

**CONSOLIDATING FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

**ROSWELL PARK CANCER INSTITUTE
CORPORATION**

**MARCH 31, 2011
with
INDEPENDENT AUDITOR'S REPORT**

ROSWELL PARK CANCER INSTITUTE CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Roswell Park Cancer Institute Corporation

We have audited the accompanying consolidating balance sheet and the related consolidating statements of revenues, expenses and changes in net assets and cash flows of Roswell Park Cancer Institute Corporation (RPCIC), a component unit of New York State, as of March 31, 2011 and for the year then ended. We previously audited the consolidating financial statements of RPCIC for the year ended March 31, 2010 and expressed an unqualified opinion dated June 10, 2010. The consolidated balance sheet and related consolidated statements of revenues, expenses and changes in net assets and cash flows as of and for the year then ended March 31, 2010 are presented for comparative purposes only. These financial statements are the responsibility of RPCIC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits issued by the Comptroller General of 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RPCIC as of March 31, 2011, and the results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further discussed in Note 14, RPCIC had significant transactions with related parties.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2011 on our consideration of Roswell Park Cancer Institute Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages 2 through 15 is not a required part of the basic consolidating financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York
June 23, 2011

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MARCH 31, 2011 and 2010
(in thousands of dollars, except as otherwise noted)

Our discussion and analysis of Roswell Park Cancer Institute Corporation's ("RPCIC") financial performance provides an overview of the financial activities for the fiscal year that ended on March 31, 2011. The consolidated financial statements of RPCIC include the accounts of the Roswell Park Cancer Institute Corporation, the Roswell Park Cancer Institute Clinical Practice Plan (collectively referred to as the "Institute" and/or "RPCI") and the Roswell Park Alliance Foundation, Inc. Please read this management's discussion and analysis in conjunction with RPCIC's consolidated financial statements. Unless otherwise indicated, all dollar amounts are in thousands.

1. Introduction

Roswell Park Cancer Institute (RPCI) was established in 1898 on the principle of integrating clinical care, research and education focused solely on cancer. Dr. Roswell Park, a nationally prominent Buffalo surgeon, was perhaps the first to describe the importance of translational research in a cancer center when he wrote in 1904 that *"Only [through] a deliberate, well-planned, combined attack from various directions by means fitted for such work could real advances be made and [further] the relationship of laboratory work, clinical study and education must be closely associated"*. Dr. Park's commitment to patient care and the scientific study of cancer led to the establishment of a research facility and hospital unit which were recognized and partially funded by the State of New York in 1904; this was the first example of government support for cancer research in the world.

RPCI, the only NCI-designated cancer center in Upstate New York, consistently ranks among the National Cancer Institute's top recipients of funding. In 2008, the Institute's National Cancer Institute Cancer Center Support Grant (CCSG, also known as the "core" grant) was reviewed by a site visit team of 22 nationally recognized experts in cancer research and treatment. The grant received the highest score in the history of the Institute. With the full five-year renewal of this grant, which forms the foundation for Roswell's designation as an NCI comprehensive cancer center, Roswell Park is now beginning its 35th year of continuous designation by the NCI – only two other centers in the US share this important benchmark of excellence. The Institute holds full accreditation from the Joint Commission on Accreditation of Healthcare Organizations (JACHO), and its programs and services are also reviewed and accredited by numerous national bodies, including the Accreditation Council for Continuing Medical Education, Accreditation Council for Graduate Medical Education, American Dental Association – Dentistry and Maxillofacial Prosthetics, American Society of Histocompatibility and Immunogenetics, Association of American Blood Banks, the Commission on Cancer of the American College of Surgeons (with commendation) and FACT (Foundation for the Accreditation of Cellular Therapy) which has awarded a 3-year accreditation for RPCI's Blood and Marrow Transplantation Program (autologous & allogeneic bone marrow; peripheral blood progenitor cell transplantation, collection & processing).

RPCI's more than 3,300 employees include nearly 350 clinicians, scientists and shared research resources professional staff. The interdisciplinary research programs – basic science, translational, and clinical – focus on six primary areas of investigation: Tumor Immunology, Drug Development and Experimental Therapeutics, Cell Stress Biology and Biophysical Therapies, Cancer Genetics, Cancer Prevention and Population Studies, and GU Cancers. Roswell scientists within these programs had active research funding totaling approximately \$125M in 2010-11. Approximately 500 trainees – graduate students, residents, and clinical and post-doctoral fellows are registered in the RPCI Graduate Division of the University at Buffalo Graduate School annually.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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1. Introduction (continued)

Since 2000, the Institute has recruited over 240 new faculty and constructed and opened a 177,000 square foot state-of-the-art research building. More recently, the Institute has undertaken significant renovations and relocations to accommodate a rapidly growing demand for clinical services – in fiscal year 2011, patient activity continued to grow with over 29,400 patients diagnosed, treated, and/or seen in follow-up clinics and 202,575 outpatient visits. Inpatient volumes increased nearly 2% from the prior year. The Institute's Center for Clinical Research ("CCR"), opened in April 2008 and funded in large part through the generosity of an anonymous donor, is one of only a handful in the United States dedicated to oncology clinical trials. The CCR provides patients participating in phase I and phase II studies with a full data manager/nursing/pharmacy support team in a setting designed to meet the patient's special needs. The CCR's seven beds and 10 chairs allow for specialized treatment and monitoring, providing state-of-the-art care and reducing the need for inpatient admission for protocol treatment. This is an important tool supporting the development of Roswell Park's innovative investigator-initiated clinical trials.

The Office of Cancer Health Disparities Research (OCHDR), unique among cancer centers nationally, sponsors a number of community based programs that are proving to be national models for reaching high-risk and medically underserved communities. Included among these programs are:

- ***The Witness Project*** (WP) incorporates survivors, narrative communication, and cultural components of spirituality. This is an intervention for increasing breast and cervical cancer screening for African American women. The WP Program currently has 23 community volunteers and collaborates with Witness Project programs in Syracuse, Harlem, and Jamestown, New York. Funded by Komen for the Cure, the Avon Foundation and the Community Foundation of Greater Buffalo.
- The ***Minorities Allied for the Need to Understand Prostate Cancer (MAN UP)***. The purpose of the committee is to ensure that Roswell Park provides culturally appropriate outreach and educational programs about the importance of prostate cancer screening especially for men of minority ethnic groups (African American and Latino) and men who are medically underserved and uninsured.
- The ***Patient Navigation***. Program assists those patients that face obstacles that prevent them from obtaining or utilizing the full benefit of the quality care that Roswell Park has to offer after they have been diagnosed with cancer. The "navigator" helps patients with transportation, child care, contact with support groups, financial help and other needs.
- ***Science to the Sidewalks*** moves the science of Roswell into the community through dialogue on a local venue, engaging RPCI's research program leaders and scientists to share their passion about their research in community settings, and disseminate the importance of these studies to minority and underserved communities.
- ***Meet the Pros*** is a display and poster exhibit that introduces the services/programs of RPCI to attendees of health fairs, schools, block club meetings, press events and workplaces throughout the region.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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(in thousands of dollars, except as otherwise noted)

1. Introduction (Continued)

- The ***Seneca Nation Project*** is a comprehensive Epidemiological study designed to investigate cancer patterns among the Seneca Nation by Drs. Arthur Michalek and Martin Mahoney. This long-term collaboration and established relations with the Seneca Nation Tribal Council sets the stage for further collaborations and outreach efforts.
- **Testing the Effectiveness of an Intervention to Increase Screening**
 - a) *Esperanza y Vida* (Hope and Life), a study supported by a Susan B. Komen Foundation grant is obtaining findings about behaviors to help us understand barriers to access and improve outreach methods for breast and cervical cancer screening with the *Hispanic population*. *Esperanza y Vida* has current programs in Buffalo, New York (Roswell Park Cancer Institute), New York City (Mount Sinai School of Medicine) & Little Rock, Arkansas (University of Arkansas for Medical Science).
 - b) *Lung Cancer Surveillance Education & Recruitment*, is designed to impact the development of intervention strategies, screening tools, and treatment protocols inclusive of and appropriate members of racial groups to reduce overall lung cancer morbidity and mortality.
 - c) *Colorectal Cancer Screening Intervention*, educates minority, economically disadvantaged and medically-underserved populations about the importance of colorectal cancer screening and colonoscopy, featuring activities involving cancer screening, education, treatment and research.

Community oncology programs are provided through the RPCI Regional Network. Members include Cayuga Medical Center in Ithaca, NY; Bradford Regional Medical Center in Bradford, PA; WCA Hospital, Jamestown, NY; Rochester General Hospital, Rochester, NY; Olean General Hospital, Olean, NY;. In addition, Roswell Park runs the New York State Smoker's Quitline and the HIV/AIDS Hotline, which provide a wide variety of counseling and support services to individuals and public health professionals statewide.

The RPCI campus is 29 acres located in the heart of the 110 acre Buffalo Niagara Medical Campus (BNMC) near downtown Buffalo. The Facilities are comprised of 16 major buildings totaling nearly 2 million square feet of space of which more than 990,000 square feet is dedicated to research in the form of laboratory, laboratory support, office and Shared Resource space. Six of the buildings are utilized for wet/dry research and have new or renovated laboratory space. The RPCI clinical facilities (600,000 square feet) include a dedicated 133-bed cancer hospital and an ambulatory center with 12 multidisciplinary specialty clinics. Clinical services include a 14-bed Blood and Marrow Transplant Center and a satellite ambulatory facility in Amherst, NY. The Pediatric Oncology/Hematology program, which includes a 9-bed inpatient/outpatient unit at RPCI, is a joint initiative with the Women and Children's Hospital of Buffalo delivering 90% of all hematology/oncology services for children in the 8-county WNY region for more than 30 years.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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(in thousands of dollars, except as otherwise noted)

2. Mission

Mission

To understand, prevent and cure cancer.

Vision

To position Roswell Park among the top 10 of the Nation's leading cancer centers.

Values

Core values reflect what is most true and important to us as an organization. These are values that have shaped us and will continue to – they do not change given circumstances or time but rather are consistent throughout our mission areas. Roswell Park is a special place to work and the staff and faculty who live these values have made it so. These values will guide and power our personal and collective actions and enable future successes on behalf of individuals and the world.

- **Innovation:** We are driven to provide care that cures and comforts, research that informs the world, and education that enlightens and enables future generations. We proudly stand on our rich history and use it as a platform from which to embrace discovery and change.
- **Integrity:** We are committed to making each decision, whether related to patient care, research, education or administration, based on standards that are thoughtful, informed, honest, transparent when appropriate and always respectful of privacy.
- **Teamwork:** We value and encourage the viewpoints and constructive opinions of all people and disciplines and recognize that all contributions strengthen the results we achieve, the value we provide, the actions we take and the team we strive to be.
- **Commitment:** We are devoted to achieving extraordinary progress on behalf of those we serve; patients and families who come to us during times of great need, scientists and clinicians who wish to collaborate, students seeking education, the science of cancer that awaits our contributions, and the community that deserves strong stewardship and economic leadership.
- **Compassion and Respect:** We are enriched by the diverse cultures, needs, and expectations of our coworkers and of the communities we serve. It is our privilege and responsibility to appreciate these differences as we establish research goals, develop care plans, and interact with one another.

3. Governance

Effective January 1, 1999, the Institute became a public benefit corporation of the State of New York (NYS), operating under enabling legislation enacted under Title 4 of the Public Authorities Law. The Institute is owned by NYS and operated as a public benefit corporation and as such, is a component unit of NYS. Prior to January 1, 1999 the Institute was a division of New York State Health Department.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
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4. Component Unit

Pursuant to GASB No. 39, RPCIC has consolidated, for financial statement purposes, the Roswell Park Alliance Foundation, Inc. (the "Foundation") effective April 1, 2003. The Foundation was established in March 1991 to solicit, receive and administer funds to support scientific and clinical research, delivery of state-of-the-art medical care and treatment, and patient-related activities at Roswell Park Cancer Institute. The Foundation is tax exempt under Section 501(C)(3) of the Internal Revenue Code and is managed by a Board of Trustees of community leaders. This Board is independent of the RPCI Board of Directors and as such, RPCI's Board has no jurisdiction over the Board of the Foundation or the Foundation's assets. Periodically, the Foundation makes grants to RPCIC for various purposes. These grant funds are typically administered by Health Research, Incorporated.

