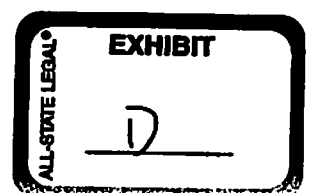


**CONSOLIDATED FINANCIAL STATEMENTS AND
CONSOLIDATING FINANCIAL INFORMATION**

**The Detroit Medical Center and Subsidiaries
Years Ended December 31, 2005 and 2004
With Report of Independent Auditors**



The Detroit Medical Center and Subsidiaries

Consolidated Financial Statements and Consolidating Financial Information

Years Ended December 31, 2005 and 2004

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
Consolidating Financial Information	
Report of Independent Auditors on Consolidating Financial Information.....	36
The Detroit Medical Center:	
Consolidating Balance Sheet	37
Consolidating Statement of Operations	39

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, 2005 and 2004, 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 audit 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, 2005 and 2004, 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.

Ernst & Young LLP

March 17, 2006

The Detroit Medical Center and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 64,771	\$ 63,025
Net patient accounts receivable <i>(Note 3)</i>	85,248	111,186
Estimated third-party payor settlements <i>(Note 3)</i>	19,306	20,709
Other accounts receivable	35,200	29,258
Current portion of assets whose use is limited or restricted	4,609	5,404
Supplies	20,508	17,005
Prepaid expenses and other	28,755	25,080
Total current assets	258,397	271,667
Assets whose use is limited or restricted, less current portion <i>(Note 4)</i>:		
Board-designated funds for capital improvements	31,819	30,972
Board-designated funds for specific purposes	67,087	66,511
Professional liability funds	173,365	146,783
Funds held in trust under bond agreements <i>(Note 7)</i>	36,772	37,387
Endowment funds	59,555	60,055
Pledges receivable	14,265	17,231
Donor restricted funds	77,280	73,204
	460,143	432,143
Property and equipment, net <i>(Note 2)</i>	491,705	501,545
Other noncurrent assets <i>(Note 2)</i>	33,492	33,297
Total assets	\$ 1,243,737	\$ 1,238,652

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Liabilities and net assets (deficit)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 183,852	\$ 179,615
Accrued compensation and related amounts	51,297	45,963
Estimated third-party payor settlements <i>(Note 3)</i>	19,732	39,101
Advance payment from third-party payor	25,658	24,853
Current portion of long-term debt <i>(Note 7)</i>	21,137	15,635
Current portion of accrued retirement liability <i>(Note 9)</i>	55,714	1,168
Current portion of accrued professional liability losses <i>(Note 8)</i>	20,901	19,335
Total current liabilities	378,291	325,670
Other liabilities:		
Long-term debt, less current portion <i>(Note 7)</i>	557,195	562,963
Other noncurrent liabilities, less current portion <i>(Notes 2, 8, 9, and 10)</i>	371,589	456,834
Total other liabilities	928,784	1,019,797
Total liabilities	1,307,075	1,345,467
Net assets (deficit):		
Unrestricted:		
Operations	(85,876)	(107,022)
Additional minimum pension liability	(128,573)	(150,286)
	(214,449)	(257,308)
Temporarily restricted	85,803	83,605
Permanently restricted	65,308	66,888
Total net assets (deficit)	(63,338)	(106,815)
Total liabilities and net assets (deficit)	\$ 1,243,737	\$ 1,238,652

See accompanying notes.

The Detroit Medical Center and Subsidiaries

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

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Unrestricted revenue and other support		
Net patient service revenue <i>(Note 3)</i>	\$ 1,854,911	\$ 1,665,379
Governmental subsidy <i>(Note 16)</i>	–	23,855
Other revenue	62,319	70,894
Net assets released from restrictions for operations	10,697	10,207
Total unrestricted revenue and other support	1,927,927	1,770,335
Expenses		
Salaries, wages, and benefits	734,918	689,770
Services, supplies, and other <i>(Note 13)</i>	734,156	728,947
Provision for uncollectible accounts	291,576	196,832
Professional liability insurance <i>(Note 8)</i>	45,703	39,969
Interest	34,099	33,090
Depreciation and amortization	73,990	78,960
	1,914,442	1,767,568
Income from operations	13,485	2,767
Other nonoperating income (expense):		
Gain on transfer of cancer services assets <i>(Note 15)</i>	2,086	–
Investment income (loss) and other	529	(309)
Excess of revenue over expenses	16,100	2,458

Continued on next page.

