CONSOLIDATED AUDITED FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

ROSWELL PARK CANCER INSTITUTE CORPORATION
D/B/A
ROSWELL PARK COMPREHENSIVE CANCER CENTER

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

March 31, 2018

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FreedMaxick CPAs, P.C.

Independent Auditor's Report

To the Board of Directors of
Roswell Park Cancer Institute Corporation d/b/a Roswell Park Comprehensive Cancer Center
Buffalo, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Roswell Park Cancer Institute Corporation d/b/a Roswell Park Comprehensive Cancer Center ("Roswell Park" or "Center"), a component unit of New York State, which comprise the consolidated statements of net position as of March 31, 2018 and 2017, and the related consolidated statements of revenues, expenses, and changes in net position, cash flows and discretely presented component unit for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise Roswell Park's consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective net position of the Center and the aggregate discretely presented component unit as of March 31, 2018 and 2017, and the respective results of its operations and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As further discussed in Note 14, Roswell Park had significant transactions with related parties. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America, require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018 on our consideration of Roswell Park's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Roswell Park's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Buffalo, New York
June 29, 2018

Our discussion and analysis of Roswell Park Cancer Institute Corporation d/b/a Roswell Park Comprehensive Cancer Center's ("Roswell Park" or "Center") financial performance provides an overview of Roswell Park's financial activities for the fiscal year that ended on March 31, 2018. The consolidated financial statements of Roswell Park Cancer Institute Corporation d/b/a Roswell Park Comprehensive Cancer Center include the accounts of Roswell Park Cancer Institute and the Roswell Park Clinical Practice Plan (also collectively referred to as the "Public Benefit Corporation" and/or "PBC"). Please read this management's discussion and analysis in conjunction with Roswell Park's consolidated financial statements. Unless otherwise indicated, all dollar amounts are in thousands.

1. Introduction

Roswell Park 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 clinical as 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.

Roswell Park, the only National Cancer Institute ("NCI") designated comprehensive cancer center in Upstate New York, consistently ranks among the NCI's top recipients of research funding. In 2014, the Center's NCI Cancer Center Support Grant ("CCSG", also known as the "core" grant) was reviewed and renewed without a site visit (the first time ever) for another 5 years. This grant, which forms the foundation for Roswell Park's designation as an NCI comprehensive cancer center, is in its 42^{nd} year of continuous funding by the NCI. Only two other cancer centers in the U.S. have held the designation, an important benchmark of excellence, for this length of time. Additionally, Roswell Park is a member of the prestigious National Comprehensive Cancer Network ("NCCN") a not-for-profit alliance of 27 of the world's leading cancer centers devoted to patient care, research, and education. The NCCN is dedicated to improving the quality, effectiveness, and efficiency of cancer care so that patients can live better lives.

Roswell Park holds full accreditation from the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), and it's 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 – for Medical and Surgical Oncology Training Programs, 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 Roswell Park's Blood and Marrow Transplantation Program (autologous & allogeneic bone marrow; peripheral blood progenitor cell transplantation, collection & processing), American Society of Clinical Oncology ("ASCO") Certification for Quality Oncology Practice Initiatives ("QOPI") for Medical Oncology Programs, Association for the Accreditation of Human Research Protection Programs, Association for Assessment and Accreditation of Laboratory Animal Care International ("AAALAC" International), National Marrow Donor Program and the Joint Commission Certification for Palliative Care.

Roswell Park has been recognized by various prestigious national organizations for its clinical care and research programs:

- US News & World Report – Best Hospitals for Cancer (Top 50 in 2017, 2015, 2014, 2013, 2012, 2011 & 2010)
- Accreditation Council for Graduate Medical Education - for Medical and Surgical Oncology Training Programs
- American Dental Association - Dentistry and Maxillofacial Prosthetics

1. Introduction (Continued)

- Association for the Accreditation of Human Research Protection Programs
- Association for Assessment and Accreditation of Laboratory Animal Care International ("AAALAC" International)
- American Association of Blood Banks ("AABB")
- Blue Distinction Center for Transplants
- Cancer Immunotherapy Trials Network Member ("CITN")
- Commission on Cancer of the American College of Surgeons
- Foundation for the Accreditation of Cellular Therapy ("FACT")
- National Cancer Institute-designated Comprehensive Cancer Center
- National Comprehensive Cancer Network ("NCCN")
- National Marrow Donor Program
- New York State Department of Health
- Quality Oncology Practice Initiative ("QOPI") Certification from the American Society of Clinical Oncology ("ASCO")
- The Joint Commission
- The Joint Commission Certification for Palliative Care
- The Joint Commission Laboratory Accreditation

Roswell Park's more than 3,300 employees include more than 300 faculty-level clinicians and researchers and nearly 650 nurses. The interdisciplinary research programs – basic science, translational, and clinical – focus on six primary areas of investigation: Tumor Immunology and Immunotherapy, Cell Stress and Biophysical Therapies, Genetics, Genitourinary Cancers, Experimental Therapeutics, and Population Sciences.

