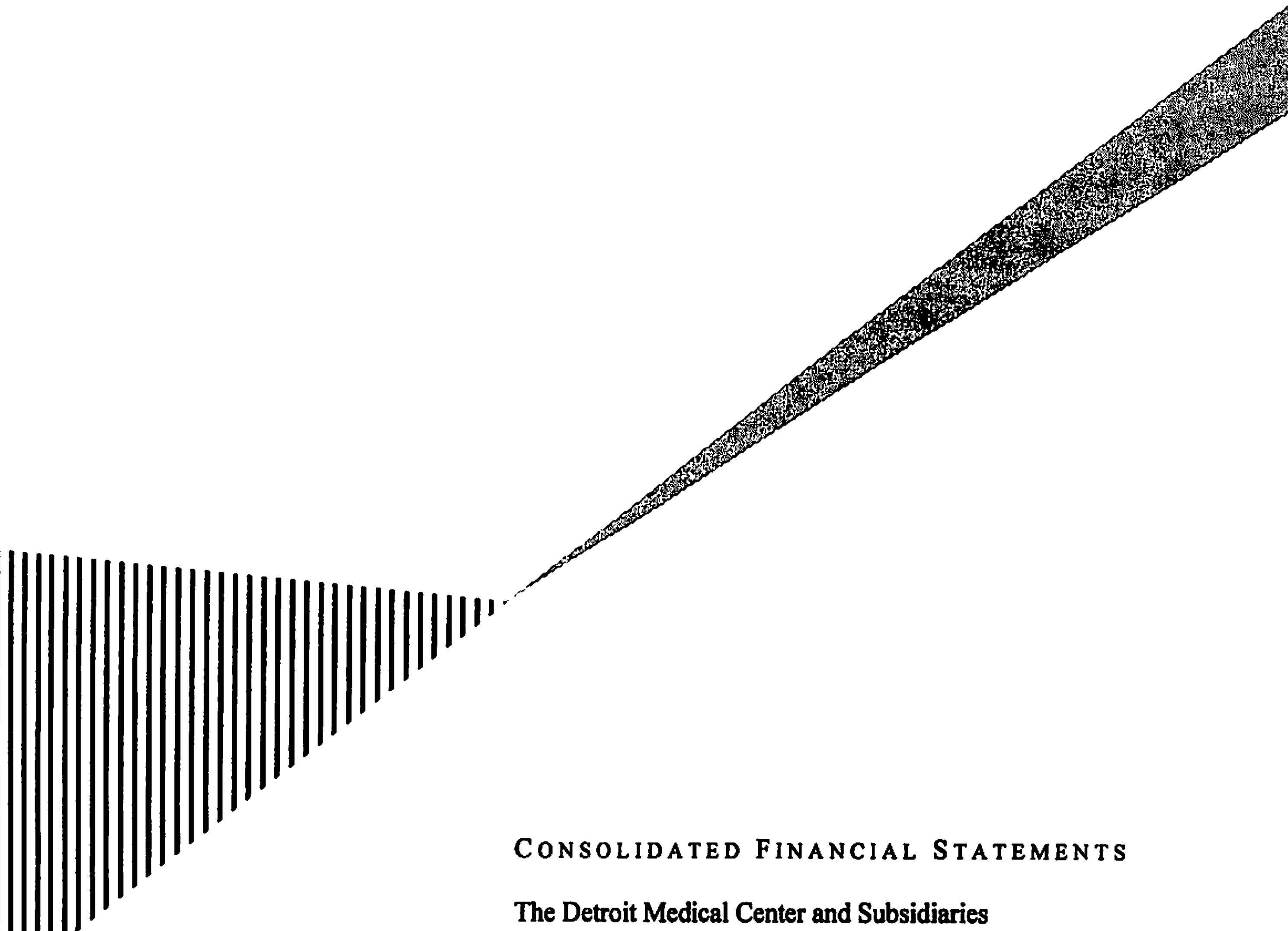

CONSOLIDATED FINANCIAL STATEMENTS

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

Ernst & Young LLP

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The Detroit Medical Center and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