The Detroit Medical Center and Subsidiaries

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

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Unrestricted net assets		
Excess of revenue over expenses	\$ 16,100	\$ 2,458
Discontinued operations <i>(Note 14)</i>	106	5,512
Change in unrealized gain/loss in fair value of investments	(2,980)	2,976
Net assets released from restrictions		
for long-lived assets	7,908	5,249
Change in additional minimum pension liability	21,713	(7,823)
Other changes	12	(3,101)
Increase in unrestricted net assets	<u>42,859</u>	<u>5,271</u>
Temporarily restricted net assets		
Contributions	13,475	14,896
Investment income	8,006	7,923
Change in unrealized gain/loss in fair value of investments	178	5,007
Net assets released from restrictions		
for long-lived assets	(7,908)	(5,249)
Net assets released from restrictions for operations	(10,697)	(10,207)
Other changes	(856)	(1,375)
Increase in temporarily restricted net assets	<u>2,198</u>	<u>10,995</u>
Permanently restricted net assets		
Contributions	(788)	1,533
Other changes	(792)	-
(Decrease) increase in permanently restricted net assets	<u>(1,580)</u>	<u>1,533</u>
Increase in net assets	43,477	17,799
Net assets (deficit) at beginning of year	(106,815)	(124,614)
Net assets (deficit) at end of year	<u>\$ (63,338)</u>	<u>\$ (106,815)</u>

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Operating activities		
Increase in net assets	\$ 43,477	\$ 17,799
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation and amortization	73,990	78,960
Provision for uncollectible accounts	291,576	196,832
Gain on sale of assets	(2,086)	(3,786)
Additional minimum pension liability <i>(Note 9)</i>	(21,713)	7,823
Change in net unrealized gain/loss in fair value of investments	2,802	(7,983)
Changes in operating assets and liabilities:		
Patient accounts receivable	(265,638)	(186,169)
Estimated third party payor settlements	1,403	(7,953)
Other current assets	(12,480)	(8,591)
Accounts payable and accrued expenses	5,008	11,555
Other current liabilities	5,334	(3,184)
Due to third-party payors	(19,369)	(6,950)
Advance from third-party payor	805	(24,359)
Accrued retirement liability	(19,974)	2,067
Accrued unfunded professional liability losses	(5,750)	14,215
Other operating activities	(3,661)	7,965
Cash provided by operating activities	<u>73,724</u>	<u>88,241</u>
Investing activities		
Purchase of property and equipment	(59,610)	(76,694)
Proceeds from sale of assets	9,910	13,625
Increase in assets whose use is limited or restricted, excluding professional liability funds	(6,342)	(8,290)
Other investing activities	1,320	(15)
Cash used in investing activities	<u>(54,722)</u>	<u>(71,374)</u>
Financing activities		
Repayment of long-term debt	(17,256)	(12,865)
Cash used in financing activities	<u>(17,256)</u>	<u>(12,865)</u>
Increase in cash and cash equivalents	1,746	4,002
Cash and cash equivalents at beginning of year	63,025	59,023
Cash and cash equivalents at end of year	<u>\$ 64,771</u>	<u>\$ 63,025</u>

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

1. Organization and Significant Accounting Policies

Organization

The Detroit Medical Center, a parent holding company, and its subsidiaries (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 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)
- 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 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 accounts for its investment in CareTech Corporation using the equity method of accounting. All significant intercompany account balances and transactions have been eliminated in consolidation.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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 DSH 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 with readily determined fair values and all investments in debt securities are classified as nontrading and are measured at fair value using quoted market prices. Realized gains and losses recorded using the average cost method, including losses considered to be other-than-temporary, are included in excess of revenue over expenses. Unrealized gains and losses determined to be temporary are recorded as an addition to or deduction from net assets.

The DMC continually reviews its investments portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, the recommendation of advisors, and the length of time and extent of time to which the market value has been less than cost.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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 cash advances from the Medicaid program related to indigent volume. The cash advances are recognized ratably as income over the period of funding determined by Medicaid.

Revenue from the Medicare and Medicaid programs accounted for approximately 23% and 21% in 2005, respectively, and 24% and 22% in 2004, 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 prior year activities. 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.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The provision for bad debts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage and other collection indicators. Periodically throughout the year management assesses the adequacy of the allowance for uncollectible accounts based upon 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 receiving 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 lease, are stated at cost or estimated fair value at the date of donation, and are depreciated by the straight-line method over their estimated useful lives.

Other Noncurrent Assets

Other noncurrent assets include deferred debt issuance costs which are amortized ratably over the lives of terms 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).

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.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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 includes the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments (except those deemed to be other than temporary), additional minimum pension liability, results of discontinued operations, and net assets released from restrictions for the purchase of long-lived assets.

The excess of revenue over expenses for the year ended December 31, 2005, includes changes in estimate related to prior periods of \$9,654,000. This amount includes \$47,812,000 of changes in estimate related to the settlement of fiscal years 1997 to 2004 cost reports for the Medicare, Medicaid and Blue Cross programs which were recognized during 2005. Cost report settlements are recognized in net patient service revenue. The DMC also recognized additional bad debt expense during 2005 of \$31,306,000 related to services provided prior to January 1, 2005. In addition, the excess of revenue over expenses for the year ended December 31, 2005, includes changes in estimates for various operating expenses of approximately \$6,852,000, which includes adjustments to the professional liability accruals and certain purchased services expenses.