5. Financial Highlights

- Net assets increased \$3,333 (1.4%) from 2010 to 2011 and \$16,693 (7.3%) from 2009 to 2010.
- Total assets increased \$51,377 (7.2%) and \$43,672 (6.5%) from 2010 to 2011 and 2009 to 2010 respectively.
- Operating revenues excluding New York State (NYS) support increased by \$29,523 (8.4%) from 2010 to 2011 and \$27,584 (8.5%) from 2009 to 2010.
- NYS support revenue was decreased to \$76,960 from \$85,219 from 2010 to 2011 and decreased to \$85,219 from \$91,100 from 2009 to 2010.
- Operating expenses increased by \$23,916 (5.2%) from 2010 to 2011 and \$15,973 (3.6%) from 2009 to 2010. Post retirement health costs decreased \$809 from 2010 to 2011 and increased \$703 from 2009 to 2010. RPCIC adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* in fiscal 2007.

6. Using This Annual Report

RPCIC's consolidated financial statements consist of three statements – a consolidated balance sheet; a consolidated statement of revenues, expenses and changes in net assets; and a consolidated statement of cash flows. These statements provide information about RPCIC's activities including resources held by RPCIC but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets

Both statements report information about RPCIC's resources and its activities that describe the financial results of the fiscal year and RPCIC's financial position as of the end of the year. They also report RPCIC's net assets and changes in them.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MARCH 31, 2011 and 2010
(in thousands of dollars, except as otherwise noted)

6. Using This Annual Report (Continued)

Net assets is the difference between assets and liabilities. Over time, increases or decreases in RPCIC's net assets are one indicator of whether RPCIC's financial health is improving, or deteriorating. Other non-financial factors such as changes in RPCIC's patient base, measure of the quality of services provided, local, state and federal economic factors should also be considered.

The Statement of Cash Flows

The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. It describes sources of cash, uses of cash and the change in cash balance during the fiscal year.

7. Related Parties

Health Research, Incorporated

Health Research, Inc. (HRI) is a not-for-profit corporation chartered under the laws of NYS in 1953 primarily to administer gifts or grants in keeping with the research, prevention, and treatment purposes of the New York State Department of Health (NYSDOH). HRI has divisions in Buffalo and Albany, New York which administer projects conducted at the NYSDOH and the Roswell Park Cancer Institute (RPCIC) primarily financed by private and governmental contracts, grants and donations. HRI is tax exempt under Section 501(C)(3) of the Internal Revenue Code. HRI is not included in the RPCIC consolidated financial statements.

8. RPCIC's Net Assets

RPCIC's net assets are the difference between the assets and liabilities reported in the statement of net assets. RPCIC's net assets increased by \$3,333 in 2011 and \$16,693 in 2010 as shown in Table 1. The reasons for the overall increase are discussed below. Changes in capital assets and long-term debt are also discussed under the heading *Capital Asset and Debt Administration*.

Table 1: Summary of Balance Sheet

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current and other assets	\$ 458,966	\$ 392,848	\$ 350,797
Capital assets, net	<u>308,975</u>	<u>323,716</u>	<u>322,095</u>
Total assets	<u>\$ 767,941</u>	<u>\$ 716,564</u>	<u>\$ 672,892</u>

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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(in thousands of dollars, except as otherwise noted)

8. RPCIC's Net Assets (Continued)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Liabilities:			
Long-term debt outstanding	\$ 241,168	\$ 253,584	\$ 265,579
Other liabilities	<u>279,115</u>	<u>218,656</u>	<u>179,682</u>
Total liabilities	<u>520,283</u>	<u>472,240</u>	<u>445,261</u>
Net Assets:			
Invested in capital assets, net of related debt	90,237	91,138	78,803
Restricted expendable	76,383	61,804	55,016
Restricted non-expendable	29,891	29,211	26,688
Unrestricted	<u>51,147</u>	<u>62,171</u>	<u>67,124</u>
Total net assets	<u>247,658</u>	<u>244,324</u>	<u>227,631</u>
Total liabilities and net assets	<u>\$ 767,941</u>	<u>\$ 716,564</u>	<u>\$ 672,892</u>

Overall, total assets increased \$51,377 from 2010 to 2011 and \$43,672 from 2009 to 2010.

- Current and other assets increased 16.8% in 2011, and 12.0% in 2010 as compared to 2009.
- Capital assets decreased 4.6% from 2010 to 2011 and remained relatively consistent from 2009 to 2010 driven by the timing of capital projects net of depreciation. Specifically, construction commenced in 2004 on the Life Sciences Building project which amounted to \$13,501 in 2009, \$7,930 in 2010 and \$49 in 2011. The expenditures in 2009 and 2010 included construction costs to prepare the 4th and the 5th floors of the Life Sciences Building for occupancy.

Overall, total liabilities increased 10.2% from 2010 to 2011 and increased 6.1% from 2009 to 2010.

- Other liabilities increased 27.7% in 2011 primarily due to a 27.7% increase in the post retirement health liability and a 51.5% increase in accounts payable due to the timing of payments to vendors. Additionally in 2011, there is a \$9,200 deferred revenue item received from a third party payor to be utilized over three years.
- Other liabilities increased 21.7% in 2010 primarily due to a 40.2% increase in the post retirement health liability and a 100+% increase in liabilities to third party payors. This increase is somewhat offset by a 42.9% decrease in accounts payable due to the timing of payments to vendors.
- Long-term debt outstanding decreased 4.9% and 4.5% in 2011 and 2010 respectively driven by the scheduled debt service payment on the outstanding DASNY issued debt and the amortization of bond premium.

Overall, total net assets increased 1.4% from 2010 to 2011 and 7.3% from 2009 to 2010.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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(in thousands of dollars, except as otherwise noted)

9. Changes in RPCIC's Net Assets

The following summarizes RPCIC's statement of revenue, expenses and changes in net assets between 2011, 2010, and 2009.

Patient volumes at RPCIC are measured on both the inpatient and outpatient basis. Inpatient days increased to 36,587 in 2011 from 35,764 (2.3%) in 2010 and 32,589 (9.7%) in 2009. Outpatient visits increased to 202,575 in 2011 from 196,694 (3.0%) in 2010 and 183,411 (7.2%) in 2009.

In 2011 RPCIC's net assets increased by \$3,333 (1.4%) as shown in Table 2. While operating revenues excluding NYS support were up 8.4%, operating expenses increased 5.2% and NYS Support was reduced to \$76,960 from \$85,219. Detail is provided below.

In 2010 RPCIC's net assets increased by \$16,693 (7.3%) as shown in Table 2. While operating revenues excluding NYS support were up 8.5%, operating expenses increased 3.6% and NYS Support was reduced to \$85,219 from \$91,100. Detail is provided below.

Table 2: Summary of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues:			
Net patient service revenue and net settlement and appeals	\$ 347,942	\$ 326,239	\$ 293,985
Contributions from NYS	76,960	85,219	91,100
Other contributions	23,115	15,931	16,714
Grants and contracts	2,259	2,129	5,470
Other operating revenue	<u>9,943</u>	<u>9,437</u>	<u>9,984</u>
Total operating revenues	<u>460,219</u>	<u>438,955</u>	<u>417,253</u>
Operating expenses:			
Salaries, wages and benefits	266,912	251,967	238,479
Purchased services and supplies	161,419	157,309	161,173
Grants to HRI, to benefit RPCIC	8,991	7,253	5,983
Fundraising	3,403	2,617	3,179
Provision for malpractice	4,128	5,094	2,587
Depreciation and amortization	<u>34,763</u>	<u>31,460</u>	<u>28,326</u>
Total operating expenses	<u>479,616</u>	<u>455,700</u>	<u>439,727</u>
Operating loss	(19,397)	(16,745)	(22,474)
Non-operating revenues and expenses and changes in net assets			
	<u>22,730</u>	<u>33,438</u>	<u>22,538</u>
Increase in net assets	<u>\$ 3,333</u>	<u>\$ 16,693</u>	<u>\$ 64</u>

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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9. Changes in RPCIC's Net Assets (Continued)

Overall, operating revenues excluding NYS support increased 8.4% from 2010 to 2011 and 8.5% from 2009 to 2010.

- Net Patient service revenue including settlements and appeals increased 6.7% in 2011 and 11.0% in 2010 as a result of the following: RPCIC hospital technical revenue increased 4.8% and 13.0% and professional revenues increased 6.5% and 10.0%. Government appeals and settlement revenue increased 53.7% in 2011 but decreased 21.2% in 2010. The increases in hospital technical revenue and professional revenue were attributable to increases in patient volume, the mix of services provided including increases in the volume of services (gross charges) driven by drugs and other services, as well as third party payor rate increases. The decreases/increases in the government appeals and settlements revenue were due to fluctuations in revenue from DSH cap adjustments and Medicare settlements and appeals.
- Other contributions represent donations, including unconditional promises to give, received in support of RPCIC's mission. Contributions had a 45.1% increase from 2010 to 2011 and a 4.7% decrease from 2009 to 2010. The increase in 2011 is due to \$7.6 million in contributions toward the clinical sciences center building campaign.
- Grants and contracts have increased 6.1% from 2010 to 2011 and decreased 61.1% from 2009 to 2010. This includes salary recovery for faculty time spent on research grants. In 2010, RPCI changed their policy and allowed Principal Investigator ("PI") salary recovery to be retained by HRI as part of their overall contribution to HRI. The salary recovery in 2010 and 2011 consists of recovery on Clinical Practice Plan physician salaries only.

Overall, operating expenses increased 5.2% from 2010 to 2011 and 3.6% from 2009 to 2010.

- Salary, wages, and benefits costs increased 5.9% and 5.7% respectively due to:
 - Growth in employee and retiree health expense including increases in retirement costs, health insurance costs, worker's compensation, and other employee benefits. Benefits were 53.6%, 52.1%, and 53.2%, of salary costs in 2011, 2010 and 2009, respectively.
 - Step and cost of living increases required by union contracts.
 - Recruitment of scientific and clinical faculty as well as staffing increases related to increases in patient volume.

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9. Changes in RPCIC's Net Assets (Continued)

- Purchased services and supplies increased 2.6% in 2011 due to:
 - Variable cost increases related to patient volume affecting pharmaceuticals, blood and blood products, medical supplies, and certain purchased services.
 - Increases in certain overhead expenses and restricted spending for the Clinical Practice Plan.
- Purchased services and supplies decreased 2.4% in 2010 due to:
 - Significant decreases in the cost of utilities due to a decline in unit prices for utilities and less volatile temperatures.
 - Decreases in the reimbursement of recruitment and other expenses incurred by HRI on behalf of RPCIC. This was primarily driven by the change in policy allowing HRI to retain PI salary recoveries on scientific salaries.
- Grants to HRI to benefit RPCIC consist of contributions committed or expended for use in specific scientific and clinical research projects, patient care programs and other Institute priorities. Grants increased 24.0% from 2010 to 2011 and 21.2% from 2009 to 2010. All grants were administered through Health Research, Inc. (HRI). The increase from 2010 to 2011 was due to a \$400 increase in grants awarded for scientific and clinical research projects, a \$753 increase in building grant expense, and a \$632 increase in department distributions and donor restricted gifts. The increase from 2009 to 2010 was due to a \$400 increase in grants awarded for scientific and clinical research projects plus a \$750 increase in distributions for the Clinical Trials Research Center.
- Fundraising as a percentage of other contributions decreased 1.7% in 2011 and 2.6% in 2010. Fundraising expenses consist of direct and indirect costs incurred in the solicitation of contributions.