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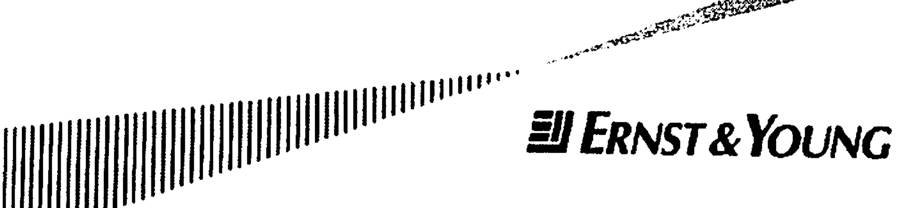

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Report of Independent Auditors

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

A member firm of Ernst & Young Global Limited

The Detroit Medical Center and Subsidiaries

Consolidated Balance Sheets

	December 31 2008	December 31 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	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

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

3. Net Patient Service Revenue and Accounts Receivable

Net patient service revenue consists of the following:

	Year Ended December 31	
	2008	2007
	(In Thousands)	
Gross revenue from services to patients	$ 3,872,291	$ 3,781,638
Contractual adjustments	(2,012,773)	(2,005,604)
Changes in estimate related to favorable prior year third-party payor settlements	10,918	12,122
Net patient service revenue	$ 1,870,436	$ 1,788,156

Net patient accounts receivable consists of the following:

	December 31	
	2008	2007
	(In Thousands)	
Gross patient accounts receivable	$ 503,961	$ 551,510
Allowances and advances under contractual arrangements	(361,787)	(389,741)
Allowance for uncollectible accounts	(64,674)	(68,252)
	$ 77,500	$ 93,517

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, 2008 and 2007, include net amounts due from Medicare (22% and 19%), Medicaid (14% and 14%), Blue Cross (13% and 14%), and other payors, (51% and 53%), respectively.

4. Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments are summarized as follows:

	December 31 2008	December 31 2007
	(In Thousands)	
Cash and cash equivalents	$ 121,842	$ 95,194
United States government obligations	20,383	29,526
Foreign obligations	13,418	11,547
Asset and mortgage-backed securities	56,307	77,643
Corporate bonds	77,981	72,204
Common stock	113,183	191,143
Limited partnerships	32,401	38,801
Other	190	329
	$ 435,705	$ 516,387

Investment return is summarized as follows:

	Year Ended December 31 2008	Year Ended December 31 2007
	(In Thousands)	
Interest and dividends	$ 11,399	$ 31,393
Net realized (losses) gains	(21,913)	4,633
Net unrealized (losses)	(73,758)	(10,253)
Total investment (loss) income	$ (84,272)	$ 25,773
Included in other revenue	$ (356)	$ 18,532
Included in change in unrealized losses on investments	(39,878)	(4,837)
Included in other nonoperating (loss) income	(4,740)	2,936
	(44,974)	16,631
Included in temporarily restricted net assets	(39,298)	9,142
Total investment (loss) income	$ (84,272)	$ 25,773

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 $(7,373,000) and $2,862,000 is included in the realized gain (loss) amount for the years ended December 31, 2008 and 2007, respectively.

The DMC invests in various financial instruments which are publicly traded. Financial instruments are exposed to various risk 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 their fair value. At December 31, 2008 and 2007, the 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 was $364,128,000 and $545,530,000 (Note 7), respectively. Other noncurrent assets and liabilities have carrying values that approximate fair value.

FASB 157 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, FASB 157 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 that we have the ability to access. 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 equity 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 table summarizes The DMC's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008, aggregated by the level in the fair value hierarchy defined above:

		Fair Value Measurement Using		
	Fair Value at December 31, 2008	Quoted Prices in Active Markets fore Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Cash and cash equivalents	$ 83,412	$ 78,014	$ 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	$ 364,874	$ 156,808	$ 208,066	$ –

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, 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, 2008 was 1.58%). In addition, the DMC is charged an unused facility fee equal to .25% of the unused liquidity facility. At December 31, 2008 and 2007, the balance outstanding on the line of credit was $3,476,000 and $19,072,000, respectively. The available balance on the line of credit at December 31, 2008 and 2007 was $71,313,000 and 54,217,000, respectively.

6. Credit Agreement (continued)

In addition, The DMC has $42,000 outstanding on other lines of credit that are utilized by consolidated joint ventures.

