CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATING FINANCIAL INFORMATION

The Detroit Medical Center and Subsidiaries

Years ended December 31, 2000 and 1999 with Report of Independent Auditors

0009-0100166

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Consolidated Financial Statements
and Consolidating Financial Information

Years ended December 31, 2000 and 1999

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, 2000 and 1999, and the related consolidated statements of operations, changes in net assets, 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, 2000 and 1999, and the consolidated results of their operations, changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

February 20, 2001

The Detroit Medical Center and Subsidiaries

Consolidated Balance Sheets

	December 31 2000	December 31 1999
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 47,753	$ 42,097
Net patient accounts receivable *(Note 3)*	151,253	125,989
Estimated third-party payor settlements *(Note 1)*	41,353	39,968
Other accounts receivable	33,524	34,732
Current portion of assets whose use is limited or restricted	7,405	9,660
Supplies	14,679	14,263
Prepaid expenses and other	20,796	12,988
Total current assets	316,763	279,697
Assets whose use is limited or restricted, less current portion *(Note 4)*:		
Board designated funds for capital improvements	185,530	281,009
Board designated funds for specific purposes	68,065	101,381
Professional liability funds	122,696	122,152
Funds held in trust under bond agreements *(Note 7)*	53,687	89,802
Endowment funds	54,418	50,122
Pledges receivable	21,552	25,869
Donor restricted funds	68,366	33,368
	574,314	703,703
Property and equipment, net *(Notes 1, 2 and 4)*	660,516	670,279
Other noncurrent assets *(Notes 2)*	55,052	53,285
Total assets	$ 1,606,645	$ 1,706,964

	December 31 2000	December 31 1999
	(in thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 153,093	$ 190,509
Accrued compensation and related amounts	44,768	46,194
Estimated third-party payor settlements *(Note 1)*	71,101	59,088
Advance payment from third-party payor	57,632	68,878
Current portion of long-term debt *(Note 7)*	5,383	4,990
Current portion of accrued professional liability losses	16,795	22,478
Total current liabilities	348,772	392,137
Long-term debt, less current portion *(Note 7)*	578,936	614,509
Other noncurrent liabilities, less current portion *(Notes 1, 2, 8, 9 and 10)*	252,362	274,177
	831,298	888,686
Net assets:		
Unrestricted	270,207	278,154
Temporarily restricted	101,950	97,865
Permanently restricted	54,418	50,122
	426,575	426,141
Total liabilities and net assets	$ 1,606,645	$ 1,706,964

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Operations

	Year ended December 31 2000	1999
	(in thousands)	
Unrestricted revenue and other support:		
Net patient service revenue *(Note 3)*	$ 1,492,560	$ 1,452,521
Other revenue	74,960	119,476
Net assets released from restrictions for operations	15,544	13,175
Total revenue and other support	1,583,064	1,585,172
Expenses:		
Salaries, wages and benefits	644,833	695,028
Services, supplies and other	609,437	658,522
Provision for uncollectible accounts	213,026	205,304
Professional liability insurance *(Note 8)*	18,204	45,271
Interest	38,134	36,729
Depreciation and amortization	98,577	84,586
	1,622,211	1,725,440
Loss from operations before restructuring costs and changes in estimate	(39,147)	(140,268)
Restructuring costs *(Note 16)*	-	(32,047)
Change in estimate *(Note 15)*	12,079	-
Loss from operations	(27,068)	(172,315)
Other income:		
Investment income and other	19,062	67,314
Gain on sale of assets *(Note 16)*	-	6,639
Excess of expenses over revenue	(8,006)	(98,362)
Other changes in unrestricted net assets:		
Change in unrealized gains in fair value of investments *(Note 4)*	(7,008)	(59,769)
Net assets released from restrictions for long-lived assets	7,362	5,114
Other changes	(295)	2,750
Decrease in unrestricted net assets	$ (7,947)	$ (150,267)

