CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATING FINANCIAL INFORMATION

The Detroit Medical Center and Subsidiaries

Years ended December 31, 2003 and 2002
With Report of Independent Auditors

0401-0499513

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Consolidated Financial Statements
and Consolidating Financial Information

Years ended December 31, 2003 and 2002

Contents

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Report of Independent Auditors

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, 2003 and 2002, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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, 2003 and 2002, 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

May 7, 2004, except for Notes 6, 7, 11, and 17,
as to which the date is June 30, 2004

The Detroit Medical Center and Subsidiaries

Consolidated Balance Sheets

	December 31 2003	December 31 2002
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 41,454**	$ 5,569
Net patient accounts receivable *(Note 3)*	**121,849**	151,112
Estimated third-party payor settlements *(Note 3)*	**12,756**	21,733
Other accounts receivable	**26,725**	47,191
Current portion of assets whose use is limited or restricted	**6,478**	5,645
Supplies	**14,253**	15,558
Assets held for sale	**4,318**	-
Prepaid expenses and other	**21,774**	21,900
Total current assets	**249,607**	268,708
Assets whose use is limited or restricted, less current portion *(Note 4)*:		
Board designated funds for capital improvements	**30,526**	110,641
Board designated funds for specific purposes	**56,106**	41,761
Professional liability funds	**146,513**	123,147
Funds held in trust under bond agreements *(Note 7)*	**39,422**	44,116
Endowment funds	**56,368**	54,640
Pledges receivable	**22,106**	23,476
Donor restricted funds	**63,389**	49,323
	414,430	447,104
Property and equipment, net *(Note 2)*	**496,229**	672,854
Other noncurrent assets *(Note 2)*	**55,228**	61,621
Total assets	**$ 1,215,494**	$ 1,450,287

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	December 31 2003	December 31 2002
	(In Thousands)	
Liabilities and net assets (deficit)		
Current liabilities:		
Accounts payable and accrued expenses	**$ 180,764**	$ 212,195
Accrued compensation and related amounts	**49,147**	42,784
Estimated third-party payor settlements *(Note 3)*	**46,051**	42,965
Advance payment from third-party payor	**49,212**	41,759
Current portion of long-term debt *(Note 7)*	**12,144**	10,876
Current portion of accrued retirement liability *(Note 9)*	**16,707**	33,747
Current portion of accrued professional liability losses *(Note 8)*	**19,702**	19,471
Total current liabilities	**373,727**	403,797
Long-term debt, less current portion *(Note 7)*	**567,507**	580,276
Other noncurrent liabilities, less current portion *(Notes 2, 8, 9 and 10)*	**398,874**	406,457
	966,381	986,733
Total liabilities	**1,340,108**	1,390,530
Net assets (deficit):		
Unrestricted		
Operations	**(120,116)**	107,018
Additional minimum pension liability	**(142,463)**	(174,686)
	(262,579)	(67,668)
Temporarily restricted	**72,610**	65,036
Permanently restricted	**65,355**	62,389
Total net assets (deficit)	**(124,614)**	59,757
Total liabilities and net assets (deficit)	**$ 1,215,494**	$ 1,450,287

See accompanying notes.

The Detroit Medical Center and Subsidiaries

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

	Years ended December 31	
	2003	**2002**
	(In Thousands)	
Unrestricted revenue and other support		
Net patient service revenue *(Note 3)*	**$ 1,510,969**	$ 1,535,140
Governmental subsidy *(Note 17)*	**26,145**	-
Other revenue	**81,279**	57,623
Net assets released from restrictions for operations	**12,152**	10,622
Total unrestricted revenue and other support	**1,630,545**	1,603,385
Expenses		
Salaries, wages, and benefits	**697,155**	680,184
Services, supplies, and other *(Note 13)*	**691,946**	678,451
Provision for uncollectible accounts	**182,962**	169,551
Professional liability insurance *(Note 8)*	**37,756**	41,146
Interest	**33,605**	33,634
Depreciation and amortization	**94,009**	97,007
	1,737,433	1,699,973
Loss from operations before adjustment for managed care payor and impairment charge	**(106,888)**	(96,588)
Recovery related to insolvency of managed care payor *(Note 3)*	**-**	9,540
Impairment charge *(Note 16)*	**(148,276)**	(4,998)
Loss from operations, including adjustment for managed care payor and impairment charge	**(255,164)**	(92,046)
Other nonoperating income (expense):		
Investment loss and other	**(3,290)**	(8,694)
Excess of expenses over revenue	**(258,454)**	(100,740)

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	
	2003	2002
	(In Thousands)	
Unrestricted net assets		
Excess of expenses over revenue	$ (258,454)	$ (100,740)
Discontinued operations *(Note 14)*	(8,274)	(1,411)
Change in unrealized gain (loss) in fair value of investments	27,790	(7,531)
Net assets released from restrictions for long-lived assets	7,840	12,504
Change in additional minimum pension liability	32,223	(174,686)
Other changes	3,964	(3,445)
Decrease in unrestricted net assets	(194,911)	(275,309)
Temporarily restricted net assets		
Contributions	9,577	17,138
Investment income (loss)	2,235	(5,071)
Change in unrealized gain (loss) in fair value of investments	19,770	(4,589)
Net assets released from restrictions for long-lived assets	(7,840)	(12,504)
Net assets released from restrictions for operations	(12,152)	(10,622)
Other changes	(4,016)	(5,623)
Increase (decrease) in temporarily restricted net assets	7,574	(21,271)
Permanently restricted net assets		
Contributions	2,915	411
Other changes	51	-
Increase in permanently restricted net assets	2,966	411
Decrease in net assets	(184,371)	(296,169)
Net assets at beginning of year	59,757	355,926
Net assets (deficit) at end of year	$ (124,614)	$ 59,757