Nonoperating revenues (expenses) and changes in net assets decreased 32.0% from 2010 to 2011 due to the following factors:

- Realized and unrealized gains on investments, included in investment income (loss), decreased 62.6% in 2011 driven by market conditions.
- Contributions for purchase of capital assets include a \$25,000 grant from HEAL NY in 2011 and 2010. Total contributions for the life sciences building total \$49 and \$7,930 in 2011 and 2010 respectively. The contributions for 2011 and 2010 include \$0 and \$7,195 in revenues related to the additional ESDC grant for construction of the fourth and fifth floors.
- Interest and other income decreased 32.9% due to lower interest rates partially offset by a \$2,116 net legal settlement from a vendor.
- Interest expense has declined 4.2% from 2010 to 2011. This is due primarily to the effect of the scheduled debt payments and amortization of bond premium.

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9. Changes in RPCIC's Net Assets (Continued)

Nonoperating revenues (expenses) and changes in net assets increased 48.4% from 2009 to 2010 due to the following factors:

- Realized and unrealized gains on investments, included in investment income (loss), increased 100+% in 2010 due to a partial turnaround of 2009's unfavorable market conditions.
- Contributions for purchase of capital assets include a \$25,000 grant from HEAL NY in 2010 and 2009. Total contributions for the life sciences building total \$7,930 and \$13,501 in 2010 and 2009 respectively. The contributions for 2010 and 2009 include \$7,195 and \$11,851 in revenues related to the additional ESDC grant for construction of the fourth and fifth floors.
- Interest and other income decreased 54.7% due to substantially lower interest rates.
- Interest expense has declined 4.1% from 2009 to 2010. This is due primarily to the effect of the scheduled debt payments and amortization of bond premium.

10. Capital Asset and Debt Administration

At the end of fiscal 2011, 2010, and 2009, RPCIC had \$308,975, \$323,716, and \$322,095, respectively invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the consolidated financial statements. The components of RPCIC's capital assets are as follows:

Capital Assets

	2011	2010	2009
Land	\$ 4,151	\$ 3,845	\$ 3,845
Building	476,550	467,973	430,448
Equipment/other	158,157	143,615	130,263
Construction in progress	21,193	27,422	48,042
	660,050	642,855	612,598
Less: Accumulated depreciation	(351,076)	(319,139)	(290,503)
Net capital assets	\$ 308,975	\$ 323,716	\$ 322,095

RPCIC's outstanding bonds payable (net of applicable discounts and premiums) was \$229,270, \$242,348, and \$254,862, as of March 31, 2011, 2010, and 2009, respectively. This represents the Institute's allocated portions of certain New York State Department of Health (NYSDOH) outstanding bonds payable to the Dormitory Authority of the State of New York (DASNY). All bonds are collateralized by a first lien on the revenues of the Institute.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MARCH 31, 2011 and 2010
(in thousands of dollars, except as otherwise noted)

10. Capital Asset and Debt Administration (Continued)

Long Term Debt and Capital Leases

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Series 1998 Bonds, net of discount	\$ 39,826	\$ 40,788	\$ 41,702
Series 2003 Bonds, net of premium	29,465	32,238	34,901
Series 2004 Bonds, net of premium	122,411	130,935	139,187
Series 2005 Bonds, net of premium	49,466	49,623	49,782
Capital leases	<u>-</u>	<u>-</u>	<u>7</u>
Total long-term debt and capital lease obligations, net	241,168	253,584	265,579
Less: Current portion	<u>(11,898)</u>	<u>(11,236)</u>	<u>(10,717)</u>
Non current portion	<u>\$ 229,270</u>	<u>\$ 242,348</u>	<u>\$ 254,862</u>

11. Capital Commitments

From time to time, RPCIC enters into certain agreements committing it to specific capital projects or expenditures. At March 31, 2009, RPCIC had current capital commitments to construct a fourth and fifth floor in the Life Sciences Building (the "Project"), part of a larger joint project with the State University of New York at Buffalo. The Project and related commitment, totaling \$20,330 is to be funded substantially by a grant from Empire State Development Corporation (the State of New York) for \$18,000 with the remainder funded through individual contributions and a federal grant. Work commenced on this project in fiscal 2008. RPCIC has recorded \$0 and \$7,195 in contributions for this project in fiscal 2011 and 2010. Work on this project was substantially completed during fiscal 2010.

12. Postemployment Benefits

Effective April 1, 2006, RPCIC early adopted the provisions GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Statement 45 establishes standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Funded Status and Funding Progress

The most recent actuarial valuation for the Plan was April 1, 2010. As of March 31, 2011 the Plan was unfunded. As discussed below in the section titled "Matters Involving New York State", RPCIC is seeking support from NYS to fund all or a significant portion of the unfunded OPEB liability. RPCIC believes it will need some form of assistance from NYS in order to meet future OPEB obligations resulting from the benefits that have, and will continue to, accrue under the Plan. The actuarial accrued liability ("AAL") for benefits was \$496,612 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$496,612. The covered payroll (annual payroll of active employees covered by the plan) was \$171,440, and the ratio of the UAAL to the covered payroll was 289.67 percent.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MARCH 31, 2011 and 2010
(in thousands of dollars, except as otherwise noted)

12. Postemployment Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Method and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the 2011 and 2010, the actuarial valuations utilized the entry age normal cost method. The actuarial assumptions included a 3.0 percent investment rate of return, which is the expected long-term investment returns on the employer's own investments, and an annual healthcare cost trend rate of 10.0 and 9.5 percent respectively, reduced by decrements to an ultimate rate of 5.0 percent after ten years. Both years included a 3.0 percent inflation assumption. The assumed rate of annual salary increase is 5.0 percent in 2011 and 2010, respectively. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at March 31, 2011, was twenty-five years.

Matters Involving New York State

RPCIC has recognized in its consolidating balance sheet and consolidating statement of revenues, expenses and changes in net assets the amounts described above. In so doing, RPCIC has assumed that it will be liable for the portion of benefits attributable to services provided by its employees for the period prior to January 1, 1999, the date at which RPCIC became a public benefit corporation of the State of New York. As discussed on the previous page, RPCIC is seeking some form of financial assistance from NYS to fund all or a significant portion of the unfunded OPEB liability. RPCIC believes it will need some form of assistance from NYS in order to meet future OPEB obligations resulting from the benefits that have, and will continue to, accrue under the Plan.

If the State of New York were to agree to assume all of the benefits for the time period it operated Roswell Park (e.g. prior to 1/1/99), RPCIC would have the potential to recognize the reduction in its accrued liability for any amounts of that liability to which the State would agree to accept.

**ROSWELL PARK CANCER INSTITUTE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MARCH 31, 2011 and 2010
(in thousands of dollars, except as otherwise noted)

12. Postemployment Benefits (Continued)

The following table illustrates the actuarially-derived estimates of the postemployment benefit liability and associated cost for March 31, 2011, utilizing a cutoff date of January 1, 1999:

	<u>Prior to January 1, 1999</u>	<u>Post January 1, 1999</u>	<u>Total</u>
Actuarial accrued liability (AAL)	\$ 149,040	\$ 347,572	\$ 496,612
Annual required contribution (ARC)	7,321	39,388	46,709
Annual OPEB cost	6,849	36,836	43,685
Net OPEB obligation:			
Net OPEB obligation – beginning of year	22,463	121,440	143,903
Annual OPEB cost	6,849	36,836	43,685
Employer contributions	<u>(2,530)</u>	<u>(1,284)</u>	<u>(3,813)</u>
Net OPEB obligation – end of year	<u>\$ 26,782</u>	<u>\$ 156,992</u>	<u>\$ 183,774</u>

13. Financial Condition

The Corporation is reliant upon the on-going financial support of the State of New York (the "State") in the furtherance of its mission, particularly in support of the Institute's research operations. In 2011, total support received from the State amounted to approximately \$102,000, as compared to approximately \$110,000 in 2010 and \$116,000 in 2009. \$25,000 of this support was funded through the HEAL NY program. The HEAL NY monies were required to be used for capital expenditures for each year. Effective for fiscal year 2012, the State budget includes approximately \$78,000 in total support for Roswell.

The continued challenges faced by the State in its fiscal and budgetary matters present increased uncertainty with respect to whether the State will continue to provide support to the Corporation at a level consistent with 2011 and prior. Without the continued support under the HEAL NY program or some alternative program, the Corporation will need to continue to invest in its property and equipment through operating cash flow, new indebtedness or other means. An additional risk to the financial condition is the anticipated increasing future cash outlay for payment of post-employment health benefits.

ROSWELL PARK CANCER INSTITUTE CORPORATION

CONSOLIDATING BALANCE SHEETS

March 31, 2011 (With Comparative Consolidated Totals for March 31, 2010)

ASSETS	Roswell Park Cancer Institute Corporation and Affiliate	Roswell Park Alliance Foundation	Eliminations	2011 Consolidated	2010 Consolidated
Current assets:					
Cash and cash equivalents	\$ 111,173,781	\$ 12,404,390	\$ -	\$ 123,578,171	\$ 97,462,191
Investments held by Foundation, at market value	-	5,497,355	-	5,497,355	4,994,557
Current portion of assets limited as to use	33,402,354	-	-	33,402,354	36,120,564
Patient accounts receivable, net of estimated uncollectibles of approximately \$20,775,000 in 2011 and \$20,038,000 in 2010	49,440,286	-	-	49,440,286	45,633,854
Gifts and pledges receivable, current	-	4,728,456	-	4,728,456	4,275,471
Inventories	5,005,948	80,236	-	5,086,184	3,505,645
Due from New York State and other affiliates	11,779,281	1,010,805	(1,946,125)	10,843,961	8,905,756
Prepaid expenses and other assets	4,735,873	73,303	-	4,809,176	9,292,900
Total current assets	<u>215,537,523</u>	<u>23,794,545</u>	<u>(1,946,125)</u>	<u>237,385,943</u>	<u>210,190,938</u>
Non current assets:					
Due from affiliates	266,406	-	(266,406)	-	-
Assets limited as to use, net	167,881,699	39,014,851	-	206,896,550	170,701,586
Gifts and pledges receivable, net	-	9,713,000	-	9,713,000	6,587,628
Capital assets, net	308,974,752	-	-	308,974,752	323,716,164
Deferred financing costs, net	4,970,524	-	-	4,970,524	5,367,939
Total non-current assets	<u>482,093,381</u>	<u>48,727,851</u>	<u>(266,406)</u>	<u>530,554,826</u>	<u>506,373,317</u>
Total assets	<u>\$ 697,630,904</u>	<u>\$ 72,522,396</u>	<u>\$ (2,212,531)</u>	<u>\$ 767,940,769</u>	<u>\$ 716,564,255</u>

See accompanying notes.

ROSWELL PARK CANCER INSTITUTE CORPORATION

CONSOLIDATING BALANCE SHEETS (CONTINUED)

March 31, 2011 (With Comparative Consolidated Totals for March 31, 2010)

LIABILITIES AND NET ASSETS	Roswell Park Cancer Institute Corporation and Affiliate	Roswell Park Alliance Foundation	Eliminations	2011 Consolidated	2010 Consolidated
Current liabilities:					
Current portion of long-term obligations	\$ 11,898,235	\$ -	\$ -	\$ 11,898,235	\$ 11,236,011
Accounts payable and other current liabilities	18,546,951	5,961,006	(446,125)	24,061,832	16,875,201
Accrued expenses	68,851,071	894,536	-	69,745,607	55,824,515
Due to third-party payors	5,710,461	-	-	5,710,461	5,791,232
Due to affiliates	-	1,766,406	(1,766,406)	-	-
Total current liabilities	<u>105,006,718</u>	<u>8,621,948</u>	<u>(2,212,531)</u>	<u>111,416,135</u>	<u>89,726,959</u>
Long-term obligations, net of current portion	229,269,766	-	-	229,269,766	242,347,865
Post-employment benefits, net of current portion	<u>179,597,161</u>	<u>-</u>	<u>-</u>	<u>179,597,161</u>	<u>140,165,176</u>
Total liabilities	513,873,645	8,621,948	(2,212,531)	520,283,062	472,240,000
Net assets:					
Invested in capital, net of related debt	90,236,666	-	-	90,236,666	91,137,659
Restricted expendable	51,786,261	24,596,585	-	76,382,846	61,804,384
Restricted non-expendable - Foundation	-	29,891,001	-	29,891,001	29,211,328
Unrestricted	<u>41,734,332</u>	<u>9,412,862</u>	<u>-</u>	<u>51,147,194</u>	<u>62,170,884</u>
Total net assets	<u>183,757,259</u>	<u>63,900,448</u>	<u>-</u>	<u>247,657,707</u>	<u>244,324,255</u>
Total liabilities and net assets	<u>\$ 697,630,904</u>	<u>\$ 72,522,396</u>	<u>\$ (2,212,531)</u>	<u>\$ 767,940,769</u>	<u>\$ 716,564,255</u>

See accompanying notes.