Net patient service revenue for the year ended December 31, 2004, included changes in estimate related to prior periods of \$7,500,000 related to the settlement of Medicare, Medicaid and Blue Cross cost reports.

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.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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.

Reclassification

Certain 2004 amounts have been reclassified to conform with the 2005 presentation.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Additional Balance Sheet Information

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Property and equipment:		
Land and land improvements	\$ 9,628	\$ 9,693
Buildings and improvements	786,264	795,327
Equipment	995,351	959,005
Construction in progress	32,422	33,673
	1,823,665	1,797,698
Accumulated depreciation	(1,331,960)	(1,296,153)
	\$ 491,705	\$ 501,545

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Other noncurrent assets:		
Goodwill and other intangible assets	\$ 10,699	\$ 10,699
Accumulated amortization	(6,224)	(5,315)
	4,475	5,384
Deferred debt issuance costs, net of accumulated amortization	12,045	12,888
Deferred compensation investments	1,452	1,942
Investment in affiliates	5,892	5,498
Other	9,628	7,585
	\$ 33,492	\$ 33,297

Other noncurrent liabilities, less current portion:		
Accrued professional liability losses	\$ 186,185	\$ 169,836
Accrued retirement liability	136,393	232,626
Other postretirement liability	15,053	14,881
Deferred compensation liability	1,452	1,942
Minority interest in Berry Center, LLC	640	-
Other	31,866	37,549
	\$ 371,589	\$ 456,834

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue and Accounts Receivable

Net patient service revenue consists of the following:

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Gross revenue from services to patients	\$ 4,077,344	\$ 3,870,824
Contractual adjustments	(2,270,245)	(2,212,945)
Changes in estimate related to favorable prior year third-party payor settlements	47,812	7,500
Net patient service revenue	<u>\$ 1,854,911</u>	<u>\$ 1,665,379</u>

Net patient accounts receivable consists of the following:

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Gross patient accounts receivable	\$ 582,883	\$ 652,884
Allowances and advances under contractual arrangements	(403,298)	(460,450)
Allowance for uncollectible accounts	(94,337)	(81,248)
	<u>\$ 85,248</u>	<u>\$ 111,186</u>

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, 2005 and 2004, include net amounts due from Medicare (18% and 13%), Medicaid (12% and 14%), Blue Cross (17% and 12%), and other payors, (53% and 61%), respectively.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments

Investments and cash and cash equivalents are summarized as follows:

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 161,236	\$ 126,060
United States government and Foreign obligations	113,123	122,536
Corporate bonds	55,466	52,579
Common stock	182,929	179,195
Other	2,504	2,971
	\$ 515,258	\$ 483,341

Over the past several years, the public equity markets have experienced changes which impacted the investment portfolio held by The DMC. Management continually reviews the investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are general market conditions, the issuer's financial condition and near-term prospect, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. During the years ended December 31, 2005 and 2004, The DMC recorded a realized loss for other-than temporary declines in the fair value of investments of approximately \$760,000 and \$365,000, respectively, of which \$366,000 and \$365,000, respectively, is included in other non-operating expense and \$394,000 and \$0, respectively, is included in investment income on temporarily restricted net assets in the accompanying statements of operations and changes in net assets.

The gross unrealized gains (losses) on investments were \$33,244,000 and \$(4,304,000) at December 31, 2005 and \$33,388,000 and \$(1,646,000) at December 31, 2004. The following tables summarize the fair value of investments that have gross unrealized gains (the amount by which fair value exceeds historical cost) and gross unrealized losses (the amount by which historical cost exceeds fair value) as of December 31, 2005 and 2004. The tables further segregate the securities that have been in a gross unrealized gain or loss position as of December 31, 2005 and 2004, for less than 12 months and those for 12 months or more. The gross unrealized losses of less than 12 months of \$3,207,000 at December 31, 2005, are a reflection of the normal fluctuation of the stock market and are therefore considered temporary. The gross unrealized losses of 12 months or longer of \$1,097,000 at December 31, 2005, represents an average 7% decline in fair value below cost. The decline in value is assessed by management to be temporary based on their assessment of projected recoveries in 2006.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

The following tables summarize the unrealized gains and losses on investments held at December 31, 2005 and 2004:

Description of Securities	December 31, 2005					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Gains (Losses)	Fair Value	Unrealized Gains (Losses)	Fair Value	Unrealized Gains (Losses)
	<i>(In Thousands)</i>					
Investments in loss position:						
Government obligations	\$ 48,733	\$ (910)	\$ 10,763	\$ (601)	\$ 59,496	\$ (1,511)
Corporate bonds	21,988	(557)	3,160	(330)	25,148	(887)
Subtotal, debt securities	70,721	(1,467)	13,923	(931)	84,644	(2,398)
Cash and equivalents	152	(1)	-	-	152	(1)
Common stock	17,517	(1,739)	1,015	(166)	18,532	(1,905)
Other investments	-	-	-	-	-	-
Total investments in loss position	88,390	(3,207)	14,938	(1,097)	103,328	(4,304)
Investments in gain position:						
Government obligations	21,398	199	32,229	1,795	53,627	1,994
Corporate bonds	18,730	350	11,588	958	30,318	1,308
Subtotal, debt securities	40,128	549	43,817	2,753	83,945	3,302
Cash and equivalents	160,801	51	283	1	161,084	52
Common stock	48,998	4,859	115,399	24,899	164,397	29,758
Other investments	-	-	2,504	132	2,504	132
Total investments in gain position	249,927	5,459	162,003	27,785	411,930	33,244
Totals	\$ 338,317	\$ 2,252	\$ 176,941	\$ 26,688	\$ 515,258	\$ 28,940