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Years ended December 31	
	2003	2002
	(In Thousands)	
Operating activities		
Decrease in net assets	$ (184,371)	$ (296,169)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Depreciation and amortization	94,009	97,428
Provision for uncollectible accounts	182,962	169,953
Impairment charges	148,276	4,998
Additional minimum pension liability *(Note 9)*	(32,223)	174,686
Increase in net unrealized loss in fair value of investments	(47,560)	12,120
Changes in operating assets and liabilities:		
Patient accounts receivable	(153,699)	(196,707)
Third party payor settlements	8,977	18,020
Other current assets	21,897	(2,328)
Accounts payable and accrued expenses	(31,431)	28,508
Other current liabilities	6,363	286
Due to third party payors	3,086	(18,180)
Advance from third-party payor	7,453	6,463
Accrued retirement liability	8,554	24,574
Accrued unfunded professional liability losses	(23,233)	(1,974)
Other operating activities	(1,605)	(4,689)
Cash provided by operating activities	7,455	16,989
Investing activities		
Purchase of property and equipment	(71,741)	(130,127)
Acquisition of Madison Community Hospital	-	(3,001)
Decrease in assets whose use is limited or restricted, excluding professional liability funds	109,620	79,268
Proceeds from sale of assets	-	13,325
Other investing activities	2,052	3,626
Cash provided by (used in) investing activities	39,931	(36,909)
Financing activities		
Repayment of long-term debt	(11,501)	(9,397)
Cash used in financing activities	(11,501)	(9,397)
Increase (decrease) in cash and cash equivalents	35,885	(29,317)
Cash and cash equivalents at beginning of year	5,569	34,886
Cash and cash equivalents at end of year	$ 41,454	$ 5,569

See accompanying notes.

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
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. Effective September 1, 2003, The DMC assumed the remaining interest in DMC Care, a managed care contracting entity, and merged the entity into The DMC. The merger resulted in a $2,147,000 increase in unrestricted net assets. The DMC accounts for its investments in CareTech Corporation and Caymich Insurance Company, 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 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. Gains and losses, including losses considered to be other-than-temporary, are included in excess of expenses over revenue. 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.

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 medical education and indigent volume. The cash advances are recognized ratably as income.

Revenue from the Medicare and Medicaid programs accounted for approximately 25% and 22% in 2003, respectively; and 25% and 22% in 2002, 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.

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 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.

Amortization of Other Noncurrent Assets

Deferred debt issuance costs are amortized ratably over the lives of the related debt issues. 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 operating purposes and are included in unrestricted revenues and other support, whereas net assets released from restrictions for long-lived assets are reported as an other increase in unrestricted net assets. Pledges are recorded as increases in temporarily restricted net assets when the pledge is made.

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 or for terms restricted by donor.

Excess of Expenses Over Revenue

The statement of operations and changes in net assets includes the excess of expenses over revenue. Changes in unrestricted net assets which are excluded from excess of expenses over revenue, 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.

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.

Impairment of Long-Lived Assets and Other Intangible Assets

In accordance with FASB Statement No. 144, *Accounting for the Impairment of Long-Lived Assets*, The DMC records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

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.

1. Organization and Significant Accounting Policies (continued)

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 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 carryfowards, as such amounts are not considered recoverable.

Reclassification

Certain 2002 amounts have been reclassified to conform with the 2003 presentation. The excess of expenses over revenues decreased by $1,411,000 due to the reclassification of certain operating results to discontinued operations in the statement of operations and changes in net assets (*see Note 14*). There was no change in the decrease in net asset from the amounts previously reported.

2. Additional Balance Sheet Information

	December 31	
	2003	**2002**
	(In Thousands)	
Property and equipment:		
Land and land improvements	**$ 10,848**	$ 13,434
Buildings and improvements	**915,444**	1,004,838
Equipment	**738,597**	701,155
Construction in progress	**59,871**	78,860
	1,724,760	1,798,287
Accumulated depreciation	**(1,228,531)**	(1,125,433)
	$ 496,229	$ 672,854

2. Additional Balance Sheet Information (continued)

	December 31 2003	2002
	(In Thousands)	
Other noncurrent assets:		
Goodwill and other intangible assets	$ 11,124	$ 12,125
Accumulated amortization	(4,769)	(3,731)
	6,355	8,394
Deferred debt issuance costs, net of accumulated amortization	13,725	14,567
Deferred compensation investments	3,073	9,594
Investment in affiliates	7,003	10,039
Other	25,072	19,027
	$ 55,228	$ 61,621
Other noncurrent liabilities, less current portion:		
Accrued professional liability losses	$ 154,888	$ 148,133
Accrued retirement liability	207,197	215,986
Other postretirement liability	14,147	13,870
Deferred compensation liability	3,073	9,594
Other	19,569	18,874
	$ 398,874	$ 406,457

3. Net Patient Service Revenue and Accounts Receivable

Net patient service revenue consists of the following:

	Years ended December 31 2003	2002
	(In Thousands)	
Gross revenue from services to patients	$ 3,518,577	$ 3,056,956
Contractual adjustments	(2,007,608)	(1,549,716)
Changes in estimate related to favorable prior year third-party payor settlements	-	27,900
Net patient service revenue	$ 1,510,969	$ 1,535,140

3. Net Patient Service Revenue and Accounts Receivable (continued)

Net patient accounts receivable consists of the following:

	December 31 2003	2002
	(In Thousands)	
Gross patient accounts receivable	$ 562,904	$ 546,787
Allowances and advances under contractual arrangements	(383,931)	(331,542)
Allowance for uncollectible accounts	(57,124)	(64,133)
	$ 121,849	$ 151,112

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, 2003 and 2002 include net amounts due from Medicare (14% and 13%), Medicaid (14% and 17%), Blue Cross (13% and 12%), and other payors, (59% and 58%), respectively.