7. Long-Term Debt and Leases

Long-term debt consists of the following:

	December 31	
	2008	2007
	(In Thousands)	
Michigan State Hospital Finance Authority (MSHFA) bonds:		
Series 1988A and 1988B, interest at 8.125%, due 2010	$ 2,575	$ 2,575
Series 1993A, interest at 6.25% to 6.5%, due 2018	107,420	108,705
Series 1993B, interest at 5.20% to 5.75%, due 2023	98,579	104,245
Series 1995, interest at 6.0% to 6.7%, due 2025	32,150	33,945
Series 1997A, interest at 5.0% to 5.5%, due 2027	151,371	155,396
Series 1998A, interest at 5.0% to 5.25%, due 2028	108,650	108,650
Obligations under capital leases	28,548	38,356
Notes payable and other obligations	5,081	6,701
	534,374	558,573
Less current portion	24,622	25,029
	$ 509,752	$ 533,544

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 $13,370,000 in 2009 to $37,585,000 in 2028.

7. Long-Term Debt and Leases (continued)

Interest paid was $32,346,000 in 2008 and $33,506,000 in 2007. In addition, The DMC capitalized interest of $174,000 and $81,000 in 2008 and 2007, respectively.

The cost and accumulated depreciation for assets under capital lease were $60,873,000 and $33,091,000 at December 31, 2008, and $59,837,000 and $24,972,000 at December 31, 2007.

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)	
2009	$ 13,786	$ 12,720
2010	14,653	8,899
2011	17,930	4,530
2012	17,974	2,178
2013	20,690	1,174
Thereafter	420,793	4,331
	$ 505,826	33,832
Less amounts representing interest		5,284
		$ 28,548

Rent expense incurred under operating noncancellable leases was $16,118,000 in 2008 and $17,111,000 in 2007. The DMC has noncancellable lease commitments at December 31, 2008, as follows (in thousands):

2009	$ 11,865
2010	11,002
2011	10,246
2012	8,250
2013	7,158

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 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 2008 and 6% in 2007. Professional liability expense was $29,022,000 in 2008 and $25,108,000 in 2007.

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 $21,059,000 in 2008 and $12,902,000 in 2007.

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.

9. Retirement Benefits (continued)

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. A curtailment gain was recognized in 2003 as a result of freezing the pension benefits. In 2007, The DMC recognized a curtailment gain and reduction in the accumulated benefit obligation of $2,159,000 related to a change in the amount of benefits for a collective bargaining unit.

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. On October 4, 2004, The DMC obtained a funding waiver from the Internal Revenue Service to defer the required funding of $10,241,000 for the 2003 plan year. The funding is amortized over a five-year period in accordance with the agreement with the Pension Benefit Guaranty Corporation (PBGC). The DMC was required to provide collateral to the PBGC in the form of a $1.5 million Letter of Credit and mortgages on a professional office building and the former Hutzel Hospital building in connection with the funding waiver. The Letter of Credit initially expired on December 31, 2007, however it is subject to annual renewals through 2009. In January, 2008 The DMC was released from the requirement to maintain the Letter of Credit and all the collateral.

On December 31, 2007, The DMC adopted the recognition provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (FAS 158),* which required The DMC to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the pension plan in the December 31, 2007 consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses which were previously netted against The Detroit Medical Center's funded status in the consolidated balance sheets. Further, 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 adoption of FAS 158.

9. Retirement Benefits (continued)

The incremental effects of adopting the provisions of FAS 158 for the defined benefit retirement plan on the consolidated balance sheet at December 31, 2007 are presented in the following table. The adoption of FAS 158 had no effect on The DMC's excess of revenue over expenses for the year ended December 31, 2007, and it will not affect the operating results in future periods.

	At December 31, 2007		
	Prior to Adopting FAS 158	Effect of Adopting FAS 158	As Reported at December 31, 2007
	(In Thousands)		
Prepaid pension liability	$ 59,565	$ (1,982)	$ 57,583
Decrease in unrestricted net assets	(301)	(1,982)	(2,283)

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, 2008 and 2007, and a statement of the funded status as of December 31, 2008 and 2007.

	Year Ended December 31	
	2008	2007
	(In Thousands)	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	$ 811,820	$ 869,082
Interest cost	51,683	50,157
Actuarial loss (gain)	3,239	(74,540)
Benefits paid	(32,871)	(30,720)
Curtailment gain	–	(2,159)
Benefit obligation at end of year	833,871	811,820
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	869,403	803,504
Actual (loss) gain on plan assets	(250,266)	59,720
Employer contributions	–	36,899
Benefits paid	(32,871)	(30,720)
Fair value of plan assets at end of year	586,266	869,403
Funded status at December 31	$ (247,605)	$ 57,583

9. Retirement Benefits (continued)

The accumulated benefit obligation for the defined benefit plans was $833,871,000 and $811,820,000 at December 31, 2008 and 2007, respectively.