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Year ended December 31	
	2000	1999
	(in thousands)	
Decrease in unrestricted net assets	$ (7,947)	$ (150,267)
Temporarily restricted net assets:		
Contributions	24,997	31,995
Investment income	6,265	7,882
Change in unrealized gains in fair value of investments	(4,566)	(890)
Net assets released from restrictions for long-lived assets	(7,362)	(5,114)
Net assets released from restrictions for operations	(15,544)	(13,175)
Other changes	295	(3,018)
Increase in temporarily restricted net assets	4,085	17,680
Permanently restricted net assets:		
Contributions	4,296	6,684
Increase in permanently restricted net assets	4,296	6,684
Increase (decrease) in net assets	434	(125,903)
Net assets at beginning of year	426,141	552,044
Net assets at end of year	$ 426,575	$ 426,141

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended December 31 2000	1999
	(in thousands)	
Operating activities		
Decrease in net assets	$ 434	$ (125,903)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Depreciation and amortization	98,577	84,586
Gain on sale of assets *(Note 16)*	-	(6,639)
Change in estimate *(Note 15)*	(12,079)	-
Change in net unrealized gains in fair value of investments	11,574	60,659
	98,506	12,703
Changes in operating assets and liabilities:		
Patient accounts receivable and third-party payor settlements	(26,649)	(4,396)
Other current assets	(7,016)	(19,876)
Accounts payable and accrued expenses	(37,416)	8,220
Other current liabilities	(1,426)	(8,919)
Due to third-party payors	12,013	23,473
Advance from third-party payor	(11,246)	68,878
Accrued pension costs	12,116	19,894
Accrued unfunded professional liability losses	(26,655)	44,155
Other operating activities	(5,155)	(1,994)
Cash provided by operating activities	7,072	142,138
Investing activities		
Purchase of property and equipment	(90,338)	(117,356)
Decrease in assets whose use is limited or restricted, excluding professional liability funds	116,249	19,149
Other investing activities	7,853	10,837
Cash provided by (used in) investing activities	33,764	(87,370)
Financing activities		
Repayment of long-term debt	(35,180)	(9,569)
Repayment on revolving line of credit notes	-	(33,889)
Cash used in financing activities	(35,180)	(43,458)
Increase in cash and cash equivalents	5,656	11,310
Cash and cash equivalents at beginning of year	42,097	30,787
Cash and cash equivalents at end of year	$ 47,753	$ 42,097

See accompanying notes.

The Detroit Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2000

1. Organization and Significant Accounting Policies

Organization

The Detroit Medical Center 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 work with the University to integrate clinical services, education and research.

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

Associated Hospitals Processing Facility
Children's Hospital of Michigan (A)
DMC Clinic Plan
DMC Insurance Co., Ltd. *(see Note 9)*
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 DMC. Such corporations are referred to herein as the subsidiaries of The DMC. The consolidated financial statements include the accounts of The DMC and all majority-owned subsidiaries. The DMC accounts for its investments in CareTech Corporation, Caymich Insurance Company, Premier Purchasing Partners, L.P., and DMC Care 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.

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.

Marketable Securities

Marketable securities, which comprise substantially all assets whose use is limited or restricted, are stated at fair value, which is determined on the basis of quoted market prices.

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 for The DMC's capital and medical education costs, subject to certain limits. Additionally, The DMC has entered into agreements with commercial insurance carriers, certain 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.

1. Organization and Significant Accounting Policies (continued)

Net patient service revenue is reported at the estimated net realizable amounts 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. During 2000 and 1999, The DMC recognized an increase of $7,218,000 and $20,362,000, respectively, in net patient service revenue due to favorable settlements with third-party payors.

The DMC received a cash advance from the Medicaid program related to medical education and indigent volume. The cash advance is ratably recognized as income.

Revenue from the Medicare and Medicaid programs accounted for approximately 24% and 14%, respectively, of net patient service revenues for 2000. 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. At this time, no specific alleged violations, claims, or assessments have been made. Management intends to fully cooperate with the governmental agencies in its request for information.

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)*.