ROSWELL PARK CANCER INSTITUTE CORPORATION

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended March 31, 2011 (With Comparative Consolidated Totals for March 31, 2010)

	Roswell Park Cancer Institute Corporation and Affiliate	Roswell Park Alliance Foundation	Eliminations	2011 Consolidated	2010 Consolidated
Operating revenues:					
Net patient service revenue	\$ 330,734,547	\$ -	\$ -	\$ 330,734,547	\$ 315,044,119
Net settlements and appeals	17,207,711	-	-	17,207,711	11,194,702
Contributions from the State of New York	76,959,800	-	-	76,959,800	85,218,750
Other contributions	-	23,115,137	-	23,115,137	15,931,308
Grants and contracts	2,259,374	-	-	2,259,374	2,128,745
Other operating revenue	<u>9,414,393</u>	<u>528,550</u>	<u>-</u>	<u>9,942,943</u>	<u>9,437,743</u>
Total operating revenues	<u>436,575,825</u>	<u>23,643,687</u>	<u>-</u>	<u>460,219,512</u>	<u>438,955,367</u>
Operating expenses:					
Salaries and wages	173,825,861	-	-	173,825,861	165,638,683
Employee benefits	93,086,597	-	-	93,086,597	86,328,340
Supplies and other services	160,021,170	1,398,218	-	161,419,388	157,309,283
Depreciation and amortization	34,762,541	-	-	34,762,541	31,460,129
Grants	-	9,002,637	(11,735)	8,990,902	7,253,252
Fundraising	-	3,402,892	-	3,402,892	2,616,485
Provision for malpractice	4,128,000	-	-	4,128,000	5,093,734
Contributions to Roswell Park Cancer Institute Corporation	<u>-</u>	<u>1,500,000</u>	<u>(1,500,000)</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>465,824,169</u>	<u>15,303,747</u>	<u>(1,511,735)</u>	<u>479,616,181</u>	<u>455,699,906</u>
(Loss) income from operations	(29,248,344)	8,339,940	1,511,735	(19,396,669)	(16,744,539)

See accompanying notes.

ROSWELL PARK CANCER INSTITUTE CORPORATION

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (CONTINUED)
For the Year Ended March 31, 2011 (With Comparative Consolidated Totals for March 31, 2010)

	Roswell Park Cancer Institute Corporation and Affiliate	Roswell Park Alliance Foundation	Eliminations	2011 Consolidated	2010 Consolidated
(Loss) income from operations (continued)	(29,248,344)	8,339,940	1,511,735	(19,396,669)	(16,744,539)
Nonoperating revenues (expenses):					
Interest and other income	3,671,881	943,787	-	4,615,668	3,472,115
Interest expense	(10,618,491)	-	-	(10,618,491)	(11,088,175)
Loss on disposal of capital assets	(86,201)	-	-	(86,201)	(52,504)
Investment (loss) income	(153,263)	3,397,260	-	3,243,997	8,675,761
Net nonoperating revenues (expenses)	<u>(7,186,074)</u>	<u>4,341,047</u>	<u>-</u>	<u>(2,845,027)</u>	<u>1,007,197</u>
(Deficiency) excess of revenues over expenses	(36,434,418)	12,680,987	1,511,735	(22,241,696)	(15,737,342)
Contributions for purchase of capital assets	<u>27,086,883</u>	<u>-</u>	<u>(1,511,735)</u>	<u>25,575,148</u>	<u>32,430,731</u>
(Decrease) increase in net assets	<u>(9,347,535)</u>	<u>12,680,987</u>	<u>-</u>	<u>3,333,452</u>	<u>16,693,389</u>
Net assets, beginning of year	193,104,794	51,219,461	-	244,324,255	227,630,866
Net assets, end of year	<u>\$ 183,757,259</u>	<u>\$ 63,900,448</u>	<u>\$ -</u>	<u>\$ 247,657,707</u>	<u>\$ 244,324,255</u>

See accompanying notes.

ROSWELL PARK CANCER INSTITUTE CORPORATION

CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Year Ended March 31, 2011 (With Comparative Consolidated Totals for March 31, 2010)

	Roswell Park Cancer Institute Corporation and Affiliate	Roswell Park Alliance Foundation	Eliminations	2011 Consolidated	2010 Consolidated
Cash flows from operating activities:					
Net patient service revenue	\$ 344,055,055	\$ -	\$ -	\$ 344,055,055	\$ 327,369,326
Contributions from New York State	76,959,800	-	-	76,959,800	85,218,750
Other contributions	-	19,536,780	-	19,536,780	14,338,315
Grants and contracts	2,259,374	-	-	2,259,374	2,128,745
Other operating revenue	5,976,597	528,550	-	6,505,147	9,336,847
Payments to employees	(214,620,669)	-	-	(214,620,669)	(207,583,190)
Payments to vendors	(152,658,604)	1,440,916	-	(151,217,688)	(162,254,843)
Payments for malpractice	(1,512,949)	-	-	(1,512,949)	(2,910,720)
Payments of grants	-	(9,015,552)	24,650	(8,990,902)	(7,287,237)
Payments for fundraising	-	(3,402,892)	-	(3,402,892)	(2,616,485)
Net cash provided by operating activities	<u>60,458,604</u>	<u>9,087,802</u>	<u>24,650</u>	<u>69,571,056</u>	<u>55,739,508</u>
Capital and related financing activities:					
Purchase of capital assets	(19,626,751)	-	-	(19,626,751)	(32,644,613)
Contributions for purchase of capital assets	25,575,148	-	(24,650)	25,550,498	32,430,731
Repayment of long-term obligations	(11,236,011)	-	-	(11,236,011)	(10,716,424)
Payments of interest	(12,022,925)	-	-	(12,022,925)	(12,558,611)
Net cash used in capital and related financing activities	<u>(17,310,539)</u>	<u>-</u>	<u>(24,650)</u>	<u>(17,335,189)</u>	<u>(23,488,917)</u>
Investing activities:					
Investments and assets limited as to use, net	(28,762,583)	(1,972,972)	-	(30,735,555)	(16,531,193)
Interest and investment income	3,671,881	943,787	-	4,615,668	3,472,115
Net cash used in investing activities	<u>(25,090,702)</u>	<u>(1,029,185)</u>	<u>-</u>	<u>(26,119,887)</u>	<u>(13,059,078)</u>
Net increase in cash and cash equivalents	18,057,363	8,058,617	-	26,115,980	19,191,513
Cash and cash equivalents - beginning of year	<u>93,116,418</u>	<u>4,345,773</u>	<u>-</u>	<u>97,462,191</u>	<u>78,270,678</u>
Cash and cash equivalents - end of year	<u>\$ 111,173,781</u>	<u>\$ 12,404,390</u>	<u>\$ -</u>	<u>\$ 123,578,171</u>	<u>\$ 97,462,191</u>

See accompanying notes.

ROSWELL PARK CANCER INSTITUTE CORPORATION
CONSOLIDATING STATEMENTS OF CASH FLOWS (CONTINUED)
For the Year Ended March 31, 2011 (With Comparative Consolidated Totals for March 31, 2010)

	Roswell Park Cancer Institute Corporation and Affiliate	Roswell Park Alliance Foundation	Eliminations	2011 Consolidated	2010 Consolidated
Reconciliation of income (loss) from operations to net cash provided by operating activities:					
Income (loss) from operations	\$ (29,248,344)	\$ 8,339,940	\$ 1,511,735	\$ (19,396,669)	\$ (16,744,539)
Adjustments to income (loss) from operations to net cash provided by operating activities:					
Depreciation and amortization	34,281,962	-	-	34,281,962	31,460,129
Provision for bad debts	5,122,269	-	-	5,122,269	4,536,609
Changes in assets and liabilities:					
Patients accounts receivable	(8,928,701)	-	-	(8,928,701)	(7,772,442)
Pledges, gifts and bequests receivable, net	-	(3,578,357)	-	(3,578,357)	(1,592,993)
Inventories	(1,581,760)	1,221	-	(1,580,539)	(263,312)
Due from New York State and other affiliates	(1,913,146)	1,468,432	(1,487,085)	(1,931,799)	(532,865)
Prepaid expenses and other assets	4,847,648	33,491	-	4,881,139	7,675,392
Accounts payable	4,494,093	2,710,782	-	7,204,875	(12,247,520)
Accrued expenses and postemployment benefits	53,465,354	112,293	-	53,577,647	46,854,711
Due to third party payors	(80,771)	-	-	(80,771)	4,366,338
Net cash provided by operating activities	<u>\$ 60,458,604</u>	<u>\$ 9,087,802</u>	<u>\$ 24,650</u>	<u>\$ 69,571,056</u>	<u>\$ 55,739,508</u>

See accompanying notes.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 1. - ORGANIZATION

Roswell Park Cancer Institute Corporation (the "Institute" or "RPCIC") is a public hospital and medical research center located in Buffalo, New York. The Institute is one of only 39 National Cancer Institute-designated comprehensive cancer centers nationwide, providing total care to cancer patients, conducting research into the causes, treatment and prevention of cancer, and educating those who treat and study cancer. The Institute maintains 125 hospital beds.

The Roswell Park Cancer Institute Clinical Practice Plan (the "Plan") was established for the management, including collection and disbursement, of clinical practice income resulting from the clinical practice of licensed health professionals employed by the Institute.

The Roswell Park Alliance Foundation, Inc. (the "Foundation") is a not-for-profit corporation organized to receive and administer gifts and bequests made on behalf of the Institute. The Institute utilizes these gifts and bequests in scientific and medical research, for the delivery of medical care to individuals suffering from cancer, and related charitable activities. Scientific and research grants made by the Foundation for use by the Institute are typically paid to and administered by Health Research, Inc. See Note 14 for further information.

Effective January 1, 1999, the Institute became a public benefit corporation of the State of New York (NYS), operating under enabling legislation enacted under Title 4 of the Public Authorities Law. The Institute is owned by the State of New York and operated as a public benefit corporation and as such, is a component unit of NYS. Prior to January 1, 1999, the Institute was a division of the New York State Department of Health (NYSDOH).

NOTE 2. - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparing the accompanying consolidating financial statements are summarized below:

Principles of Consolidation - RPCIC, the Plan, and the Foundation (collectively referred to hereinafter as "RPCIC" or the "Corporation") are consolidated for financial statement purposes in accordance with the principles of consolidation in which it is appropriate to consolidate the financial statements of entities under common management and/or control. All significant intercompany balances and transactions have been eliminated in consolidation. For purposes of the basic consolidated financial statements displayed on pages 16 through 21, the accounts of the Institute and the Plan have been combined in a single column entitled "Roswell Park Cancer Institute Corporation and Affiliate" and the accounts of the Foundation are discretely presented.

Combined financial information related to the Institute and the Plan is included within the supplementary financial information on pages 44 through 45. All significant intercompany balances and transactions have been eliminated in the combined accounts.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2. - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Principles - RPCIC uses the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Government Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, RPCIC has elected to apply the provisions of relevant pronouncements of the Financial Accounting Standards Board ("FASB"), including those issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. RPCIC has implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as its financial reporting model. The more significant aspects of this standard require the inclusion of management's discussion and analysis ("MD&A") as part of the basic financial statements. Further, the standard requires segregation of net asset balances into more specifically defined categories, presentation of the statement of cash flows on the direct method and enhancing the financial statement disclosures. RPCIC has also implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*. In accordance with the adoption of this standard, RPCIC has concluded that the Foundation would constitute a component unit of RPCIC as defined by Statement No. 39.