Amounts recognized in the statements of financial position at December 31, 2008 consists of:

	December 31	
	2008	2007
	(In Thousands)	
Current portion of accrued retirement liability	$ –	$ –
Prepaid (accrued) retirement asset (liability)	(247,605)	57,583
Net prepaid (accrued) retirement asset (liability)	$ (247,605)	$ 57,583

Included in unrestricted net assets at December 31, 2008 and 2007 are unrecognized actuarial losses of $327,832,000 and $1,982,000, 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 ended December 31, 2009 is $33,202,000.

Changes in plan assets and benefit obligation recognized in unrestricted net assets during 2008 includes the current year actuarial loss of $325,850,000.

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

	Year Ended December 31	
	2008	2007
	(In Thousands)	
Interest cost on projected benefit obligation	$ 51,683	$ 50,157
Expected return on assets	(72,345)	(68,710)
Curtailment gain	–	(2,160)
Net retirement credit for defined benefit plan	(20,662)	(20,713)
Defined contribution plan expense	21,059	12,902
Total retirement expense (credit)	$ 397	$ (7,811)

9. Retirement Benefits (continued)

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

	December 31	
	2008	**2007**
Discount rate	**6.46%**	6.60%
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	
	2008	**2007**
Discount rate	**6.60%**	5.94%
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	
	2008	**2007**
Asset category:		
Equity securities	**53%**	64%
Fixed income securities	**26%**	19%
Short-term securities	**5%**	5%
Limited partnerships	**16%**	12%

9. Retirement Benefits (continued)

The plan assets are invested in separately managed portfolios using investment management firms. The plans' objective 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. Debt securities include both intermediate and international securities.

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 48% of plan assets in equity securities, 22% in fixed income securities, 20% in global asset allocation and 10% in alternative assets with each class allowing for a 10% deviation from the target.

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:	
2009	$ –
Expected benefit payments for the year ending December 31:	
2009	$ 41,387
2010	44,247
2011	46,904
2012	49,857
2013	52,650
2014–2018	306,178

9. Retirement Benefits (continued)

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 reflect the effect of the Act.

On December 31, 2007, DMC adopted the recognition provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (FAS 158), which required The DMC to recognize 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 December 31, 2007 consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, which were previously netted against The DMC funded status in the consolidated balance sheets. 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 adoption of FAS 158.

10. Other Postretirement Employee Benefits (continued)

The incremental effects of adopting the provisions of FAS 158 for the postretirement benefit plan on the consolidated balance sheet at December 31, 2007 are presented in the following table. The adoption of FAS 158 had no effect on The DMC excess of revenue over expenses for the year ended December 31, 2007, or for any prior period presented, and it will not affect the operating results in future periods.

	At December 31, 2007		
	Prior to Adopting FAS 158	Effect of Adopting FAS 158	As Reported at December 31, 2007
	(In Thousands)		
Accrued postretirement benefit liability	$ 14,185	$ 1,516	$ 15,701
Decrease in unrestricted net assets	(767)	(1,516)	(2,283)

10. Other Postretirement Employee Benefits (continued)

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

	Year Ended December 31	
	2008	2007
	(In Thousands)	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	$ 18,906	$ 23,672
Service cost	1	1
Interest cost	1,040	1,164
Participant contributions	191	207
Actuarial gain	(1,937)	(4,193)
Benefits paid	(2,220)	(1,945)
Benefit obligation at end of year	15,981	18,906
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	3,205	3,123
Actual return on plan assets	123	119
Employer contributions	1,895	1,908
Benefits paid from plan assets	(1,937)	(1,945)
Fair value of plan assets at end of year	3,286	3,205
Funded status at December 31	$ (12,695)	$ (15,701)

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

	Year Ended December 31	
	2008	2007
	(In Thousands)	
Unrecognized prior service cost	$ 134	$ 196
Unrecognized actuarial (gains) losses	(582)	1,320
(Increase) decrease in unrestricted net assets	$ (448)	$ 1,516

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during 2009 are $63 and $0, respectively.