OmniCare Health Plan (OmniCare) is a local managed care organization, which principally insures individuals covered by Medicaid. On July 31, 2001, the Commissioner for the Office of Financial and Insurance Services of the State of Michigan (OFIS) placed OmniCare Health Plan into "rehabilitation." OmniCare was determined to be insolvent by OFIS as a result of its negative net worth and working capital deficiency. Under the rehabilitation order, the Commissioner of OFIS assumed title to all assets, and is responsible for the ongoing operations of OmniCare.

At the time OmniCare was placed into rehabilitation, The DMC had approximately $55 million of net accounts receivable which related to the prerehabilitation period. Based on the insolvency of OmniCare at the rehabilitation date, The DMC recorded a charge to fiscal 2001 operations to reserve the amount outstanding during the year ended December 31, 2001. In July 2002, The DMC entered into an agreement to settle all outstanding amounts due from OmniCare for $9,540,000 and received payment of $2,425,000 and $5,200,000 during 2003 and 2002, respectively. The remaining amount is due on September 1, 2004. Management adjusted the recorded allowance in 2002 to recognize the settlement and reflected such recovery in the statement of operations. Management believes adequate provision has been made in the financial statements for any additional adjustments, which may result from OmniCare's inability to pay amounts due The DMC.

4. Investments

Investments and cash and cash equivalents are summarized as follows:

	December 31 2003	December 31 2002
	(In Thousands)	
Cash and cash equivalents	**$ 140,029**	$ 80,662
United States Government and Foreign obligations	**80,582**	138,583
Corporate bonds	**42,847**	54,462
Common stock	**172,892**	143,973
Other	**3,906**	17,162
	$ 440,256	$ 434,842

Over the past several years, the public equity markets experienced significant declines, 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, 2003 and 2002, The DMC recorded a realized loss for other-than temporary declines in the fair value of investments of approximately $5,206,000 and $10,255,000, respectively, of which $2,093,000 and $3,381,000, respectively, is included in unrestricted income and $3,113,000 and $6,874,000, respectively, is included in investment gains and losses on temporarily restricted net assets in the accompanying statements of operations and changes in net assets.

4. Investments (continued)

The gross unrealized gains (losses) on investments were $27,177,000 and $(3,671,000) at December 31, 2003 and $14,277,000 and $(31,310,000) at December 31, 2002. The following schedule summarizes 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, 2003. The schedule further segregates the securities that have been in a gross unrealized gain or loss position as of December 31, 2003, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months of $1,704,000 are a reflection of the normal fluctuation of the stock market and are therefore considered temporary. The gross unrealized losses of twelve months or longer of $1,967,000 represent an average 3% 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 2004.

The following table summarizes the unrealized gains and losses on investments held at December 31, 2003:

	Less than 12 Months		Greater than 12 Months		Total	
Description of Securities	Fair Value	Unrealized Gains (Losses)	Fair Value	Unrealized Gains (Losses)	Fair Value	Unrealized Gains (Losses)
Investments in loss position:						
Government obligations	$ 17,747	$ (113)	$ 232	$ (18)	$ 17,979	$ (131)
Corporate bonds	5,741	(31)	2,061	(19)	7,802	(50)
Subtotal, debt securities	23,488	(144)	2,293	(37)	25,781	(181)
Cash and equivalents	549	(703)	-	-	549	(703)
Common stock	6,399	(401)	55,068	(1,930)	61,467	(2,331)
Other investments	1,057	(456)	-	-	1,057	(456)
Total investments in loss position	31,493	(1,704)	57,361	(1,967)	88,854	(3,671)
Investments in gain position:						
Government obligations	36,796	702	25,807	2,636	62,603	3,338
Corporate bonds	23,017	1,527	12,028	1,392	35,045	2,919
Subtotal, debt securities	59,813	2,229	37,835	4,028	97,648	6,257
Cash and equivalents	139,336	952	144	11	139,480	963
Common stock	108,215	18,427	3,210	1,056	111,425	19,483
Other investments	1,767	337	1,082	137	2,849	474
Total investments in gain position	309,131	21,945	42,271	5,232	351,402	27,177
Totals	$ 340,624	$ 20,241	$ 99,632	$ 3,265	$ 440,256	$ 23,506

4. Investments (continued)

Investment return is summarized as follows:

	Years ended December 31 2003	2002
	(In Thousands)	
Interest and dividends	$ 7,256	$ 21,160
Net realized gains (losses)	13,135	(18,008)
Other than temporary loss on investments	(5,206)	(10,255)
Change in net unrealized gain (loss)	47,560	(12,120)
Total investment income (loss)	$ 62,745	$ (19,223)
Included in other revenue	$ 15,276	$ 6,461
Included in other nonoperating income (expense)	(2,326)	(8,493)
Reported separately as change in unrealized gain (loss)	27,790	(7,531)
	40,740	(9,563)
Included in temporarily restricted investment income (loss)	2,235	(5,071)
Included in temporarily restricted unrealized gain (loss)	19,770	(4,589)
Total investment income (loss)	$ 62,745	$ (19,223)

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	
	2003	**2002**
	(In Thousands)	
Cash and cash equivalents	**$ 41,454**	$ 5,569
Current portion of assets whose use is limited	**6,478**	5,645
Assets whose use is limited or restricted, less current portion	**392,324**	423,628

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

	December 31	
	2003	**2002**
	(In Thousands)	
Carrying amount	**$ 572,065**	$ 583,398
Fair value	**509,635**	593,237

6. Credit Agreement

At December 31, 2003 The DMC had a revolving credit agreement with GE Capital to provide financing to The DMC of amounts up to $60,000,000. Borrowings under the credit agreement are based upon eligible accounts receivable which secure the amount outstanding. Eligible accounts receivable, as defined in the credit agreement, represent net accounts receivable which are less than 120 days old reduced by third-party advances and allowances for doubtful accounts. The aggregate of eligible accounts receivable is also reduced by a $15,000,000 availability reserve. Eligible accounts receivable at December 31, 2003 was approximately $75 million which would allow for borrowings of approximately $60 million. Interest on borrowings is based on the current LIBOR plus 3.25% (4.37% at December 31, 2003). The credit agreement expires on June 30, 2004. At December 31, 2003 and 2002, The DMC had no outstanding balance under the credit agreement; however, the credit agreement was utilized at various amounts during the years ended December 31, 2003 and 2002.

On June 30, 2004 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 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 $65,000,000 and achieve defined cash flow ratios. Interest on borrowings is based on the current LIBOR plus 2.75%. In addition, The DMC is charged an unused facility fee equal to .375% of the unused liquidity facility.

7. Long-Term Debt and Leases

Long-term debt consists of the following:

	December 31 2003	December 31 2002
	(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	**108,820**	108,820
Series 1993B, interest at 4.80% to 5.75%, due 2023	**124,655**	128,185
Series 1995, interest at 6.0% to 6.7%, due 2026	**40,155**	41,420
Series 1997A, interest at 5.0% to 5.5%, due 2027	**169,685**	172,840
Series 1998A, interest at 5.0% to 5.25%, due 2028	**108,650**	108,650
Obligations under capital leases	**7,586**	7,754
Notes payable and other obligations	**17,525**	20,908
	579,651	591,152
Less current portion	**12,144**	10,876
	$ 567,507	$ 580,276

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.

7. Long-Term Debt and Leases (continued)

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 $8,440,000 in 2004 to $37,585,000 in 2028.

Loan agreements for the Series 1995 bonds require a debt coverage ratio of 140% of maximum total principal and interest which was not achieved in fiscal 2003 or 2002. Among other requirements of the Series 1995 loan agreement, which debt was assumed from the 1997 acquisition of Sinai Hospital, The DMC is required to engage a consultant to make recommendations to cause net revenues, as defined, to be at least 140% of maximum total interest and principal requirements, whenever actual net revenues are less than 140% of principal and interest requirements. Based on the results of operations for the year ended December 31, 2002, The DMC did not achieve this ratio and was required to engage a consultant no later than six months following December 31, 2002. On May 19, 2003, The DMC entered into a Forbearance Agreement with MSHFA. Under the terms of the Forbearance Agreement, MSHFA will refrain from requiring the DMC to hire a consultant if days cash on hand and the debt service coverage ratio exceed certain required amounts at October 31, 2003 and December 31, 2003. The DMC was unable to meet the requirements of the Forbearance Agreement, and in November, 2003 retained a consultant to review the operations of The DMC and provide recommendations for improvements. On June 30, 2004 MSHFA acknowledged that the 2002 Forbearance Agreement expired, and that no event of default had been or would be declared related to the 2002 Forbearance Agreement.

Based on the results of operations for the year ended December 31, 2003 The DMC did not achieve an annual debt service coverage ratio of at least 1.10 and 1.40 as required by the Master Indentures and Series 1995 Loan Agreement, respectively. The debt service coverage ratio for the year ended December 31, 2003 was .77. Failure to achieve the minimum debt service coverage ratio may result in an Event of Default, if declared by the Master Indenture trustees or bond trustee. As a result of failure to achieve the required debt service coverage ratio, The DMC was required to engage a consultant to review the operations of The DMC and provide recommendations for improvements to increase net revenue, as defined, to the required level. As previously noted, The DMC retained a consultant to review its operations prior to December 31, 2003.

7. Long-Term Debt and Leases (continued)

On June 29 and 30, 2004, The DMC entered into Forbearance Agreements with the trustees under the Master Indentures. 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 and December 31, 2004 and semi-annually thereafter, and provide quarterly compliance certificates. The DMC is required to comply with such covenants until such time as 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.

As noted above, the Series 1995 loan agreement requires The DMC to maintain a debt service coverage ratio of 1.40. The DMC has violated the covenant at December 31, 2003. Under the terms of the loan agreement, The DMC is required to retain a consultant to increase the net revenue, as defined, to the required level. As noted previously, The DMC hired a consultant in November, 2003 and believes it has remedied the noncompliance.