As of June 30, 2009, the GASB has codified all sources of authoritative accounting literature pertaining to state and local government entities into a single set of authoritative literature, known as the GASB Codification. The GASB Codification includes all authoritative GASB pronouncements issued and effective as of June 30, 2009. Updates to the GASB Codification will be made from time to time as determined by the GASB pursuant to the GASB's rule-making protocols and procedures. These updates may alter, amend, supplement, revoke or supersede the guidance contained in the GASB Codification as of the date of this report.

Similarly, effective for interim and annual periods ending after September 15, 2009, the FASB has codified all sources of authoritative accounting literature pertaining to all non-governmental entities into a single set of authoritative literature, known as the FASB Accounting Standards Codification ("FASC"). The FASC includes all authoritative literature previously issued by recognized standard-setting bodies pertaining to accounting principles generally accepted in the United States, thereby superseding all previously issued authoritative pronouncements relating to non-governmental entities.

All references to relevant authoritative literature issued by both the GASB or the FASB with which the RPCIC must comply are hereinafter referred to generally as "U.S. GAAP".

Presentation of Prior Year Balances - The financial statements include certain prior years summarized consolidated comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such prior year summarized information should be read in conjunction with the RPCIC's audited financial statements for the year ended March 31, 2010, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by RPCIC include, but are not limited to, reserves for bad debts and third-party payor contractual adjustments and allowances, workers compensation and malpractice reserves, post employment benefit accruals and the fair value of investments. Actual results could differ from those estimates.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2. - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties - Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term could materially affect the net assets of RPCIC.

Cash and Cash Equivalents - RPCIC considers all highly liquid investments, with original maturities of three months or less, and short term investments (certificates of deposit), excluding amounts limited as to use, to be cash equivalents. RPCIC maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance limits. In accordance with its investment policies and the NYS Comptroller's Investment Guidelines for Public Authorities, RPCIC maintains collateral accounts with certain financial institutions to limit RPCIC's exposure associated with Federal Depository Insurance limits.

Investments - Investments are primarily in debt and equity securities with readily determinable fair values and other investments for which fair values are estimated. All investments are reported at fair value in the consolidating balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments are reported in the consolidating statement of revenues, expenses and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation or by law. These gains and losses are included as a component of investment income (loss).

Gift and Pledges Receivable - Gifts and pledges receivable include pledges receivable, bequests receivable and split-interest agreements (also known as charitable remainder trusts).

Pledges receivable represent unconditional promises to give. Those pledges that are expected to be collected within one year are recorded at their net realizable value. Estimates for pledges deemed to be uncollectible in future periods are made and recorded in the period the pledge revenue is recognized. Unconditional promises to give that are to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a discount rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Bequests receivable represent amounts due to the Foundation as the result of the Foundation being named in a will or estate. The receivable and corresponding revenue are recorded upon the death of the individual, when the amount due to the Foundation is determinable and if it is legally enforceable.

The Foundation is a beneficiary of various trust agreements. The Foundation's beneficial interest is measured at the present value of the expected future cash flows and is reported as an increase to temporarily restricted net assets. The following assumptions were utilized in the present value calculations: Mortality Table – RP - 2000 Mortality Table for Males and Females; discount rate- 5.0% (5.0% in 2010); long-term rate of return on assets – 6.5% - 7.0% (6.5% - 7.0% - 2010). Actuarial gains on split-interest agreements totaled approximately \$1,150,959 for the year ended March 31, 2011, and actuarial losses totaled approximately \$198,000 for the year ended March 31, 2010.

Inventory Valuation - Inventories are stated at the lower of average cost or market on a first-in, first-out basis.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2. - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use - Assets limited as to use include assets set aside for debt service as required by trustee or indenture agreements, assets held under Clinical Practice Plan enabling legislation, assets set aside pursuant to donor stipulations, and assets set aside by the Board of Directors for specific future purposes. If donated or contributed, assets limited as to use are reported at fair value as of the date of receipt, which is then treated as cost. Interest income on proceeds of borrowings that are held by a Trustee, and principally all other general fund investments, are reported as interest income. Classification in the consolidating balance sheet between current and non-current is generally determined by the purpose for which the assets are set aside.

Capital Assets - Capital assets are stated at historical cost. Depreciation is provided on the straight-line method over the useful lives of the assets ranging from 5 to 40 years, which are primarily determined based on the American Hospital Association's Guidelines. For certain buildings and equipment previously acquired or constructed, RPCIC assigned composite lives which it believes will more appropriately reflect its financial results by better allocating costs relating to the major modernization project over the useful lives of the related assets. Amortization of equipment under capital leases is provided on the straight-line method over the shorter of the term of the lease or the useful lives of the assets.

Impairment of Long-Lived Assets - Under the provisions of Statement of Governmental Accounting Standards Board ("GASB") No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, RPCIC evaluates its capital assets for financial impairment as prominent events or changes in circumstances affecting capital assets occur to determine whatever impairment of a capital asset has occurred. No adjustments were made in 2011 and 2010 as a result of performing these evaluations.

Net Assets - Net assets are classified into four categories according to external donor restrictions or availability of assets to satisfy RPCIC's obligations. RPCIC's net assets are classified into several categories as discussed below.

Invested in capital, net of related debt consists of capital assets, including restricted capital assets, reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets.

Restricted nonexpendable net assets are those that are required to be retained in perpetuity.

Restricted expendable net assets represents those net assets with limits on their use that are externally imposed (by creditors, grantors, contributors, or laws or regulations) or that are imposed by RPCIC's Board of Directors which are not required to be retained in perpetuity.

Unrestricted net assets consist of all net assets that do not meet the definition of any of the other three components.

Social Accountability - RPCIC has a policy to provide financial assistance in the form of discounts from medical charges for patients who have been determined by RPCIC to need treatment at RPCIC and who do not have the ability to pay full charges, as determined under the qualifications criteria set forth in the aforementioned policy.

The allowances for estimated uncollectibles for patient accounts receivable include accounts referred to the NYS Attorney General for collection.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2. - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue - Net patient service revenue and patient accounts receivable are recorded at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated adjustments under various reimbursement agreements with third-party payors. Third-party payors retain the right to review and propose adjustments to amounts recorded by RPCIC. Such adjustments are accrued, when deemed probable and estimable, in the period the related services are rendered and adjusted in future periods as final settlements are determined. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements. The impact of recording final settlements, pool payments and other third party payor adjustments resulted in the recognition of additional net operating revenues of approximately \$17,207,711 and \$11,194,702, in 2011 and 2010, respectively.

Inpatient services rendered to Medicare program beneficiaries are based on a cost reimbursement methodology subject to certain ceilings for inpatient services. RPCIC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by RPCIC and audits thereof by the Medicare fiscal intermediary.

Under the New York Health Care Reform Act (NYHCRA), hospitals are authorized to negotiate reimbursement rates with certain non-Medicare payors except for Medicaid, Workers' Compensation and No-fault, which are regulated by NYS. These negotiated rates may take the form of rates per discharge, reimbursed costs, discounted charges or as per diem payments. Reimbursement rates for non-Medicare payors regulated by NYS are determined on a prospective basis. These rates also vary according to a patient classification system defined by NYHCRA that is based on clinical, diagnostic and other factors.

Outpatient services are paid under various reimbursement methodologies, including prospectively determined rates, cost reimbursement, fee schedules, and charges.

Approximately 18% and 19% of net patient service revenue was generated from the combined services rendered to patients under Medicare and Medicaid programs in 2011 and 2010, respectively. Approximately 64% and 63% of net patient service revenue was generated from the combined services rendered to patients under managed care programs in 2011 and 2010, respectively.

Net patient service revenue, as reported on the consolidated statement of revenues, expenses and changes in net assets is comprised of the following for the years ended March 31:

	2011	2010
Gross charges	\$ 806,095,678	\$ 762,669,833
Less:		
Discounts and allowances	(470,248,862)	(443,089,105)
Provision for bad debts	<u>(5,112,269)</u>	<u>(4,536,609)</u>
	<u>\$ 330,734,547</u>	<u>\$ 315,044,119</u>

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2. - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Contributions and Other Operating Revenue - Other contributions consist primarily of contributions received by or pledged to the Foundation including unconditional promises to give, and are recognized at their fair market values in the period received or pledged.

RPCIC considers revenues received from the operation of the cafeteria, the parking garage and other ancillary activities as operating revenue.

The composition of other operating revenue is as follows for the years ended March 31:

	2011	2010
Cafeteria	\$ 1,722,819	\$ 1,667,696
Parking garage	1,444,348	1,533,973
Rebates	1,370,191	1,340,829
Rental income	1,735,836	1,452,915
Other	3,669,749	3,442,330
	\$ 9,942,943	\$ 9,437,743

Non-operating Revenues (Expenses) - Interest and other income and investment income (loss), consist primarily of interest income and earnings (losses) on investments and assets whose use is limited, less amounts charged by DASNY for administrative services associated with RPCIC's indebtedness, see Note 8.

Contributions for Purchase of Capital Assets – Contributions for purchase of capital assets consist principally of amounts transferred between RPCIC, Health Research, Inc. (HRI), the Foundation and the Empire State Development Corporation (ESD), all of which are related parties. Contributions from the Foundation and ESD for the Buffalo Life Sciences Complex, discussed below, approximated \$49,304 and \$7,887,647 in 2011 and 2010, respectively, and were for the purchase of capital assets. In 2011 the Foundation also contributed \$1,500,000 for other capital assets (\$42,671 – 2010). Contributions from HRI approximated \$87,000 and \$154,000 in 2011 and 2010, respectively, and were for the purchase of other capital assets. All intercompany contributions, amounting to approximately \$1,511,735 and \$1,265,431 in 2011 and 2010, respectively, have been eliminated in consolidation.

The contributions from the Foundation and ESD consist principally of the recognition of pledged support from the Foundation and ESD related to the construction of the Buffalo Life Sciences Complex. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, RPCIC is recognizing such pledged support as a voluntary non-exchange transaction. As such, contribution revenue from the Foundation and ESD is recognized concurrently, in timing and amount, with the progress of the construction of the Life Sciences Complex, to the extent donor resources are deemed available as defined by GASB No. 33.

Grants and Contracts – As more fully described in Note 14, grants and contracts consist of amounts paid to RPCIC by a related party, primarily for the recruitment and retention of certain medical and research staff.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 2. - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess (Deficiency) of Revenues Over Expenses - The consolidated statement of revenues, expenses and changes in net assets includes "excess (deficiency) of revenues over expenses." Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses include grants and contributions for the purchase of capital assets.

Taxes - As a public benefit corporation, RPCIC, including the Plan and the Foundation, is exempt from federal and state income taxes, as well as state and local property and sales taxes. As such, no provision for income taxes is made by RPCIC.

Subsequent Events - These consolidating financial statements have not been updated for subsequent events occurring after June 23, 2011 which is the date these consolidating financial statements were available to be issued.