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Description of Securities	December 31, 2004					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Gains (Losses)	Fair Value	Unrealized Gains (Losses)	Fair Value	Unrealized Gains (Losses)
	<i>(In Thousands)</i>					
Investments in loss position:						
Government obligations	\$ 33,290	\$ (63)	\$ 2,128	\$ (352)	\$ 35,418	\$ (415)
Corporate bonds	17,273	(27)	596	(259)	17,869	(286)
Subtotal, debt securities	50,563	(90)	2,724	(611)	53,287	(701)
Cash and equivalents	8	-	-	-	8	-
Common stock	11,973	(817)	1,211	(123)	13,184	(940)
Other investments	627	(3)	-	(2)	627	(5)
Total investments in loss position	63,171	(910)	3,935	(736)	67,106	(1,646)
Investments in gain position:						
Government obligations	35,799	1,242	51,319	2,195	87,118	3,437
Corporate bonds	16,916	680	17,794	1,920	34,710	2,600
Subtotal, debt securities	52,715	1,922	69,113	4,115	121,828	6,037
Cash and equivalents	124,546	194	1,506	1	126,052	195
Common stock	69,984	9,557	96,027	17,521	166,011	27,078
Other investments	2,343	67	1	11	2,344	78
Total investments in gain position	249,588	11,740	166,647	21,648	416,235	33,388
Totals	\$ 312,759	\$ 10,830	\$ 170,582	\$ 20,912	\$ 483,341	\$ 31,742

Investment return is summarized as follows:

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Interest and dividends	\$ 5,342	\$ 3,432
Net realized gains	11,931	15,960
Other than temporary loss on investments	(366)	(365)
Change in net unrealized gain/loss	(2,802)	7,983
Total investment income	\$ 14,105	\$ 27,010
Included in other revenue	\$ 7,813	\$ 11,366
Included in other nonoperating income (expense)	1,088	(262)
Reported separately as change in unrealized gain/loss	(2,980)	2,976
	5,921	14,080
Included in temporarily restricted investment income	8,006	7,923
Included in temporarily restricted unrealized gain	178	5,007
Total investment income	\$ 14,105	\$ 27,010

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments (continued)

Investment return, excluding unrealized gains and losses, on board designated funds for capital improvements is included in other nonoperating income. All other investment return, excluding unrealized gains and losses in fair value of investments, which is not restricted by explicit donor stipulations, is included in other revenue.

5. Fair Value of Financial Instruments

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts in the balance sheet for cash and cash equivalents approximate fair value.

Assets whose use is limited: The fair values for marketable debt and equity securities, including assets whose use is limited or restricted, are based on quoted market prices.

Long-term debt: The fair values for long-term debt are estimated using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of cash and cash equivalents and assets whose use is limited or restricted are as follows:

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 64,771	\$ 63,025
Current portion of assets whose use is limited	4,609	5,404
Assets whose use is limited or restricted, less current portion	445,878	414,912

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

The carrying amount and fair value of long-term debt are as follows:

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Carrying amount	\$ 548,687	\$ 560,733
Fair value	583,608	563,935

6. Credit Agreement

Under the terms of the amended and restated credit agreement between the DMC and GE Capital, 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 uncollectible accounts. The credit agreement, which expires June 30, 2007, 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 on a monthly basis and average liquidity of \$65,000,000 for the preceding three month period, and achieve defined cash flow ratios. Interest on borrowings is based on the current LIBOR plus 2.25% (6.6% at December 31, 2005). In addition, The DMC is charged an unused facility fee equal to 0.375% of the unused liquidity facility. At December 31, 2005 and 2004, The DMC had no outstanding balance under the credit agreement; the credit agreement was not utilized during the years ended December 31, 2005 and 2004.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Leases

Long-term debt consists of the following:

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
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	108,820	108,820
Series 1993B, interest at 4.80% to 5.75%, due 2023	117,073	120,950
Series 1995, interest at 6.0% to 6.7%, due 2026	37,230	38,735
Series 1997A, interest at 5.0% to 5.5%, due 2027	162,890	166,370
Series 1998A, interest at 5.0% to 5.25%, due 2028	108,650	108,650
Obligations under capital leases	29,645	17,865
Notes payable and other obligations	11,449	14,633
	578,332	578,598
Less current portion	21,137	15,635
	\$ 557,195	\$ 562,963