Portions of the proceeds of the Series 1988A, 1988B, 1991A, 1993A, 1993B and 1995 Bonds, as well as the Series 1997A Bonds, were designated to advance refund previously issued hospital revenue bonds. The principal outstanding under all of these previous issues, amounting to $26,765,000 at December 31, 2003, is considered to be extinguished for financial reporting purposes and will be paid from escrow funds.

Interest paid was $33,813,000 in 2003 and $32,838,000 in 2002. In addition, the DMC capitalized interest of $1,123,000 in 2003 and $1,435,000 in 2002.

7. Long-Term Debt and Leases (continued)

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

	Bonds and Notes Payable	Capital Leases
	(In Thousands)	
2004	$ 11,246	$ 1,577
2005	12,618	1,583
2006	14,588	1,553
2007	14,034	1,498
2008	14,465	1,462
Thereafter	505,114	2,689
	$ 572,065	10,362
Less amounts representing interest		2,776
		$ 7,586

Expenses incurred under operating leases were $17,998,000 in 2003 and $16,834,000 in 2002.

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. Under several of these insurance programs, a portion of the risk of loss from professional liability claims is retained by the subsidiary. 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.

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 2003 and 2002. Professional liability expense was $38,117,000 in 2003 and $41,547,000 in 2002.

9. Retirement Benefits

The DMC has a noncontributory defined benefit retirement plan covering substantially all of the employees of The Detroit Medical Center and its subsidiaries and participates in various defined contribution plans. The benefits under the defined benefit plan are based in general on years of service and final average earnings. The DMC's funding policy 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.

In April 2003, The DMC announced that benefits provided under the consolidated pension plan would be frozen effective June 1, 2003. Management elected to freeze the pension benefits to reduce the expected increase in pension expense for 2003. As a result of the change in pension benefits, The DMC recognized a curtailment gain of $88,366,000, which reduced the projected benefit obligation at December 31, 2003.

9. Retirement Benefits (continued)

The following table provides a reconciliation of the changes in the plan's benefit obligation and fair value of assets for the years ended December 31, 2003 and 2002, and a statement of the funded status as of December 31, 2003 and 2002.

	Years ended December 31	
	2003	**2002**
	(In Thousands)	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	$ 832,241	$ 721,834
Service cost	6,513	22,403
Interest cost	51,367	51,384
Plan amendments	-	(3,597)
Actuarial loss	61,680	62,359
Benefits paid	(23,917)	(22,142)
Curtailment gain	(88,366)	-
Benefit obligation at end of year	839,518	832,241
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	482,498	567,315
Actual gain (loss) on plan assets	120,951	(62,675)
Employer contributions	21,626	-
Benefits paid	(23,917)	(22,142)
Fair value of plan assets at end of year	601,158	482,498
Funded status at December 31	(238,360)	(349,743)
Unrecognized net actuarial loss	159,941	278,005
Unrecognized prior service credit	(3,022)	(3,309)
Additional minimum pension liability	(142,463)	(174,686)
Accrued retirement liability	$ (223,904)	$ (249,733)

The change in the projected benefit obligation in 2003 and 2002 was principally due to the decrease in the discount rate and the curtailment gain in 2003. The accumulated benefit obligation for the defined benefit plans was $825,062,000 and $732,231,000 at December 31, 2003 and 2002, respectively.

9. Retirement Benefits (continued)

Amounts recognized in the statements of financial position consists of:

	December 31 2003	December 31 2002
	(In Thousands)	
Current portion of accrued retirement liability	**$ (16,707)**	$ (33,747)
Accrued retirement liability	**(207,197)**	(215,986)
Net accrued retirement liability	**$ (223,904)**	$ (249,733)

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

	Years ended December 31 2003	Years ended December 31 2002
	(In Thousands)	
Service cost-benefits earned during the period	**$ 6,513**	$ 22,403
Interest cost on projected benefit obligation	**51,367**	51,384
Expected return on assets	**(43,028)**	(51,543)
Amortization of prior service credit	**(287)**	(287)
Recognition of actuarial loss	**13,456**	2,618
Net retirement expense of defined benefit plan	**28,021**	24,575
Other retirement plan expense	**295**	434
Net retirement expense	**$ 28,316**	$ 25,009

9. Retirement Benefits (continued)

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

	December 31	
	2003	**2002**
Discount rate	**6.25%**	6.75%
Rate of increase in compensation levels	**4.50%**	4.50%

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

	Years ended December 31	
	2003	**2002**
Discount rate	**6.75%**	7.25%
Expected long-term rate of return on assets	**9.25%**	9.25%
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.

9. Retirement Benefits (continued)

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

	December 31	
	2003	**2002**
Asset category:		
Equity securities	71%	64%
Fixed income securities	25%	34%
Short term securities	4%	2%

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 60% of plan assets in equity securities, and 40% in fixed income securities, with both classes allowing for a 10% deviation from the target.

The DMC expects to contribute $16,707,000 to the plan during 2004.

On April 27, 2004, the Board of Trustees approved the adoption of a new defined contribution retirement plan for employees. The DMC will contribute a fixed percentage of employee salaries to the plan and will also match contributions made by employees to the plan during the year.

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 active employees meeting certain age and service requirements. Additionally, two hospitals provide postretirement life insurance benefits to eligible employees and retirees.

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.