NOTE 3. - PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises at March 31:

	<u>2011</u>	<u>2010</u>
Amounts due:		
In less than one year	\$ 4,728,456	\$ 4,275,471
One to five years	7,885,590	4,767,863
Six to ten years	805,788	50,000
Greater than ten years	<u>450,000</u>	<u>-</u>
	<u>13,869,834</u>	<u>9,093,334</u>
Bequests	686,673	1,222,065
Split interest agreements	1,448,380	1,135,873
Less: Unamortized discount	(1,512,966)	(543,665)
Allowance for doubtful pledges	<u>(50,465)</u>	<u>(44,508)</u>
Present value of pledges receivable	<u>\$ 14,441,456</u>	<u>\$ 10,863,099</u>

Long-term pledges receivable are discounted at a rate of 5.0% at March 31, 2011 and 2010.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 4. - ASSETS LIMITED AS TO USE

Assets limited as to use consisted of the following at March 31:

	<u>2011</u>	<u>2010</u>
Board Designated (a)		
Board designated funds for recruitment, capital and accruals	\$ 88,301,982	\$ 88,301,982
Board designated funds for strategic investment	10,000,000	-
Reserve for overpayments	2,430,686	-
Workers compensation	5,802,242	4,686,561
Employee benefits	2,171,799	2,123,302
Estimated third party settlements	9,216,250	-
Technology transfer	1,000,000	450,000
TIAA/CREF escrow	247,619	241,553
	<u>119,170,578</u>	<u>95,803,398</u>
Held by Roswell Park Alliance Foundation		
Investments, at fair value	<u>39,014,851</u>	<u>34,147,417</u>
Held by Trustee Under Malpractice and General Liability Trust Agreement		
Malpractice reserve:		
Cash and cash equivalents	154,424	615,268
U.S. Government obligations	12,713,400	12,000,535
	<u>12,867,824</u>	<u>12,615,803</u>
Held by Trustee Under Indenture Agreement (b)		
Debt service reserve	28,145,194	27,793,269
Major modernization project	17,459,391	17,239,930
	<u>45,604,585</u>	<u>45,033,199</u>
Held under Clinical Practice Plan Enabling Legislation (c)		
Chief Executive Officer fund	6,508,669	4,955,547
Academic development fund - Chief Executive Officer	10,063,814	8,020,418
Academic development fund – Department Chairperson	7,068,583	6,246,368
	<u>23,641,066</u>	<u>19,222,333</u>
	<u>240,298,904</u>	<u>206,822,150</u>
Less: Current portion	<u>(33,402,354)</u>	<u>(36,120,564)</u>
	<u>\$ 206,896,550</u>	<u>\$ 170,701,586</u>

- (a) the Board Designated funds are all invested in cash and cash equivalents.
(b) the assets held by Trustee under Indenture agreement are all invested in cash and cash equivalents.
(c) the Clinical Practice Plan funds that are held under enabling legislation are all invested in cash and cash equivalents.

The current portion of assets limited as to use is determined based on the anticipated timing of use of the funds.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 5. – CAPITAL ASSETS

	<u>March 31, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>March 31, 2011</u>
Non-depreciable assets:				
Land	\$ 3,844,831	\$ 305,909	\$ -	\$ 4,150,740
Construction in progress	<u>27,421,779</u>	<u>20,579,719</u>	<u>(26,808,890)</u>	<u>21,192,608</u>
	31,266,610	20,885,628	(26,808,890)	25,343,348
Depreciable assets:				
Buildings and improvements	467,973,685	16,559,903	(7,983,191)	476,550,397
Equipment	<u>144,033,244</u>	<u>16,973,168</u>	<u>(2,431,293)</u>	<u>158,575,119</u>
	612,006,929	33,533,071	(10,414,484)	635,125,516
Less: Accumulated depreciation:				
Buildings and improvements	219,053,228	20,209,795		239,263,023
Equipment	<u>100,504,147</u>	<u>14,072,167</u>	<u>(2,345,225)</u>	<u>112,231,089</u>
	<u>319,557,375</u>	<u>34,281,962</u>	<u>(2,345,225)</u>	<u>351,494,112</u>
Capital assets, net	<u>\$ 323,716,164</u>	<u>\$ 20,136,737</u>	<u>\$(34,878,149)</u>	<u>\$ 308,974,752</u>
	<u>March 31, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>March 31, 2010</u>
Non-depreciable assets:				
Land	\$ 3,844,831	\$ -	\$ -	\$ 3,844,831
Construction in progress	<u>48,041,628</u>	<u>27,686,659</u>	<u>(48,306,508)</u>	<u>27,421,779</u>
	51,886,459	27,686,659	(48,306,508)	31,266,610
Depreciable assets:				
Buildings and improvements	430,448,281	37,525,404	-	467,973,685
Equipment	<u>130,681,787</u>	<u>15,739,058</u>	<u>(2,387,601)</u>	<u>144,033,244</u>
	561,130,068	53,264,462	(2,387,601)	612,006,929
Less: Accumulated depreciation:				
Buildings and improvements	200,836,605	18,216,623	-	219,053,228
Equipment	<u>90,084,763</u>	<u>12,754,481</u>	<u>(2,335,097)</u>	<u>100,504,147</u>
	<u>290,921,368</u>	<u>30,971,104</u>	<u>(2,335,097)</u>	<u>319,557,375</u>
Capital assets, net	<u>\$ 322,095,159</u>	<u>\$ 49,980,017</u>	<u>\$(48,359,012)</u>	<u>\$ 323,716,164</u>

Depreciation expense amounted to \$34,281,834 and \$30,986,318 in 2011 and 2010, respectively.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 6. - ACCRUED EXPENSES

The disaggregated components of accrued expenses are as follows at March 31:

	2011	2010
Salaries and benefits	\$ 26,610,507	\$ 26,570,309
Payroll withholdings	3,875,166	3,519,741
Current portion of retirement and post-retirement benefits	4,176,957	3,737,572
Workers compensation	5,802,242	4,686,561
Professional and general liability	15,963,345	13,348,294
Accrued interest	2,932,066	3,073,344
Other	10,385,324	888,694
	\$ 69,745,607	\$ 55,824,515

NOTE 7. – SHORT-TERM BORROWINGS

On September 30, 2010, RPCIC signed an agreement with HSBC Bank USA, which allows for borrowings up to \$25,000,000. Borrowings bear interest at the banks prime rate (3.25% as of March 31, 2011). There was no balance outstanding under this agreement as of March 31, 2011.

NOTE 8. - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The long-term debt obligations of RPCIC consist primarily of allocated portions of Dormitory Authority of the State of New York (“DASNY”) bonds issued on behalf of RPCIC and certain other NYSDOH facilities. The portion of these obligations allocated to RPCIC was derived from budgeted construction costs and are subject to periodic change based on actual cost incurred. All bonds are collateralized by a first lien on the revenues of RPCIC.

As of March 31, long-term debt consists of the following:

	2011	2010
On April 1, 1998, DASNY issued debt in the amount of \$50,510,000 (RPCIC allocated 94.92%). Under the terms of the issuance, interest ranges from 4.5% to 5.125% per annum with interest and principal payments due through 2025. The bond proceeds were used solely to defease a portion of the outstanding 1992, 1994 and 1995 bond series.	\$ 40,554,570	\$ 41,598,690
On December 4, 2003, DASNY issued debt in the amount of \$41,910,000 (RPCIC allocated 85.00%). Under the terms of issuance, interest ranges from 2.0% to 5.25% per annum with interest and principal payments due through 2024. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.	28,526,000	31,110,000

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 8. - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (CONTINUED)

	2011	2010
<p>On April 7, 2004, DASNY issued debt in the amount of \$77,245,000 (RPCIC allocated 95.15%). Under the terms of issuance, interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2024. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.</p>	51,994,717	59,430,690
<p>On April 7, 2004, DASNY issued debt in the amount of \$78,870,000 (RPCIC allocated 95.51%). Under the terms of issuance, interest ranges from 2.0% to 5.0% per annum with interest and principal payments due through 2023. The bond proceeds were used solely to defease a portion of the outstanding 1994, 1995 and 1996 bond series.</p>	64,622,066	64,736,678
<p>On May 24, 2005, DASNY issued debt in the amount of \$51,465,000 (RPCIC allocated 95.51 %). Under the terms of issuance, interest ranges from 3.0% to 5.25% per annum with interest and principal payments due through 2026. The bond proceeds were used solely to defease a portion of the outstanding 1996 bond series.</p>	<u>48,141,815</u> <u>233,839,168</u>	<u>48,199,121</u> <u>245,075,179</u>
<p>Plus: Unamortized bond premium</p>	8,056,693	9,319,849
<p>Less: Unamortized bond discount</p>	<u>(727,860)</u>	<u>(811,152)</u>
<p style="padding-left: 40px;">Total long-term debt</p>	241,168,001	253,583,876
<p>Less: Current portion</p>	<u>(11,898,235)</u>	<u>(11,236,011)</u>
<p style="padding-left: 40px;">Long-term debt, net</p>	<u>\$ 229,269,766</u>	<u>\$ 242,347,865</u>

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 8. - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (CONTINUED)

<u>Bond Series</u>	<u>March 31, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>March 31, 2011</u>
1998	\$ 41,598,690	\$ -	\$ 1,044,120	\$ 40,554,570
2003	31,110,000	-	2,584,000	28,526,000
2004	59,430,690	-	7,435,973	51,994,717
2004	64,736,678	-	114,612	64,622,066
2005	<u>48,199,121</u>	<u>-</u>	<u>57,306</u>	<u>48,141,815</u>
	245,075,179	-	11,236,011	233,839,168
Plus: Unamortized bond premium	9,319,849	-	1,263,156	8,056,693
Less: Unamortized bond discount	<u>(811,152)</u>	<u>-</u>	<u>(83,292)</u>	<u>(727,860)</u>
Total long-term debt	253,583,876	\$ <u>-</u>	\$ <u>12,415,875</u>	241,168,001
Less: Current portion	<u>(11,236,011)</u>			<u>(11,898,235)</u>
Long-term, net	\$ <u>242,347,865</u>			\$ <u>229,269,766</u>

<u>Bond Series</u>	<u>March 31, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>March 31, 2010</u>
1998	\$ 42,595,350	\$ -	\$ 996,660	\$ 41,598,690
2003	33,566,500	-	2,456,500	31,110,000
2004	66,514,607	-	7,083,917	59,430,690
2004	64,851,290	-	114,612	64,736,678
2005	48,256,427	-	57,306	48,199,121
Capital Leases	<u>7,429</u>	<u>-</u>	<u>7,429</u>	<u>-</u>
	255,791,603	-	10,716,424	245,075,179
Plus: Unamortized bond premium	10,680,627	-	1,360,778	9,319,849
Less: Unamortized bond discount	<u>(893,383)</u>	<u>-</u>	<u>(82,231)</u>	<u>(811,152)</u>
Total long-term debt	265,578,847	\$ <u>-</u>	\$ <u>11,994,971</u>	253,583,876
Less: Current portion	<u>(10,716,425)</u>			<u>(11,236,011)</u>
Long-term debt, net	\$ <u>254,862,422</u>			\$ <u>242,347,865</u>

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 8. - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (CONTINUED)

In connection with these financing arrangements, RPCIC previously recognized its portion of the premiums, discount, and deferred financing costs related to each issue. RPCIC uses the effective interest method for amortizing these amounts. Amortization of deferred costs was \$397,415 in 2011 and \$406,796 in 2010, and is included in amortization. Accumulated amortization amounts to approximately \$16,123,000 and \$15,725,000 at 2011 and 2010, respectively. Included as an offset to interest expense is \$1,263,156 and \$1,360,778 in 2011 and 2010, respectively, related to the amortization of bond premium.

Future principal and interest payments on long-term debt are summarized as follows:

Year ending March 31,	Bonds	
	Principal	Interest
2012	\$ 11,898,235	\$ 11,444,591
2013	11,640,714	10,881,634
2014	12,206,085	10,294,825
2015	12,816,972	9,665,322
2016 - 2020	74,446,617	37,763,635
2021 – 2025	94,302,542	16,225,645
2026	<u>16,528,003</u>	<u>413,197</u>
	233,839,168	96,688,849
Plus: Unamortized bond premium	8,056,693	-
Less: Unamortized bond discount	<u>(727,860)</u>	<u>-</u>
	<u>\$ 241,168,001</u>	<u>\$ 96,688,849</u>

NOTE 9. - POSTEMPLOYMENT BENEFITS

Benefit Plan Description – Employees of RPCIC participate in the New York State Health Insurance Plan (the “Benefit Plan”), a defined benefit, agent multiple employer-type plan administered by the NYS Department of Civil Service Employee Benefits Division. The Benefit Plan offers a range of benefits to its participants, including inpatient, outpatient and emergency services, as well as mental health coverage and prescription drug benefits. The Benefit Plan offers benefits through the New York State Health Insurance Empire Plan and three Health Maintenance Organizations (“HMO’s”), each of which contain varying levels of coverage and cost. The Benefit Plan does not issue a stand-alone report.