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 \$11,540,000 in 2006 to \$37,585,000 in 2028.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Leases (continued)

On June 29 and June 30, 2004, The DMC entered into Forbearance Agreements with the trustees under the Master Indentures as a result of not achieving the required debt service coverage ratio for the year ended December 31, 2003. Under the terms of the Forbearance Agreements, the trustees have agreed to forbear their right to exercise any rights or remedies related to the failure to meet the debt service coverage ratio. The Forbearance Agreements require The DMC to maintain a debt service coverage ratio computed on an annualized basis of 1.0 at June 30, 2004, 1.1 at September 30, 2004, and 1.2 at December 31, 2004, and quarterly thereafter, maintain liquidity of \$65,000,000 and 15 days cash on hand at June 30, 2004 and December 31, 2004, and semi-annually thereafter, and provide quarterly compliance certificates. The DMC is required to comply with such covenants until The DMC complies with the covenants for any consecutive three-year period, and no event of default occurs during such period, however these covenants do not extend beyond June 30, 2009. If the DMC is unable to meet the provisions of the Forbearance Agreements, the DMC will be required to retain a consultant, acceptable to the trustee within 60 days. If The DMC fails to comply with the material recommendations of the consultant, or if the debt service coverage ratio falls below 1.00, the trustees may, by written notice to The DMC, declare an immediate event of default under the Master Indentures.

Portions of the proceeds of the Series 1988A, 1988B, 1993A, 1993B, and 1995 Bonds, as well as the Series 1997A Bonds, were deposited into escrow funds to advance refund previously issued hospital revenue bonds. The principal outstanding under all of these previous issues, amounting to \$12,385,000 at December 31, 2005, is considered to be extinguished for financial reporting purposes and will be paid from the escrow funds.

Interest paid was \$33,622,000 in 2005 and \$32,951,000 in 2004. In addition, the DMC capitalized interest of \$843,000 in 2004.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt and Leases (continued)

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

	Bonds and Notes Payable	Capital Leases
	<i>(In Thousands)</i>	
2006	\$ 14,610	\$ 8,636
2007	13,957	8,145
2008	14,390	7,943
2009	13,786	7,064
2010	14,624	3,273
Thereafter	477,320	—
	\$ 548,687	35,061
Less amounts representing interest		5,416
		\$ 29,645

Rent expense incurred under operating leases were \$16,894,000 in 2005 and \$18,741,000 in 2004.

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 holds 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.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Professional and General Liability Claims (continued)

Accrued professional liability losses are recorded at their estimated present value based on discount rates, which average approximately 6.0% in 2005 and 2004. Professional liability expense was \$45,703,000 in 2005 and \$40,417,000 in 2004.

9. Retirement Benefits

On April 27, 2004, the Board of Trustees approved the adoption of 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 plan during the year. Total expense under the plan was \$10,996,000 in 2005 and \$11,186,000 in 2004.

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

In 2003, The DMC announced that benefits provided under the defined benefit retirement plan would be frozen effective June 1, 2003. Management elected to freeze the pension benefits to reduce the expected increase in pension expense subsequent to 2003. A curtailment gain was recognized in 2003 as a result of freezing the pension benefits. In 2005, The DMC recognized a curtailment gain of \$11,505,000 related to a change in the amount of benefits for several collective bargaining units in 2005 resulting in a reduction of the projected benefit projected benefit obligation at December 31, 2005.

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 expires on December 31, 2006, and is subject to annual renewals through 2009.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Benefits (continued)

The following table provides a reconciliation of the changes in the defined benefit plan's benefit obligation and fair value of assets for the years ended December 31, 2005 and 2004, and a statement of the funded status as of December 31, 2005 and 2004.

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	\$ 886,027	\$ 839,518
Service cost	2,449	2,216
Interest cost	49,675	51,074
Actuarial (gain) loss	(30,046)	18,799
Benefits paid	(27,201)	(25,580)
Curtailment gain	(11,505)	-
Benefit obligation at end of year	869,399	886,027
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	640,918	601,158
Actual gain on plan assets	41,114	60,798
Employer contributions	22,445	4,542
Benefits paid	(27,201)	(25,580)
Fair value of plan assets at end of year	677,276	640,918
Funded status at December 31	(192,123)	(245,109)
Unrecognized net actuarial loss	131,036	164,335
Unrecognized prior service credit	(2,447)	(2,734)
Additional minimum pension liability	(128,573)	(150,286)
Accrued retirement liability	\$ (192,107)	\$ (233,794)

The accumulated benefit obligation for the defined benefit plans was \$869,383,000 and \$874,712,000 at December 31, 2005 and 2004, respectively.