1. Organization and Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose, such as capital additions or research. When a donor restriction is satisfied, such as through expenditure for the restricted purpose, temporarily restricted net assets are reclassified as net assets released from restrictions for 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 net assets when the pledge is made.

Permanently restricted net assets have been restricted by donors to be maintained by The DMC in perpetuity or for terms restricted by donor.

Excess (Deficiency) of Revenue Over Expenses

The statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments, 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

Management periodically reviews the carrying value of its long-lived tangible and intangible assets to determine if an impairment has occurred or whether changes in circumstances have occurred that would require a revision to the remaining useful life. In making such determination, management evaluates the performance, on an undiscounted basis, of the underlying operations or assets which give rise to such amount. *(see Note 14).*

1. Organization and Significant Accounting Policies (continued)

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.

2. Additional Balance Sheet Information

	December 31 2000	December 31 1999
	(in thousands)	
Property and equipment:		
Land and land improvements	$ 12,678	$ 12,634
Buildings and improvements	901,868	818,267
Equipment	678,271	616,339
Construction in progress	32,000	89,738
	1,624,817	1,536,978
Accumulated depreciation	(964,301)	(866,699)
	$ 660,516	$ 670,279
Other noncurrent assets:		
Goodwill and other intangible assets	$ 7,000	$ 7,000
Accumulated amortization	(2,453)	(1,757)
	4,547	5,243
Deferred debt issuance costs	16,264	17,129
Deferred compensation investments	15,062	16,641
Other	19,179	14,272
	$ 55,052	$ 53,285
Other noncurrent liabilities, less current portion:		
Accrued professional liability losses	$ 174,862	$ 199,655
Accrued pension costs	35,926	23,495
Other postretirement liability	14,718	15,210
Other	26,856	35,817
	$ 252,362	$ 274,177

3. Net Patient Accounts Receivable

	December 31 2000	1999
	(in thousands)	
Net patient accounts receivable:		
Gross patient accounts receivable	$ 733,859	$ 662,801
Allowances and advances under contractual arrangements	(470,514)	(434,391)
Allowance for uncollectible accounts	(112,092)	(102,421)
	$ 151,253	$ 125,989

Net patient service revenue is shown net of contractual and charity care adjustments of $1,284,076 in 2000 and $944,651,000 in 1999.

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, 2000 and 1999 include net amounts due from Medicare (11% and 13%), Medicaid (12% and 12%), Blue Cross (11% and 13%), and other payors, (66% and 62%), respectively.

4. Investments

The DMC records investments in equity securities and debt securities at fair value. Fair value is determined based on quoted market prices. Investments are summarized as follows:

	December 31 2000	1999
	(in thousands)	
Cash and cash equivalents	$128,383	$214,165
United States Government obligations	168,528	159,755
Corporate bonds	74,674	86,472
Common stocks	195,410	223,936
Foreign bonds	20,691	21,522
Other investments	9,128	10,602
	$596,814	$716,452

4. Investments (continued)

Investment return is summarized as follows:

	Year ended December 31 2000	1999
	(in thousands)	
Interest and dividends	$ 36,989	$ 40,376
Net realized gains	10,805	81,418
Change in net unrealized gains	(11,574)	(60,659)
Total investment return	$ 36,220	$ 61,135
Included in other revenue	$ 25,208	$ 43,690
Included in other income	16,321	70,222
Reported separately as change in unrealized gains	(7,008)	(59,769)
	34,521	54,143
Increase in temporarily restricted net assets	1,699	6,992
Total investment return	$ 36,220	$ 61,135

Investment return, excluding unrealized gains and losses, on board designated funds for capital improvements is included in other income. All other investment return, excluding unrealized gains 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.