10. Other Postretirement Employee Benefits (continued)

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

	Years ended December 31	
	2003	**2002**
	(In Thousands)	
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of year	**$ 25,126**	$ 19,911
Service cost	**4**	5
Interest cost	**1,983**	1,705
Participant contributions	**1,396**	685
Actuarial loss	**6,645**	5,895
Benefits paid	**(3,878)**	(3,075)
Benefit obligation at end of year	**31,276**	25,126
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	**2,794**	2,676
Actual return on plan assets	**147**	156
Benefits paid from plan assets	**(37)**	(38)
Fair value of plan assets at end of year	**2,904**	2,794
Funded status at December 31	**(28,372)**	(22,332)
Unrecognized net actuarial loss	**13,778**	7,952
Unrecognized prior service cost	**447**	510
Accrued postretirement liability	**$ (14,147)**	$ (13,870)

10. Other Postretirement Employee Benefits (continued)

Net periodic postretirement benefit cost includes the following components:

	Years ended December 31	
	2003	**2002**
	(In Thousands)	
Service cost	$ 4	$ 5
Interest cost	1,983	1,705
Expected return on assets	(160)	(160)
Amortization of prior service cost	63	63
Amortization of unrecognized net actuarial loss	833	380
Net periodic postretirement benefit cost	$ 2,723	$ 1,993

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 12% for 2003 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 6.25% and 6.75% at December 31, 2003 and 2002, respectively. The weighted-average discount rate used in determining the net periodic postretirement benefit cost was 6.75% and 7.25% for the years ended December 31, 2003 and 2002, respectively.

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:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(In Thousands)	
Effect on total of service and interest cost components	$ 134	$ (126)
Effect on postretirement benefit obligation	2,272	(2,139)

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

11. Commitments and Contingencies

On January 1, 2002, The DMC entered into an amended information systems outsourcing arrangement with CareTech Corporation (an entity in which The DMC has a 33% equity interest). Under the agreement The DMC outsourced its entire information system operations for a 10-year period with annual fees based on a budget approved annually. During the years ended December 31, 2003 and 2002, the fees paid under the outsourcing contract, excluding capital related items, were $59,431,000 and $74,360,000, respectively.

The DMC has entered into an agreement with Provider HealthNet Services, Inc. (PHNS) to outsource the medical records and transcription services of The DMC for a period of eight years ending December, 2011. The medical records outsourcing is represented by a eight year contractual commitment with contractually specified minimums over the term of the agreement. The contractual minimums aggregate $346,550,000 over the remaining term of the agreement to include medical record and transcription services, and the development of an electronic medical record. The DMC has the ability to terminate the agreement after December 31, 2006, subject to payment of certain penalty amounts. In connection with this outsourcing agreement, The DMC sold its medical records assets to PHNS and received a cash advance of $13,325,000 and equity position ($2,081,000 at December 31, 2003 and 2002) in PHNS. The cash advance was deferred and is being amortized over the term of the agreement and had a balance of $10,676,000 and $12,010,000 at December 31, 2003 and 2002, respectively.

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, 2003, The DMC had commitments of $52,141,000 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, excluding discontinued operations, impairment costs, and changes in estimate, classified by function are as follows:

	Years ended December 31	
	2003	**2002**
	(In Thousands)	
Health care services	**$ 1,438,489**	$ 1,395,874
Teaching	**121,282**	128,295
General and administrative	**177,662**	175,804
	$ 1,737,433	$ 1,699,973

13. Related Party Transactions

The DMC purchases teaching and clinical professional services from Wayne State University. Purchases for these services amounted to $79,000,000 and $79,500,000 for the years ended December 31, 2003 and 2002, respectively.

The DMC has transactions with other affiliated entities, board members, and related parties that are not significant. The DMC believes that each of its related party transactions are on terms comparable to those that would be available from unaffiliated third parties.

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 Asset,* the nursing homes were considered an "asset 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, 2003 and 2002:

	Years ended December 31 2003	2002
	(In Thousands)	
Total revenue	$ 21,274	$ 19,450
Total expenses	29,548	20,861
Loss from operations	$ (8,274)	$ (1,411)

15. Acquisition of Madison Community Hospital

On July 31, 2002, The DMC acquired the assets of Madison Community Hospital, located in Madison Heights, Michigan, for total consideration of $12,000,000. The consideration included a cash payment of $3,000,000, a land contract for $5,800,000, and a promissory note for $3,200,000. During 2003, The DMC negotiated a $1 million reduction in the principal payments under the agreements due to deficiencies in the assets acquired. The reduction in debt has been reflected as a reduction in goodwill. The purchase price associated with the acquisition exceed the fair value of the net assets acquired as follows:

Purchase price	$ 11,000,000
Fair value of tangible net assets (primarily property and equipment)	(6,875,000)
Excess of purchase price over tangible net assets	$ 4,125,000

15. Acquisition of Madison Community Hospital (continued)

The operations of Madison are included in the consolidated financial statements from the acquisition date.

16. Impairment Charges

During 2002 and 2003, The DMC completed plans to privatize the physicians in its primary care network. Under the privatization plan, certain physician employment arrangements were terminated and those physicians either purchased the ambulatory site or entered into a lease for each of the ambulatory sites. The leases have an initial term of five years with a five-year renewal option. Management determined the long-lived assets associated with several of the primary care network sites were impaired due to carrying value of the long-lived assets exceeding the undiscounted cash flows to be received under the terms of the sale agreement or lease agreements. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* the ambulatory sites were considered as "assets held for sale" and the carrying value of the building, improvements and fixed equipment was permanently adjusted. Fair value was determined based on independent appraisals. The DMC recognized an impairment loss related to the ambulatory sites of $297,000 and $4,998,000 in 2003 and 2002, respectively; to reduce the carrying value of the assets to fair value. Management has recorded their best estimate of costs to be incurred under the privatization plan; however, additional costs may be incurred in 2004.