The Detroit Medical Center and Subsidiaries
Notes to Consolidated Financial Statements (continued)

9. Retirement Benefits (continued)

Amounts recognized in the statements of financial position consists of:

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Current portion of accrued retirement liability	\$ (55,714)	\$ (1,168)
Accrued retirement liability	<u>(136,393)</u>	<u>(232,626)</u>
Net accrued retirement liability	<u>\$ (192,107)</u>	<u>\$ (233,794)</u>

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

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Service cost-benefits earned during the period	\$ 2,449	\$ 2,216
Interest cost on projected benefit obligation	49,675	51,073
Expected return on assets	(53,295)	(53,335)
Amortization of prior service credit	(287)	(287)
Recognition of actuarial loss	<u>3,930</u>	<u>6,942</u>
Net retirement expense of defined benefit plan	2,472	6,609
Defined contribution plan expense	<u>10,996</u>	<u>11,186</u>
Total retirement expense	<u>\$ 13,468</u>	<u>\$ 17,795</u>

The assumptions used to determine benefit obligations at December 31 are as follows:

	December 31	
	2005	2004
Discount rate	5.88%	6.00%
Rate of increase in compensation levels	4.50%	4.50%
Measurement date	December 31	December 31

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Benefits (continued)

The assumptions used to determine the net periodic benefit cost for the years ended December 31 are as follows:

	Years Ended December 31	
	2005	2004
Discount rate	6.00%	6.25%
Expected long-term rate of return on assets	8.50%	9.00%
Rate of increase in compensation levels	4.50%	4.50%

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	
	2005	2004
Asset category:		
Equity securities	74%	73%
Fixed income securities	20%	23%
Short term securities	6%	4%

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.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Benefits (continued)

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 74% of plan assets in equity securities, and 20% in fixed income securities, with both classes allowing for a 6% deviation from the target.

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

	Pension Benefits
	<u>(In Thousands)</u>
Expected employer contributions for the year ending December 31:	
2006	\$ 55,714
Expected benefit payments for the year ending December 31:	
2006	\$ 33,115
2007	35,365
2008	37,363
2009	39,852
2010	42,447
2011– 2015	253,836

The expected employer contribution amounts above represent amounts to be paid to the trust. 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 Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Other Postretirement Employee Benefits (continued)

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. The Hospital believes its postretirement benefit plan may qualify for subsidy under the Act.

In accordance with FASB Staff Position 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the accumulated postretirement benefit obligation and net periodic postretirement benefit cost do not reflect an effect of the Act as The DMC has elected to defer the accounting for the impact of the Act until pending authoritative guidance is issued. Once issued, such authoritative literature may require The DMC to modify previously reported information.

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

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	\$ 32,378	\$ 31,276
Service cost	1	5
Interest cost	1,768	1,918
Participant contributions	302	323
Actuarial (gain) loss	(1,830)	1,187
Benefits paid	(2,571)	(2,331)
Benefit obligation at end of year	30,048	32,378
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	2,999	2,904
Actual return on plan assets	53	128
Benefits paid from plan assets	(35)	(33)
Fair value of plan assets at end of year	3,017	2,999
Funded status at December 31	(27,031)	(29,379)
Unrecognized net actuarial loss	11,656	14,114
Unrecognized prior service cost	322	384
Accrued postretirement liability	\$ (15,053)	\$ (14,881)

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Other Postretirement Employee Benefits (continued)

Net periodic postretirement benefit cost includes the following components:

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Service cost	\$ 1	\$ 5
Interest cost	1,768	1,918
Expected return on assets	(160)	(160)
Amortization of prior service cost	63	63
Amortization of unrecognized net actuarial loss	734	883
Net periodic postretirement benefit cost	\$ 2,406	\$ 2,709

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 2005 and is assumed to decrease 1% per year to 5% in 2010 and remain at that level thereafter. The weighted-average discount rate used in determining the accumulated postretirement obligation was 5.88% and 6.00% at December 31, 2005 and 2004, respectively. The weighted-average discount rate used in determining the net periodic postretirement benefit cost was 6.00% and 6.25% for the years ended December 31, 2005 and 2004, respectively. The DMC used a measurement date of December 31 in 2005 and 2004 to measure the obligations.

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
		<i>(In Thousands)</i>
Effect on total of service and interest cost components	\$ 124	\$ (105)
Effect on postretirement benefit obligation	2,267	(1,858)

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Other Postretirement Employee Benefits (continued)

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

Expected benefit payments for the year ending December 31:	
2006	\$ 2,968
2007	3,013
2008	3,047
2009	3,022
2010	2,977
2011– 2015	13,112

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, 2005 and 2004, the expenses incurred under the outsourcing contract, excluding capital related items, were \$53,446,000 and \$56,024,000, respectively.

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 \$276,252,000 over the remaining term of the agreement to include medical record and transcription services. 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 of \$13,325,000 which was deferred and is being amortized over the term of the agreement and had a balance of \$5,420,000 and \$6,739,000 at December 31, 2005 and 2004, respectively.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

The DMC and its affiliates are parties to certain legal actions other than professional liability claims. 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, 2005, The DMC had commitments of \$28,951,000 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:

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Health care services	\$ 1,582,930	\$ 1,445,970
Teaching	132,384	130,846
General and administrative	199,128	190,752
	<u>\$ 1,914,442</u>	<u>\$ 1,767,568</u>

13. Related-Party Transactions

The DMC purchases teaching and clinical professional services from Wayne State University. Purchases for these services amounted to \$79,800,000 and \$79,900,000 for the years ended December 31, 2005 and 2004, respectively.