Marketable securities: The fair values for marketable debt and equity securities 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 2000	December 31 1999
	(in thousands)	
Cash and cash equivalents	$ 47,753	$ 42,097
Current portion of assets whose use is limited	7,405	9,660
Assets whose use is limited or restricted, less current portion	579,314	703,703

The carrying amounts and fair values of long-term debt are as follows:

	December 31 2000	December 31 1999
	(in thousands)	
Carrying amount	$574,350	$608,255
Fair value	512,312	544,303

6. Line of Credit

During October, 2000, The DMC entered into a financing agreement with GE Capital to provide a $60,000,000 secured line of credit. The credit line, which expires October 13, 2003, is secured by eligible accounts receivable of The DMC. Interest on any borrowings will be determined at the date of the borrowing based on Libor plus 2.75% (7.6% at December 31, 2000). Under the terms of the line, the DMC is required to meet certain reporting requirements and monthly covenants as defined in the credit agreement. Management expects the DMC will be able to meet the covenant requirements. At December 31, 2000, the DMC had no outstanding balance under the line of credit.

7. Long-Term Debt and Leases

Long-term debt consists of the following:

	December 31	
	2000	1999
	(in thousands)	
Michigan State Hospital Finance Authority (MSHFA) bonds:		
Series 1988A and 1988B, interest at 8.1%, due 2010	$ 2,575	$ 2,575
Series 1991A, interest at 7.1%, due 2001	2,280	4,410
Series 1993A, interest at 5.70% to 6.5%, due 2018	109,795	110,245
Series 1993B, interest at 4.7% to 5.75%, due 2023	132,285	132,285
Series 1995, interest at 5.75% to 6.7%, due 2026	43,745	72,310
Series 1997A, interest at 5.0% to 5.5%, due 2027	174,460	174,460
Series 1998A, interest at 5.0% to 5.25% due 2028	108,650	108,650
Obligations under capital leases	9,969	11,244
Notes payable and other obligations	560	3,320
	584,319	619,499
Less current portion	5,383	4,990
	$578,936	$614,509

7. Long-Term Debt and Leases (continued)

The DMC and its hospital subsidiaries are members of The Detroit Medical Center Obligated Group which was created under a Master Indenture and Security Agreement. The Master Indenture provides that each hospital member is jointly and severally liable for obligations issued thereunder. The DMC 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 $4,725,000 in 2001 to $37,585,000 in 2028.

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 $82,465,000 at December 31, 2000, is considered to be extinguished for financial reporting purposes and will be paid from escrow funds.

Obligations under capital leases consist of Detroit Receiving's sublease of its hospital facility, DMC Centers, Inc.'s lease of certain building facilities, and several equipment leases. The Detroit Receiving sublease requires annual payments of $1,000,000 through 2001 at which time Detroit Receiving has the option to purchase the hospital assets for one dollar. The capitalized value of these assets is amortized over their useful lives. The DMC Centers, Inc.'s building leases expire during various periods through 2012, and the related assets are amortized over the shorter of their useful lives or the term of the leases.

During March, 2000 The DMC completed a tender offer for $27,560,000 of the Series 1995 bonds. The bonds were redeemed through the use of $25,629,000 in unspent bond proceeds from the initial offering, and resulted in a gain of $962,000 which is included in other income on the statement of operations. In addition, during 2000 The DMC obtained approval from the Internal Revenue Service to utilize approximately $15 million of unspent bond proceeds for capital projects other than their initial intended use.

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)	
2001	$ 4,830	$ 2,648
2002	6,685	1,366
2003	8,060	1,371
2004	8,555	1,378
2005	8,980	1,383
Thereafter	537,240	6,865
	$574,350	15,011
Less amounts representing interest		5,042
		$ 9,969

Interest paid was $34,632,000 in 2000 and $37,195,000 in 1999. Interest capitalized was $1,721,000 in 1999. Expenses incurred under operating leases were $17,212,000 in 2000 and $19,516,000 in 1999.

8. Professional and General Liability Losses

The DMC has established an offshore captive insurance company to provide professional and general liability coverage to The DMC's hospital subsidiaries, certain medical staff members and other affiliates. Those subsidiaries not participating in the captive insurance programs continue to provide their own coverages. Under several of these insurance programs a portion of the risk of loss from professional liability claims is retained by the subsidiary. In addition, The DMC has acquired excess professional liability and general liability coverage from a captive insurance company of which it holds a minority interest.