During the years ended December 31, 2003 and 2002 Harper-Hutzel Hospital incurred operating losses of $37,943,000 and $60,703,000, respectively. As a result of the significant operating losses incurred and projected loss for 2004, management performed a recoverability analysis and concluded that Harper-Hutzel Hospital was impaired as the carrying amount of the facility exceeded the projected undiscounted cash flows related to the facility. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* The DMC recognized an impairment charge of $147,979,000 to reduce the carrying value of the facility, approximately $205,000,000, to its fair value. The fair value of the facility was determined based on an independent appraisal obtained by management.

17. Operating Results, Performance Improvement Plans and Liquidity Matters

For the years ended December 31, 2003 and 2002, The DMC has incurred losses, including impairment charges and discontinued operations, of $266,728,000 and $102,151,000, respectively. The DMC also had a working capital deficiency of $124,120,000 and $135,089,000 at December 31, 2003 and 2002, respectively. The continued deterioration in financial results and position has resulted from declining payments for services rendered, declining admissions, continued provision of services to the uninsured, insolvency of a managed care payor, and inability to obtain additional financial support from City, County, State, and Federal sources. In addition, The DMC has not met certain of the financial requirements related to the Master Indentures and the Loan Agreements (*see Note 7*).

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, 2003, total revenue includes $26,145,000 related to the supplemental funding package. At December 31, 2003, The DMC had recorded a receivable of $12,235,000 for amounts due under the supplemental funding package. The Memorandum contains compliance requirements related to expenditures to be incurred, compensation of officers, real estate transactions, financial reporting, operations of Detroit Receiving Hospital and University Health Center, and Hutzel Hospital, and other administrative matters. The Memorandum expires May 31, 2004. Management believes they are in compliance with all provisions of the Memorandum. Management does not expect that additional funding in the form of a supplemental funding package will be available from governmental sources.

17. Operating Results, Performance Improvement and Liquidity Matters (continued)

As discussed in Note 7, on June 29 and 30, 2004, The DMC entered into Forbearance Agreements with the trustees under the Master Indentures. 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 and December 31, 2004 and semi-annually thereafter, and provide quarterly compliance certificates. The DMC is required to comply with such covenants until such time as 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.

The Series 1995 loan agreement requires The DMC to maintain a debt service coverage ratio of 1.40. The DMC has violated the covenant at December 31, 2003. Under the terms of the loan agreement, The DMC is required to retain a consultant to increase the net revenue, as defined, to the required level. The DMC has remedied the non-compliance through the hiring of a consultant in 2003.

In November 2003, The DMC hired an outside consultant to review The DMC's operations and provide recommendations for improvement as required by the 2002 Forbearance Agreement. On January 26, 2004, the consultant provided their recommendations for improvement to management and the Finance Committee of the Board of Trustees. Management is in the process of implementing several of the recommendations that were made by the consultant. There is no assurance that the recommendations provided by the consultant will result in financial improvements for fiscal 2004 being achieved. 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 2004 and meet the additional requirements of the 2003 Forbearance Agreements.

Consolidating Financial Information

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Report of Independent Auditors on Consolidating Financial Information

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.

Ernst + Young LLP

May 7, 2004

The Detroit Medical Center

Consolidating Balance Sheet

December 31, 2003

(In Thousands)

	Consolidated Total	Consolidating Adjustments	Obligated Group	Non-Obligated Group
Assets				
Current assets:				
Cash and cash equivalents	$ 41,454	$ -	$ 36,370	$ 5,084
Net patient accounts receivable	121,849	-	117,231	4,618
Estimated third-party payor settlements	12,756	-	12,756	-
Other accounts receivable	26,725	(1,938)	23,139	5,524
Current portion of assets whose use is limited or restricted	6,478	-	6,478	-
Supplies	14,253	-	13,737	516
Assets held for sale	4,318	-		4,318
Prepaid expenses and other	21,774	-	21,271	503
Total current assets	249,607	(1,938)	230,982	20,563
Assets whose use is limited or restricted, less current portion:				
Board designated funds for capital improvements	30,526	-	30,106	420
Board designated funds for specific purposes	56,106	-	53,874	2,232
Professional liability funds	146,513	-		146,513
Funds held in trust under bond agreements	39,422	-	39,421	1
Endowment funds	56,368	-	56,368	-
Pledges receivable	22,106	-	22,106	-
Donor restricted funds	63,389	-	63,389	-
	414,430	-	265,264	149,166
Property and equipment	496,229	-	482,764	13,465
Other noncurrent assets	55,228	(2,332)	53,773	3,787
Total assets	$ 1,215,494	$ (4,270)	$ 1,032,783	$ 186,981