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

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Discontinued Operations

In 2003, The DMC reached an agreement with two independent parties to purchase the assets of two nursing homes owned and operated by The DMC. Management completed the sale of the nursing homes during April and May of 2004. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the nursing homes were considered "assets held for sale" at December 31, 2003. Based on the expected selling price of the facilities, management determined that no impairment charge was required at December 31, 2003 as the fair value less costs to sell exceeded the carrying value of the assets.

The operations of the nursing homes are considered discontinued operations in accordance with SFAS No. 144. Accordingly, the following amounts have been included in discontinued operations on the statements of operations and changes in net assets for the years ended December 31, 2005 and 2004:

	Years Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Total revenue	\$ 500	\$ 8,163
Total expenses	394	9,267
Income (loss) from operations	106	(1,104)
Gain on sale of facilities	—	6,616
Net income	\$ 106	\$ 5,512

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Sale and Lease of Assets to Karmanos Cancer Institute

On December 2, 2005, the DMC completed the sale and lease of the assets associated with 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 leases space to KCI in Harper-Hutzel Hospital through an operating lease with an initial term of 50 years. Under the terms of the lease agreement, upon the recording of the Master Deed for the condominium space the lease will terminate and the title to the space will be transferred to KCI. The lease has been accounted for as a sales-type lease at December 31, 2005, based on the transfer of title which will occur. The payments associated with the lease are approximately \$9,900,000 and the DMC has recognized a nonoperating gain of approximately \$4,341,000 in 2005 on the sale of the property.

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, 2005 due to the minimal initial investment by KCI. As the expected cash flows under the lease are less than the carrying value of the property and equipment at December 31, 2005, the DMC recognized an impairment charge of approximately \$2,254,000 at December 31, 2005, related to the lease of the facility. The impairment charge has been included in the nonoperating gain on the statement of operations.

KCI is also leasing 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 five 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 the rental income will be recognized ratably by the DMC over the lease term. In addition, the DMC leases the 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 capital lease at December 31, 2005, based on the transfer of ownership.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Sale and Lease of Assets to Karmanos Cancer Institute (continued)

The DMC also leases space to KCI in the 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 \$510,000. The initial term under the lease is ten years.

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:	
2006	\$ 3,628
2007	3,628
2008	3,743
2009	3,743
2010	3,743

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 the costs incurred by the DMC. At December 31, 2005, the DMC had a receivable of \$11,929,000 from KCI for services provided during the year ended December 31, 2005. The following summarizes management's estimate of the revenue and expenses which will be eliminated from the consolidated financial statements as a result of the discontinuance of cancer services and sale of assets to KCI (in thousands):

	Year Ending December 31, 2005
	<u>(Unaudited)</u>
Total revenue	\$ 71,327
Total expenses	<u>69,124</u>
Net income	<u>\$ 2,203</u>

In connection with the sale of the cancer services to KCI, the DMC also transferred approximately \$ 1,369,000 in restricted funds related to cancer services to KCI.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Operating Results, Performance Improvement Plans and Liquidity Matters

The DMC has a working capital deficiency of \$119,894,000 and \$54,003,000 at December 31, 2005 and 2004, respectively. The increase in the working capital deficiency is due to the additional funding requirements for the pension plan in 2006. In addition, The DMC has a deficit in unrestricted net assets of \$214,449,000 and \$257,308,000 at December 31, 2005 and 2004, 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 insolvency of certain managed care payors. 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 2006 and meet the additional requirements of the 2003 Forbearance Agreements.

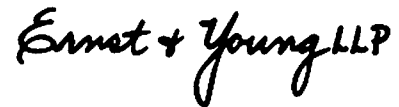
During 2003, management pursued additional funding from government sources, including the City of Detroit, Wayne County, the State of Michigan and the Federal Government. The DMC entered into a Memorandum of Understanding (Memorandum) effective August 1, 2003, with the City of Detroit, Wayne County and the State of Michigan and a Temporary Oversight Committee (TOC) was formed to monitor The DMC's operations. Under the terms of the Memorandum, The DMC obtained \$50 million in funding from these agencies over a ten-month period as part of an emergency supplemental funding package to support the operations of Detroit Receiving Hospital and University Health Center, and Hutzel Hospital. For the year ended December 31, 2004, total revenue includes \$23,855,000 related to the supplemental funding package.

Consolidating Financial Information

Report of Independent Auditors on Consolidating Financial Information

The Board of Trustees
The Detroit Medical Center

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating balance sheet and consolidating statement of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.