Funding Policy – RPCIC has the ability and authority to establish its own funding policy. Under its current policy, RPCIC is not required to fund the Benefit Plan or the Annual Required Contribution (“ARC”, as defined by U.S. GAAP). RPCIC is seeking financial support from NYS to fund the benefit plan. To date, NYS has not agreed to fund the benefit plan.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 9. – POSTEMPLOYMENT BENEFITS (CONTINUED)

The Benefit Plan requires participants to contribute a portion of the monthly premiums via payroll deduction. The following table illustrates the participant contribution rates per plan for 2011 and 2010.

<u>Plan</u>	<u>Tier</u>	<u>Participant Contribution</u>	
		<u>2011</u>	<u>2010</u>
Empire Plan	Single	49.91	48.15
	Family	216.41	210.88
Community Blue	Single	93.65	84.43
	Family	470.48	439.33
Independent Health	Single	82.13	46.18
	Family	359.39	275.91
Univera Healthcare	Single	-	201.46
	Family	-	745.79

Annual Other Postemployment Benefit Cost and Net Other Postemployment Benefit Obligation (OPEB) - RPCIC's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with U.S. GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of RPCIC's annual OPEB cost, the amount actually contributed to the plan, and changes in the net OPEB obligation for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
<u>Annual OPEB Cost</u>		
Annual Required Contribution (ARC)	\$ 46,709,271	\$ 46,650,317
Interest on Net OPEB Obligation	4,317,082	3,078,732
Adjustment to Annual Required Contribution	<u>(7,341,812)</u>	<u>(5,235,821)</u>
Annual OPEB Cost	<u>\$ 43,684,541</u>	<u>\$ 44,493,228</u>
<u>Net OPEB Obligation</u>		
Net OPEB Obligation – beginning of year	\$ 143,902,748	\$ 102,624,393
Annual OPEB Cost	43,684,541	44,493,228
Employer Contributions	<u>(3,813,171)</u>	<u>(3,214,873)</u>
Net OPEB Obligation – end of year	<u>183,774,118</u>	<u>143,902,748</u>
Less: Current portion	<u>(4,176,957)</u>	<u>(3,737,572)</u>
Long-term OPEB obligation	<u>\$ 179,597,161</u>	<u>\$ 140,165,176</u>

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 9. - POSTEMPLOYMENT BENEFITS (CONTINUED)

The following table illustrates RPCIC's annual OPEB cost, percentage of annual OPEB cost contributed by RPCIC, and the net OPEB obligation for 2011, 2010 and 2009.

<u>Fiscal Year</u>	<u>Percentage of</u>		<u>Net OPEB Obligation</u>
	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	
3/31/2009	43,790,200	5.94%	102,624,393
3/31/2010	44,493,228	7.23%	143,902,748
3/31/2011	43,684,541	8.73%	183,774,118

Funded Status and Funding Progress - The most recent actuarial valuation for the Plan was as of April 1, 2010. As of March 31, 2011, the Plan was unfunded. As discussed on the following page under "Matters Involving New York State", RPCIC is seeking support from NYS to fund all or a significant portion of the unfunded OPEB liability. RPCIC believes it will need some form of assistance from NYS in order to meet future OPEB obligations resulting from the benefits that have, and will continue to, accrue under the Plan. The actuarial accrued liability ("AAL") for benefits was \$496,611,930 and \$462,750,014 in 2011 and 2010, respectively, and the actuarial value of assets was \$0 in 2011 and 2010, resulting in an unfunded actuarial accrued liability ("UAAL") of \$496,611,930 and \$462,750,014 in 2011 and 2010, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$171,440,452 and \$161,893,535 in 2011 and 2010, respectively, and the ratio of the UAAL to the covered payroll was 289.67% and 285.84 % in 2011 and 2010, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented in management's discussion and analysis preceding the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Method and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In 2011 and 2010 the entry age normal cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return, which is the expected long-term investment returns on the employer's own investments, and an annual healthcare cost trend rate of 10.0 and 9.5 percent respectively, reduced by decrements to an ultimate rate of 5.0 percent after ten years. Both years included a 3.0 percent inflation assumption. The assumed rate of annual salary increase is 5.0 percent in 2011 and 2010, respectively. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at March 31, 2011, was twenty-five years.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 9. - POSTEMPLOYMENT BENEFITS (CONTINUED)

Matters involving New York State - RPCIC has recognized in its consolidated balance sheet and consolidated statement of revenues, expenses and changes in net assets the amounts described above. In so doing, RPCIC has assumed that it will be liable for the portion of benefits attributable to services provided by its employees for the period subsequent to January 1, 1999, the date at which RPCIC became a public benefit corporation of the State of New York. As discussed previously, RPCIC is seeking some form of financial assistance from NYS to fund all or a significant portion of the unfunded OPEB liability. RPCIC believes it will need some form of assistance from NYS in order to meet the future OPEB obligations resulting from the benefits that have, and will continue to, accrue under the Plan.

If the State of New York were to agree to assume all of the benefits for the time period it operated Roswell Park (e.g. prior to 1/1/99), RPCIC would have the potential to recognize the reduction in its accrued liability for any amounts of that liability to which the State would agree to accept.

The following table illustrates the actuarially-derived estimates of the postemployment benefit liability and associated costs as of March 31, 2011, utilizing a cut off date of January 1, 1999:

	<u>Prior to January 1, 1999</u>	<u>Post January 1, 1999</u>	<u>Total</u>
Actuarial accrued liability (AAL)	\$ 149,040,100	\$ 347,571,830	\$ 496,611,930
Annual required contribution (ARC)	7,321,030	39,388,241	46,709,271
Annual OPEB cost	6,848,884	36,835,658	43,684,541
Net OPEB obligation:			
Net OPEB obligation – beginning of year	22,462,538	121,440,211	143,902,749
Annual OPEB cost	6,848,884	36,835,657	43,684,541
Employer contributions	<u>(2,529,553)</u>	<u>(1,283,619)</u>	<u>(3,813,172)</u>
Net OPEB obligation – end of year	<u>\$ 26,781,869</u>	<u>\$ 156,992,249</u>	<u>\$ 183,774,118</u>

NOTE 10. - INSURANCE ARRANGEMENTS

RPCIC is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, and employee health, dental and accident benefits. RPCIC's insurance arrangements are as follows:

Professional and General Liability - RPCIC maintains a partially self-insured program covering general and professional liability claims against RPCIC and its employees. Under this program, RPCIC maintains a trust fund which is funded annually to cover the first \$2 million per incident and \$4 million in aggregate per year in claims made, including defense costs. In addition, RPCIC purchased excess general and professional liability coverage covering the next \$10 million per claim and \$10 million in the aggregate per year, over and above RPCIC's retained exposure. Professional liability coverage is on a claims made basis, while general liability coverage is occurrence based. Claims alleging malpractice have been asserted against RPCIC and are currently in various stages of litigation. It is the opinion of management that the existing reserves and policies are adequate to provide for potential losses resulting from pending or threatened litigation of which management is currently aware. Additional claims may have been asserted against RPCIC through March 31, 2011, for which reserves have been estimated. Claim reserves were discounted using a rate of 3% in 2011 and 2010, respectively.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 10. - INSURANCE ARRANGEMENTS (CONTINUED)

The charges to expenses for medical malpractice costs approximated \$4,128,000 and \$5,094,000 in 2011 and 2010, respectively.

Workers Compensation - RPCIC is partially self-insured for workers compensation risks. RPCIC maintains an excess workers compensation insurance contract which limited the self-insured retention per occurrence to \$450,000. It is the opinion of management that the existing reserves and policies are adequate to provide for potential losses resulting from incidents of which management is currently aware. Additional incidents may have occurred through March 31, 2011, for which reserves have been estimated.

The charges to expense for workers compensation related costs approximated \$2,476,000 and \$1,211,000 in 2011 and 2010, respectively, and are included as a component of employee benefits expense in the consolidating statement of revenues, expenses and changes in net assets.

Matters Involving New York State - Prior to January 1, 1999, in the normal course of business, professional liability claims have been asserted against RPCIC by various claimants, and other claims may be asserted arising from services provided to patients in the past. These claims are, in substance, against the NYSDOH and are therefore, actions brought against NYS. NYS does not maintain insurance with respect to professional liability claims and is self-insured relative to medical professional liability.

Records related to professional liability claims and litigation are maintained centrally by NYS. RPCIC records the costs related to professional liability losses prior to January 1, 1999, based upon information provided by NYS Attorney General's Office. For the years ended March 31, 2011 and 2010, no payments of final settlement of malpractice cases were made.

NOTE 11. - LEGAL MATTERS

Regulatory Compliance - The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years. While certain regulatory inquiries have been made at March 31, 2011, compliance with such laws and regulations is currently subject to review and interpretation as well as regulatory actions unknown and/or unasserted at this time.

Medicare and Medicaid programs accounted for approximately 15% and 3% in 2011 and 15% and 4% in 2010, respectively, of RPCIC's net patient service revenues for the years then ended.

Litigation - RPCIC is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse affect on RPCIC's future financial position, results from operations and cash flows.

ROSWELL PARK CANCER INSTITUTE CORPORATION

NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 12. - CONCENTRATION AND CREDIT RISK

RPCIC grants credit without collateral to its patients, most of whom are residents of Western New York and are insured under third-party agreements. The mix of receivables from patients and third-party payors at March 31 is as follows:

	<u>2011</u>	<u>2010</u>
Medicare	16%	14%
Medicaid	9	9
Blue Cross	28	27
Other third-party payors	42	42
Patients	<u>5</u>	<u>8</u>
	<u>100%</u>	<u>100%</u>

See Note 2 regarding maintenance of collateral accounts to limit exposure associated with Federal Deposit Insurance limits.

NOTE 13. - FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair value amounts of RPCIC's financial instruments have been determined by using available market information and valuation methodologies. Considerable judgment is required to develop the estimates of fair value, thus, the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

The carrying value of cash and cash equivalents, patient's accounts receivable, accounts payable, estimated third party payor settlements accrued expenses, and all other current liabilities approximates their fair value. Investments are carried at fair value using quoted market prices or estimated fair values.

RPCIC is operated as a component unit of the State of New York. DASNY issues bonds on behalf of RPCIC. DASNY has numerous separate maturities of bonds which would have to be separately valued, and, secondly, the unique circumstances effecting the State make it impractical to estimate the fair value of bonds. Additionally, considering the restrictive nature of the bond issuer, it is management's opinion that such disclosure would not enhance the usefulness of the financial statements.

Assets and liabilities recorded at fair value in the statement of net assets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of judgment input to its valuation. Hierarchical levels, defined by U.S. GAAP, are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows:

- Level I: Valuations based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Level I assets include cash and cash equivalents, debt and equity securities that are traded in active exchange markets, as well as certain U.S. Treasury and other U.S. Governments and agencies that are highly liquid and are actively traded in over-the counter markets.

ROSWELL PARK CANCER INSTITUTE CORPORATION

NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 13. - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Level II: Valuations based on quoted prices in active markets for similar assets or liabilities quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level II assets include equity and fixed income managed funds with quoted prices that are traded less frequently than exchange-traded instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level III: Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs. Level III assets would include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant investment management judgment or estimation.