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	Consolidated Total	Consolidating Adjustments	Obligated Group	Non-Obligated Group
Liabilities and net assets (deficit)				
Current liabilities:				
Accounts payable and accrued expenses	180,764	$ (1,940)	$ 165,792	$ 16,912
Accrued compensation and related amounts	49,147	-	47,177	1,970
Estimated third-party payor settlements	46,051	-	46,051	-
Advance from third-party payor	49,212	-	49,212	-
Notes payable	-	(1,704)	-	1,704
Current portion of long-term debt	12,144	(120)	11,268	996
Current portion of accrued pension liability	16,707	-	16,707	-
Current portion of accrued professional liability losses	19,702	-	18,828	874
Total current liabilities	373,727	(3,764)	355,035	22,456
Long-term debt, less current portion	567,507	(44)	552,269	15,282
Other noncurrent liabilities, less current portion	398,874	-	250,093	148,781
	966,381	(44)	802,362	164,063
Total liabilities	1,340,108	(3,808)	1,157,397	186,519
Net assets (deficit):				
Unrestricted	(120,116)	(462)	(125,706)	6,052
Additional minimum pension liability	(142,463)	-	(136,873)	(5,590)
	(262,579)	(462)	(262,579)	462
Temporarily restricted	72,610	-	72,610	-
Permanently restricted	65,355	-	65,355	-
Total net assets (deficit)	(124,614)	(462)	(124,614)	462
Total liabilities and net assets (deficit)	$ 1,215,494	$ (4,270)	$ 1,032,783	$ 186,981

The Detroit Medical Center

Consolidating Statement of Operations (Deficit)

Year ended December 31, 2003

(In Thousands)

	Consolidated Total	Consolidating Adjustments	Obligated Group	Non-Obligated Group
Inrestricted revenue and other support				
let patient service revenue	$ 1,510,969	$ (15,308)	$ 1,472,316	$ 53,961
lovernmental subsidy	26,145	-	26,145	-
ther revenue	81,279	(42,954)	74,450	49,783
et assets released from restrictions for operations	12,152	-	12,152	-
otal unrestricted revenue and other support	1,630,545	(58,262)	1,585,063	103,744
xpenses				
laries, wages, and benefits	697,155	-	684,135	13,020
rvices, supplies, and other	691,946	(43,069)	645,188	89,827
ovision for uncollectible accounts	182,962	-	180,732	2,230
ofessional liability insurance	37,756	(13,049)	35,993	14,812
terest	33,605	(2,144)	32,275	3,474
preciation and amortization	94,009	-	92,049	1,960
tal expenses	1,737,433	(58,262)	1,670,372	125,323
ss from operations before impairment charge	(106,888)	-	(85,309)	(21,579)
pairment charge	(148,276)	-	(147,979)	(297)
ss from operations including adjustment for impairment charge	(255,164)	-	(233,288)	(21,876)
her nonoperating income (expense):				
Investment income (loss) and other	(3,290)	-	(3,401)	111
Equity (deficit) in net assets of subsidiaries	-	21,765	(21,765)	-
cess of expenses over revenue	(258,454)	21,765	(258,454)	(21,765)
her changes in unrestricted net assets:				
Discontinued operations	(8,274)	-	-	(8,274)
Change in unrealized loss in fair value of investments	27,790	-	20,923	6,867
Net assets released from restrictions for long-lived assets	7,840	-	7,840	-
Change in additional minimum pension liability	32,223	-	32,223	-
Equity in net assets of subsidiaries	-	8,274	(8,274)	-
[illegible]	3,964	(35,751)	10,831	28,884

The Detroit Medical Center

Consolidating Statement of Operations (Deficit)

Year ended December 31, 2003

(In Thousands)

	Consolidated Total	Consolidating Adjustments	Obligated Group	Non-Obligated Group
Unrestricted revenue and other support				
Net patient service revenue	$ 1,510,969	$ (15,308)	$ 1,472,316	$ 53,961
Governmental subsidy	26,145	-	26,145	-
Other revenue	81,279	(42,954)	74,450	49,783
Net assets released from restrictions for operations	12,152	-	12,152	-
Total unrestricted revenue and other support	1,630,545	(58,262)	1,585,063	103,744
Expenses				
Salaries, wages, and benefits	697,155	-	684,135	13,020
Services, supplies, and other	691,946	(43,069)	645,188	89,827
Provision for uncollectible accounts	182,962	-	180,732	2,230
Professional liability insurance	37,756	(13,049)	35,993	14,812
Interest	33,605	(2,144)	32,275	3,474
Depreciation and amortization	94,009	-	92,049	1,960
Total expenses	1,737,433	(58,262)	1,670,372	125,323
Loss from operations before impairment charge	(106,888)	-	(85,309)	(21,579)
Impairment charge	(148,276)	-	(147,979)	(297)
Loss from operations including adjustment for impairment charge	(255,164)	-	(233,288)	(21,876)
Other nonoperating income (expense):				
Investment income (loss) and other	(3,290)	-	(3,401)	111
Equity (deficit) in net assets of subsidiaries	-	21,765	(21,765)	-
Excess of expenses over revenue	(258,454)	21,765	(258,454)	(21,765)
Other changes in unrestricted net assets:				
Discontinued operations	(8,274)	-	-	(8,274)
Change in unrealized loss in fair value of investments	27,790	-	20,923	6,867
Net assets released from restrictions for long-lived assets	7,840	-	7,840	-
Change in additional minimum pension liability	32,223	-	32,223	-
Equity in net assets of subsidiaries	-	8,274	(8,274)	-
Other changes	3,964	(35,751)	10,831	28,884
(Decrease) increase in unrestricted net assets	$ (194,911)	$ (5,712)	$ (194,911)	$ 5,712