10. Other Postretirement Employee Benefits (continued)

Changes in plan assets and benefit obligation recognized in unrestricted net assets during 2008 include (in thousands):

Current year actuarial loss	$ 1,901
Amortization of prior service cost	63
Increase in unrestricted net assets	$ 1,964

Net periodic postretirement benefit cost includes the following components:

	Year Ended December 31 2008	2007
	(In Thousands)	
Service cost	$ 1	$ 1
Interest cost	1,040	1,164
Expected return on assets	(158)	(152)
Amortization of prior service cost	63	63
Amortization of unrecognized net actuarial loss	–	43
Net periodic postretirement benefit cost	$ 946	$ 1,119

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 10% for 2008 and is assumed to decrease 1% per year to 5% in 2013 and remain at that level thereafter. The weighted-average discount rate used in determining the accumulated postretirement obligation was 6.46% and 6.60% at December 31, 2008 and 2007, respectively. The weighted-average discount rate used in determining the net periodic postretirement benefit cost was 6.60% and 5.94% for the years ended December 31, 2008 and 2007, respectively. The DMC used a measurement date of December 31 in 2008 and 2007, to measure the obligations.

10. Other Postretirement Employee Benefits (continued)

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	$ 63	$ (45)
Effect on postretirement benefit obligation	1,061	(717)

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

Expected benefit payments for the year ending December 31:	
2009	$ 1,871
2010	1,880
2011	1,868
2012	1,824
2013	1,735
2014–2018	7,318

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, 2008 and 2007, expenses incurred under the outsourcing contract, excluding capital related items, were $58,841,000 and $57,099,000, 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 $12,557,000 in 2009 to $16,890,000 in 2016. During the year ended December 31, 2008, the DMC paid $10,407,000 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 $162,521,000 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 $1,378,000 and $2,782,000 at December 31, 2008 and 2007, 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, 2008, The DMC had commitments of $7,906,000 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	
	2008	2007
	(In Thousands)	
Health care services	$ 1,691,856	$ 1,637,689
Teaching	86,810	83,817
General and administrative	169,132	165,479
	$ 1,947,798	$ 1,886,985

13. Related-Party Transactions

The DMC purchases teaching and clinical professional services from Wayne State University. Purchases for these services amounted to $76,040,000 and $76,455,000 for the years ended December 31, 2008 and 2007, 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. Under the agreement, Wayne State University will continue to provide services to the DMC for annual payments of approximately $76,000,000. In addition, the DMC may be required to pay an additional $9,000,000 in performance and incentive payments based on criteria developed by The DMC and Wayne State University on a departmental basis. 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.

The DMC 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. The lease has been accounted for as an operating lease at December 31, 2008 and 2007.

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 $6,462,000 and $6,590,000 during the years ended December 31, 2008 and 2007, related to rental of the facilities to KCI.

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:	
2009	$ 3,631
2010	3,631
2011	2,911
2012	2,911
2013	1,263

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, 2008 and 2007, The DMC had a receivable of $9,690,000 and $10,179,000 from KCI for services provided during the years ended December 31, 2008 and 2007. The statement of operations includes $65,436,000 and $61,238,000 related to revenue from service and facility agreements provided to KCI for the years ended December 31, 2008 and 2007, respectively.

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

The DMC has a working capital deficiency of $88,133,000 and $120,218,000 at December 31, 2008 and 2007, respectively. In addition, The DMC has a deficit in unrestricted net assets of $326,205,000 and $2,283,000 at December 31, 2008 and 2007, 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 available from credit agreements, and funds designated for capital improvements and board-designated funds will be sufficient to finance both ongoing operations and required capital commitments for fiscal 2009.

16. Endowment

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. As of December 31, 2008 the State of Michigan has not adopted UPMIFA. The following disclosures are made as required by FSP FAS 117-1.

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.

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:

16. Endowment (continued)

(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.

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.

16. Endowment (continued)

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2007	$ 34,153	$ 64,751	$ 98,904
Investment return (loss)	5,394	–	5,394
Contributions	206	95	301
Appropriation for endowment of assets for expenditures	(2,202)	–	(2,202)
Other changes – transfers	(1,699)	–	(1,699)
Endowment net assets, December 31, 2007	35,852	64,846	100,698
Investment loss	(23,664)	–	(23,664)
Contributions	171	1,001	1,172
Appropriation of endowment assets for expenditure	(1,312)	–	(1,312)
Other changes – transfers	1,528	–	1,528
Endowment net assets, December 31, 2008	$ 12,575	$ 65,847	$ 78,422

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 were no transfers made in 2007.

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