The following table's present information about assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2011 and March 31, 2010, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	<u>Prices in Active Market Level I</u>	<u>Other Observable Inputs Level II</u>	<u>Significant Unobservable Inputs Level III</u>	<u>Total</u>
At March 31, 2011				
Cash and cash equivalents	\$ 123,578,171	\$ -	\$ -	\$ 123,578,171
Investments and assets whose use is limited:				
Cash and cash equivalents	189,389,861	-	-	189,389,861
Marketable equity securities and mutual funds	22,606,874	-	-	22,606,874
U.S. Government and Agency Obligations	13,255,675	-	-	13,255,675
Real Estate	-	-	304,991	304,991
Index fund investments	-	19,322,087	916,771	20,238,858
Total investments	<u>225,252,410</u>	<u>19,322,087</u>	<u>1,221,762</u>	<u>245,796,259</u>
Total	<u>\$ 348,830,581</u>	<u>\$ 19,322,087</u>	<u>\$ 1,221,762</u>	<u>\$ 369,374,430</u>
	<u>Prices in Active Market Level I</u>	<u>Other Observable Inputs Level II</u>	<u>Significant Unobservable Inputs Level III</u>	<u>Total</u>
At March 31, 2010				
Cash and cash equivalents	\$ 97,462,191	\$ -	\$ -	\$ 97,462,191
Investments and assets whose use is limited:				
Cash and cash equivalents	161,134,617	-	-	161,134,617
Marketable equity securities and mutual funds	12,321,749	-	-	12,321,749
U.S. Government and Agency Obligations	12,538,436	-	-	12,538,436
Index fund investments	-	24,990,412	831,493	25,821,905
Total investments	<u>185,994,802</u>	<u>24,990,412</u>	<u>831,493</u>	<u>211,816,707</u>
Total	<u>\$ 283,456,993</u>	<u>\$ 24,990,412</u>	<u>\$ 831,493</u>	<u>\$ 309,278,898</u>

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 14. - RELATED PARTIES

New York State:

Operating Support - As discussed in Note 1, RPCIC is related to NYS by virtue of ownership and control. Annually, RPCIC receives a significant portion of its operating revenue from NYS. This support is a fundamental component of RPCIC's annual operating budget. During the years ended March 31, 2011 and 2010, operating support received from NYS amounted to approximately \$76,960,000 and \$85,219,000, respectively. RPCIC is dependent on the continuation of this financial support and forbearance of NYS to continue its operations as a National Institutes of Health designated comprehensive cancer research and treatment center.

HEAL NY - The Health Care Efficiency and Affordability Law of New Yorkers ("HEAL NY") is a program legislated by the State of New York ("NYS") to provide a mechanism to award grants for capital expenditures to healthcare providers operating within NYS. HEAL NY is promulgated under section 2818 of the New York Health Law.

For the fiscal year ended March 31, 2011 and 2010, RPCIC received from NYS approximately \$25,000,000 under the HEAL NY program. These funds were recognized by RPCIC concurrent with the related expenditures as contributions for the purchase of property, plant and equipment in the consolidated statement of revenues, expenses and changes in net assets. In addition to the operating support discussed above, RPCIC is dependent on the continuation of this financial support and forbearance by NYS to continue its operations as a National Institutes of Health designated comprehensive cancer research and treatment center.

Long-Term Obligations - As further discussed in Note 8, RPCIC recognizes in its consolidated balance sheet allocated portions of DASNY bonds issued on behalf of RPCIC and other NYSDOH facilities. In this regard, scheduled debt service payments and certain other related transactions are consummated by NYSDOH on RPCIC's behalf, using RPCIC funds. In addition, from time to time, DASNY elects to extinguish or otherwise defease certain debt issuances, and in so doing, RPCIC recognizes its proportionate share of each particular transaction, including the extinguishment, as well as recognizing its portion of any gain or loss on extinguishment. In general, these transactions are outside the control of RPCIC.

Health Research, Inc.:

Health Research, Inc. (HRI) is a not-for-profit corporation chartered under the laws of NYS primarily to administer gifts and/or grants which assist in funding the various healthcare research, prevention and treatment initiatives of NYSDOH. HRI is owned and operated by NYS and as such is related to RPCIC. During the year ended March 31, 2011 and 2010, RPCIC paid approximately \$4,006,000 and \$6,501,000, respectively, of expenses incurred by HRI on RPCIC's behalf. These payments relate primarily to employee salaries and benefits. Additionally, approximately \$2,245,000 and \$2,129,000 of grant revenue was remitted by HRI to RPCIC in the years ended 2011 and 2010, respectively. This revenue was generated by salary recovery on medical staff paid by RPCIC. In 2010, RPCIC changed its policy and allowed salary recovery on research staff to be retained by HRI as part of the overall contribution to HRI. This amounted to approximately \$4,227,000 and \$4,318,000 in 2011 and 2010 respectively. Grant revenues are included in other operating revenues.

ROSWELL PARK CANCER INSTITUTE CORPORATION
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS

NOTE 15. - COMMITMENTS AND CONTINGENCIES

Operating Leases - Future minimum lease payments under noncancellable operating leases (net of sublease rentals) are as follows:

2012	\$ 1,243,072
2013	931,420
2014	474,428
2015	50,809
Thereafter	<u>11,741</u>
	<u>\$ 2,711,470</u>

Total expenses for rents and operating type leases were approximately \$1,594,000 and \$1,504,000 for 2011 and 2010, respectively.

Contingencies - On December 10, 2010, RPCIC entered into an agreement with Kaleida Health, 134 High Street, LLC and FNUB, Inc to construct a parking and transportation facility (the Facility) on High Street in Buffalo, New York. Kaleida has been awarded a grant from the Empire State Development Corporation (ESDC) in the amount of \$10,000,000 for the development of the High Street Medical Campus. As noted in the agreement, Kaleida agrees to use the grant funds described above for the development of the Facility. However, in the event that Kaleida is unable to obtain some or all of the ESDC grant funds, Kaleida, RPCIC and FNUB, Inc. will make equity contributions to 134 High Street, LLC for the development of the Facility. In the event some or all the grant funds are not received, RPCIC will be responsible for 12.12% of the difference between the amount received from ESDC and \$10,000,000. As part of the agreement, RPCIC will receive the right to approximately 200 parking spots in the Facility for its use.



Freed Maxick & Battaglia, CPAs, PC

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of the
Roswell Park Cancer Institute Corporation

Our report on the audit of the consolidating balance sheets of Roswell Park Cancer Institute Corporation as of March 31, 2011, and the related consolidating statements of revenues, expenses and changes in net assets and cash flows for the year ended March 31, 2011 appears on page 1. This audit was conducted for the purpose of forming an opinion on the consolidating financial statements taken as a whole. The combining information on pages 44 through 45 is presented for purposes of additional analysis rather than to present the financial position and results of operations for the individual companies. The supplementary combining information has been subjected to the auditing procedures applied in the audit of the consolidating financial statements, and in our opinion, is fairly presented, in all material respects, in relation to the consolidating financial statements taken as a whole.

Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York
June 23, 2011

ROSWELL PARK CANCER INSTITUTE CORPORATION

COMBINING BALANCE SHEET

March 31, 2011

ASSETS	Roswell Park Cancer Institute	Roswell Park Cancer Institute Clinical Practice Plan	Eliminations	Combined Total
Current assets:				
Cash and cash equivalents	\$ 103,940,909	\$ 7,232,872	\$ -	\$ 111,173,781
Current portion of assets, limited as to use	29,202,354	4,200,000	-	33,402,354
Patient accounts receivable, net	44,209,279	5,231,007	-	49,440,286
Inventories	5,005,948	-	-	5,005,948
Due from (to) New York State and affiliates	14,977,154	(601,735)	(2,596,138)	11,779,281
Prepaid expenses and other assets	<u>4,572,527</u>	<u>163,346</u>	<u>-</u>	<u>4,735,873</u>
Total current assets	201,908,171	16,225,490	(2,596,138)	215,537,523
Noncurrent assets:				
Due from affiliates	266,406	558,299	(558,299)	266,406
Assets limited as to use, net	148,440,632	19,441,067	-	167,881,699
Capital assets, net	308,837,895	136,857	-	308,974,752
Deferred financing costs, net	<u>4,970,524</u>	<u>-</u>	<u>-</u>	<u>4,970,524</u>
Total noncurrent assets	<u>462,515,457</u>	<u>20,136,223</u>	<u>(558,299)</u>	<u>482,093,381</u>
Total assets	<u>\$ 664,423,628</u>	<u>\$ 36,361,713</u>	<u>\$ (3,154,437)</u>	<u>\$ 697,630,904</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term obligations	\$ 11,898,235	\$ -	\$ -	\$ 11,898,235
Accounts payable	16,656,721	1,890,230	-	18,546,951
Accrued expenses	65,213,395	3,637,676	-	68,851,071
Due to third-party payors	5,710,461	-	-	5,710,461
Due to affiliates	<u>558,299</u>	<u>2,596,138</u>	<u>(3,154,437)</u>	<u>-</u>
Total current liabilities	100,037,111	8,124,044	(3,154,437)	105,006,718
Long-term obligations, net	229,269,766	-	-	229,269,766
Post-employment benefits, net of current portion	<u>179,597,161</u>	<u>-</u>	<u>-</u>	<u>179,597,161</u>
Total liabilities	508,904,038	8,124,044	(3,154,437)	513,873,645
Net assets:				
Invested in capital, net of related debt	90,099,809	136,857	-	90,236,666
Restricted expendable	28,145,194	23,641,067	-	51,786,261
Unrestricted	<u>37,274,587</u>	<u>4,459,745</u>	<u>-</u>	<u>41,734,332</u>
Total net assets	<u>155,519,590</u>	<u>28,237,669</u>	<u>-</u>	<u>183,757,259</u>
Total liabilities and net assets	<u>\$ 664,423,628</u>	<u>\$ 36,361,713</u>	<u>\$ (3,154,437)</u>	<u>\$ 697,630,904</u>

ROSWELL PARK CANCER INSTITUTE CORPORATION

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended March 31, 2011

	Roswell Park Cancer Institute	Roswell Park Cancer Institute Clinical Practice Plan	Eliminations	Combined Total
Operating revenues:				
Net patient service revenue	\$ 290,865,961	\$ 39,868,586	\$ -	\$ 330,734,547
Contributions of CPP/net settlements and appeals	16,572,396	1,831,295	(1,195,980)	17,207,711
Contributions from the State of New York	76,959,800	20,754,242	(20,754,242)	76,959,800
Grants and contracts	14,403	2,244,971	-	2,259,374
Other operating revenue	<u>8,682,973</u>	<u>731,420</u>	<u>-</u>	<u>9,414,393</u>
Total operating revenues	393,095,533	65,430,514	(21,950,222)	436,575,825
Operating expenses:				
Salaries	144,549,482	50,030,621	(20,754,242)	173,825,861
Employee benefits	90,986,826	2,099,771	-	93,086,597
Supplies and other services	151,070,054	8,951,116	-	160,021,170
Depreciation and amortization	34,669,076	93,465	-	34,762,541
Provision for malpractice	4,128,000	-	-	4,128,000
Contributions to Roswell Park Cancer Institute Corporation	<u>-</u>	<u>1,195,980</u>	<u>(1,195,980)</u>	<u>-</u>
Total operating expenses	<u>425,403,438</u>	<u>62,370,953</u>	<u>(21,950,222)</u>	<u>465,824,169</u>
(Loss) income from operations	(32,307,905)	3,059,561	-	(29,248,344)
Nonoperating revenues (expenses):				
Interest and other income	3,532,052	139,829	-	3,671,881
Interest expense	(10,618,491)	-	-	(10,618,491)
Loss on disposal of capital assets	(77,681)	(8,520)	-	(86,201)
Investment income	<u>(153,263)</u>	<u>-</u>	<u>-</u>	<u>(153,263)</u>
Net nonoperating revenues (expenses)	<u>(7,317,383)</u>	<u>131,309</u>	<u>-</u>	<u>(7,186,074)</u>
(Deficiency) excess of revenues over expenses	(39,625,288)	3,190,870	-	(36,434,418)
Contributions for purchase of capital assets	<u>27,086,883</u>	<u>-</u>	<u>-</u>	<u>27,086,883</u>
(Decrease) increase in net assets	<u>(12,538,405)</u>	<u>3,190,870</u>	<u>-</u>	<u>(9,347,535)</u>
Net assets, beginning of year	<u>168,057,995</u>	<u>25,046,799</u>	<u>-</u>	<u>193,104,794</u>
Net assets, end of year	<u>\$ 155,519,590</u>	<u>\$ 28,237,669</u>	<u>\$ -</u>	<u>\$ 183,757,259</u>