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 Losses (continued)

Accrued professional liability losses are recorded at their estimated present value based on discount rates which average approximately 6.5% in 2000 and 1999. Professional liability expense was $18,204,000 in 2000 and $45,271,000 in 1999.

Based upon a review of The DMC's history of professional liability losses and reserves for known claims, management has determined in consultation with its actuary that it is appropriate to change the loss limit in determining the estimated liability for incurred-but-not-reported claims. This change in estimate had the effect of reducing insurance expense by approximately $15,000,000 in 2000.

9. Pension Benefits

The DMC has a noncontributory defined benefit retirement plan covering substantially all of the employees of The DMC and its affiliates 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.

9. Pension 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, 2000 and 1999, and a statement of the funded status as of December 31, 2000 and 1999.

	Year ended December 31	
	2000	1999
	(in thousands)	
Reconciliation of benefit obligation		
Benefit obligation at the beginning of year	$ 566,681	$ 647,578
Service cost	23,499	29,810
Interest cost	44,633	43,196
Actuarial loss (gain)	22,898	(123,868)
Curtailments	-	(12,469)
Benefits paid	(19,393)	(17,566)
Benefit obligation at end of year	638,318	566,681
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	617,961	563,248
Actual return on plan assets	13,451	72,279
Benefits paid	(19,393)	(17,566)
Fair value of plan assets at end of year	612,019	617,961
Funded status at December 31	(26,299)	51,280
Unrecognized net actuarial gain	(9,688)	(75,003)
Unrecognized prior service cost	61	228
Accrued benefit cost	$ (35,926)	$ (23,495)

9. Pension Benefits (continued)

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

	Year ended December 31	
	2000	**1999**
	(in thousands)	
Service cost-benefits earned during the period	$23,499	$29,810
Interest cost on projected benefit obligation	44,633	43,196
Expected return on assets	(54,836)	(52,520)
Amortization of prior service cost	167	266
Recognition of actuarial loss (gain)	(1,032)	341
Amortization of transition asset	-	(1,231)
Net pension expense of defined benefit plan	12,431	19,862
Curtailment loss	-	32
Other pension plan expense (income)	1,019	(813)
Net pension expense	$13,450	$19,081

The assumptions used in the accounting for the Plan are set forth below:

	December 31	
	2000	**1999**
Discount rate	7.75%	8.00%
Expected long-term rate of return on assets	9.25%	9.00%
Rate of increase in compensation levels	4.50%	4.50%

The change in the projected benefit obligation in 2000 and 1999 was due to the change in the discount rate which increased 1.25% in 1999 and decreased .25% in 2000.

The investments of the Plan are held in trust by a trustee and managed in accordance with guidelines established by The DMC. Investments include U. S. Government securities, bank common trust funds, corporate equity and debt securities, and cash equivalents.

10. Other Postretirement Employee Benefits

In addition to The DMC's pension plan, certain hospitals sponsor defined benefit health care plans for retirees who meet eligibility requirements, and one hospital has committed to provide 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.

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

	Year ended December 31 2000	1999
	(in thousands)	
Reconciliation of benefit obligation		
Benefit obligation at the beginning of year	$ 20,407	$ 19,595
Service cost	8	13
Interest cost	1,446	1,487
Participant contributions	445	548
Actuarial (gain) loss	(1,025)	1,416
Benefits paid	(2,398)	(2,652)
Benefit obligation at end of year	18,883	20,407
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	2,424	2,312
Actual return on plan assets	174	229
Benefits paid	(94)	(117)
Fair value of plan assets at end of year	2,504	2,424
Funded status at December 31	(16,379)	(17,983)
Unrecognized net actuarial loss	636	699
Unrecognized prior service cost	1,025	2,074
Accrued benefit cost	$(14,718)	$(15,210)

10. Other Postretirement Employee Benefits (continued)

Net periodic postretirement benefit cost includes the following components:

	Year ended December 31 2000	1999
	(in thousands)	
Service cost	$ 8	$ 13
Interest cost	1,446	1,487
Expected return on assets	(150)	(150)
Amortization of prior service cost	63	63
Recognition of actuarial loss	-	163
Net periodic postretirement benefit cost	$1,367	$1,576

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 6.44% for 2000 and is assumed to decrease uniformly to 5.0% in 2003 and remain at that level thereafter. The discount rate was 7.75% at December 31, 2000 and 8.00% at December 31, 1999.