March 17, 2006

The Detroit Medical Center
Consolidating Balance Sheet

December 31, 2005
(In Thousands)

	Consolidated Total	Consolidating Adjustments	Obligated Group	Non-Obligated Group
Assets				
Current assets:				
Cash and cash equivalents	\$ 64,771	\$ -	\$ 62,500	\$ 2,271
Net patient accounts receivable	85,248	-	84,029	1,219
Estimated third-party payor settlements	19,306	-	19,306	-
Other accounts receivable	35,200	(5,488)	33,454	7,234
Current portion of assets whose use is limited or restricted	4,609	-	4,609	-
Supplies	20,508	-	19,775	733
Prepaid expenses and other	28,755	-	19,863	8,892
Total current assets	258,397	(5,488)	243,536	20,349
Assets whose use is limited or restricted, less current portion:				
Board-designated funds for capital improvements	31,819	-	31,300	519
Board-designated funds for specific purposes	67,087	-	63,461	3,626
Professional liability funds	173,365	-	-	173,365
Funds held in trust under bond agreements	36,772	-	36,765	7
Endowment funds	59,555	-	59,555	-
Pledges receivable	14,265	-	14,265	-
Donor restricted funds	77,280	-	77,280	-
	460,143	-	282,626	177,517
Property and equipment	491,705	-	484,396	7,309
Other noncurrent assets	33,492	(2,711)	26,349	9,854
Total assets	\$ 1,243,737	\$ (8,199)	\$ 1,036,907	\$ 215,029

	Consolidated Total	Consolidating Adjustments	Obligated Group	Non-Obligated Group
Liabilities and net assets (deficit)				
Current liabilities:				
Accounts payable and accrued expenses	\$ 183,852	\$ (6,539)	\$ 179,042	\$ 11,349
Accrued compensation and related amounts	51,297	-	49,767	1,530
Estimated third-party payor settlements	19,732	-	19,732	-
Advance from third-party payor	25,658	-	25,658	-
Current portion of long-term debt	21,137	-	20,378	759
Current portion of accrued pension liability	55,714	-	55,714	-
Current portion of accrued professional liability losses	20,901	-	20,421	480
Total current liabilities	378,291	(6,539)	370,712	14,118
Other liabilities				
Long-term debt, less current portion	557,195	-	543,490	13,705
Other noncurrent liabilities, less current portion	371,589	1,050	186,043	184,496
Total other liabilities	928,784	1,050	729,533	198,201
Total liabilities	1,307,075	(5,489)	1,100,245	212,319
Net assets (deficit):				
Unrestricted	(85,876)	(2,710)	(85,876)	2,710
Additional minimum pension liability	(128,573)	-	(128,573)	-
	(214,449)	(2,710)	(214,449)	2,710
Temporarily restricted	85,803	-	85,803	-
Permanently restricted	65,308	-	65,308	-
Total net assets (deficit)	(63,338)	(2,710)	(63,338)	2,710
Total liabilities and net assets (deficit)	\$ 1,243,737	\$ (8,199)	\$ 1,036,907	\$ 215,029

The Detroit Medical Center

Consolidating Statement of Operations (Deficit)

Year Ended December 31, 2005
(In Thousands)

	Consolidated Total	Consolidating Adjustments	Obligated Group	Non-Obligated Group
Unrestricted revenue and other support				
Net patient service revenue	\$ 1,854,911	\$ (1,458)	\$ 1,842,718	\$ 13,651
Other revenue	62,319	(68,993)	69,057	62,255
Net assets released from restrictions for operations	10,697	-	10,697	-
Total unrestricted revenue and other support	1,927,927	(70,451)	1,922,472	75,906
Expenses				
Salaries, wages, and benefits	734,918	-	728,688	6,230
Services, supplies, and other	734,156	(50,245)	729,916	54,485
Provision for uncollectible accounts	291,576	-	291,339	237
Professional liability insurance	45,703	(15,174)	45,060	15,817
Interest	34,099	(5,032)	32,995	6,136
Depreciation and amortization	73,990	-	72,288	1,702
Total expenses	1,914,442	(70,451)	1,900,286	84,607
Income (loss) from operations	13,485	-	22,186	(8,701)
Other nonoperating income (expense):				
Gain on transfer of ownership for Karmanos	2,086	-	2,086	-
Investment income (loss) and other	529	-	858	(329)
Equity (deficit) in net assets of subsidiaries	-	9,030	(9,030)	-
Excess of revenue over expenses	16,100	9,030	16,100	(9,030)
Other changes in unrestricted net assets:				
Discontinued operations	106	-	-	106
Change in unrealized loss in fair value of investments	(2,980)	-	(134)	(2,846)
Net assets released from restrictions for long-lived assets	7,908	-	7,908	-
Change in additional minimum pension liability	21,713	-	21,713	-
Equity in net assets of subsidiaries	-	-	-	-
Other changes	12	(7,444)	(2,728)	10,184
Increase (decrease) in unrestricted net assets	\$ 42,859	\$ 1,586	\$ 42,859	\$ (1,586)