nonfinancial liabilities has been delayed one year to fiscal years beginning after November 15, 2008. The DMC has not completed its analysis of the potential impact of the adoption of Statement 157 on nonfinancial assets and nonfinancial liabilities on the DMC's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159). Statement 159 permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. Statement 159 is effective for fiscal years beginning after November 15, 2007. As of December 31, 2008, the DMC has not elected to apply the provisions of FASB 159.

2. Additional Balance Sheet Information

	December 31	
	2008	**2007**
	(In Thousands)	
Property and equipment:		
Land and land improvements	**$ 12,610**	$ 10,090
Buildings and improvements	**825,452**	809,535
Equipment	**1,133,549**	1,105,965
Construction in progress	**25,599**	16,173
	1,997,210	1,941,763
Accumulated depreciation	**(1,536,632)**	(1,474,027)
	$ 460,578	$ 467,736

2. Additional Balance Sheet Information (continued)

	December 31 2008	2007
	(In Thousands)	
Other noncurrent assets:		
Goodwill and other intangible assets	**$ 10,699**	$ 10,699
Accumulated amortization	**(10,333)**	(9,813)
	366	886
Deferred debt issuance costs, net of accumulated amortization	**9,560**	10,365
Investment held for deferred compensation	**1,222**	1,685
Investment in unconsolidated affiliates	**7,249**	7,881
Other	**6,868**	9,610
	$ 25,265	$ 30,427
Other noncurrent liabilities, less current portion:		
Accrued professional liability losses	**$ 193,004**	$ 202,384
Other postretirement liability	**12,695**	15,701
Deferred compensation liability	**1,479**	2,235
Minority interest in Berry Center, LLC	**340**	1,118
Other	**36,149**	29,499
	$ 243,667	$ 250,937