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	$ 89	$ (83)
Effect on postretirement benefit obligation	1,249	(1,146)

11. Commitments and Contingencies

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, 2000, The DMC had commitments of $31,182,000 for the purchase of property and equipment.

12. Income Taxes

The DMC, 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.

13. 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 restructuring and impairment costs and changes in estimate, classified by function are as follows:

	Year ended December 31	
	2000	1999
	(in thousands)	
Health care services	$1,334,311	$1,429,638
Teaching	134,832	128,053
General and administrative	153,068	167,749
	$1,622,211	$1,725,440

14. Related Party Transactions

The DMC purchases services related to the operation of its information systems from an entity in which one of The DMC trustees is an officer. The DMC purchases services and capital assets related to information systems which amounted to $89,753,000 and $36,312,000, for the years ended December 31, 2000 and 1999, respectively. The DMC purchases employee health insurance from an entity in which it owns a one-third interest. Purchases for health insurance services amounted to $24,276,000 and $30,910,000 during the years ended December 31, 2000 and 1999, respectively. The DMC has transactions with other affiliated entities 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.

15. Change in Estimate

During 2000, The DMC determined that the Rehabilitation Institute of Michigan facility would not be sold as management had previously intended. The DMC previously recorded an impairment allowance as the building was considered an "asset held for sale" in accordance with the provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The DMC reversed $2,779,000 of the impairment allowance recorded in 1997.

The DMC's Hutzel and Sinai facilities had been considered impaired for accounting purposes and accruals had been recorded for unrecovered demolition costs. During 2000, management determined that accruals associated with the demolition of Hutzel Hospital and the former Sinai Hospital facilities would no longer be necessary due to changes in management's intended use for the facilities. Accordingly, The DMC has reversed accruals of $9,300,000 related to the demolition of these facilities.

16. Performance Improvement Plan

For the years ended December 31, 2000 and 1999, The DMC has incurred decreases in unrestricted net assets of $6,416,000 and $150,267,000, respectively. The decreases have resulted from declining payments for services rendered, excess facility capacity, an increased level of indigent care provided, and losses from ambulatory and physician practices. Since the fourth quarter of 1998, The DMC has been involved in developing and implementing restructuring plans to improve its operating performance. Such efforts have included the retention of a nationally recognized consulting firm in fiscal 1999 to assist in the restructuring process and the development by The DMC of a business plan and strategy to address The DMC's financial performance.

As a result of restructuring activities during 1999, The DMC recorded a restructuring charge of approximately $32,047,000, which is included in the statement of operations. The restructuring charge includes amounts related to employee severance costs, contract termination costs, and consulting fees. In addition, during 1999 The DMC sold its dialysis center assets and interests in certain dialysis partnerships for total proceeds of $8,000,000. The DMC recognized a gain on the sale of these assets of $6,639,000 which has been reflected in the statement of operations.

16. Performance Improvement Plan (continued)

DMC management's plan for fiscal 2001 includes improving operational performance through ongoing cost reductions, gaining market share through leveraging The DMC's patient care programs, more efficient utilization of facilities, improvement of the financial performance of its ambulatory facilities and physician practices, and continued evaluation of programs and functions which may not meet the core business requirements of The DMC. While there is no assurance that financial targets for fiscal 2001 will be achieved, based on current estimates, management believes that cash flow from operations, line of credit arrangements, and funds previously designated for capital improvements will be sufficient to finance both ongoing operations and required capital commitments for fiscal 2001.