In calendar year 2017 approximately 448 physicians, 253 medical students, 349 clinicians, 302 researchers, and 387 interns received training experiences at Roswell Park. Physicians included oncology fellows, residents, and visiting physicians. Clinicians included nurses, physician assistants, pharmacists, other healthcare professionals. Most are enrolled at the University at Buffalo's School of Medicine and Graduate Medical Education programs. Trainees also come from academic programs at twenty regional colleges and universities. Researchers include over 100 masters' and doctoral students enrolled in the Roswell Park Graduate Division of the University at Buffalo's Graduate School, along with postdoctoral fellows and visiting scholars.

Patient activity continued to grow in 2018. Active patients diagnosed, treated, and/or seen in follow-up clinics increased 10% to over 39,200 in 2018. Outpatient visits increased 7% to approximately 248,798 in 2018.

1. Introduction (Continued)

The Office of Community Outreach and Engagement is dedicated to research that advances the understanding of these disparities and to developing and offering integrated community-based services and educational programs tailored to meet the needs of these populations.

The mission of the Office of Community Outreach and Engagement is to understand, reduce, eliminate, and prevent cancer disparities in vulnerable and medically underserved populations and patients through trans-disciplinary research and programs.

The Roswell Park 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 over 2 million square feet of space of which more than 600,000 gross 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 Institute is a facility licensed for and operating 133 beds, and an ambulatory care center containing 21 clinics within 14 multidisciplinary care centers and outpatient treatment centers for chemotherapy and radiation medicine. Clinical services include a 14-bed Blood and Marrow Transplant Center and satellite ambulatory facilities in Amherst, NY and Wheatfield, NY. The Pediatric Oncology/Hematology program is a joint initiative with the OISHEI Children's Hospital of Buffalo and UBMD pediatric practice delivering 90% of all hematology/oncology services for children in the 8-county WNY region for more than 40 years.

Community oncology care is delivered through RPCI Oncology, PC (“RPCIO”). RPCIO is a professional service corporation that is captive to the Center. RPCIO maintains the following five physician practice locations - Jamestown Medical Oncology and Hematology in Jamestown, NY; Breast Care of Western New York in Amherst, NY; Roswell Park Hematology Oncology Southtowns in West Seneca, NY; Roswell Park Hematology Oncology of Niagara in Wheatfield, NY; and Soniwala Hematology Oncology Associates in Amherst, NY.

RPCIO owns a majority of the membership interest of NR Physician Group, PLLC (“NRPG”). NRPG is a for profit professional limited liability company that was formed to provide physician-based oncology services to patients in Erie County, New York and the surrounding areas.

2. Mission

To eliminate cancer’s grip on humanity by unlocking its secrets through personalized approaches and unleashing the healing power of hope.

Roswell Park will do this by:

- Pioneering promising therapeutic breakthroughs, using them to zero in on the most effective treatment for each patient, and sharing them with the world.
- Committing in every situation, and every decision we face, big and small, to choose our words and actions based solely on the needs of each patient, and nothing more.
- Actively seeking ways to share, inform, support, and inspire each other, our patients, and our community - so that collectively, we go well beyond the expected.
- Loudly, proudly sharing every success with the world, so more of the patients and families who need us, the dynamic people to want to join us, and those who want to support us, know the ongoing miracle that is Roswell Park.

3. Governance

Effective January 1, 1999, Roswell Park became a public benefit corporation of the State of New York ("NYS" or the "State"), operating under enabling legislation enacted under Title 4 of the Public Authorities Law. Roswell Park is owned by NYS and operated as a public benefit corporation ("PBC") and as such, is a component unit of NYS. Prior to January 1, 1999 Roswell Park was a division of the New York State Department of Health. As a public benefit corporation, Roswell Park continues to adhere to the NYS public employees' collective bargaining agreements and is required to provide employee benefits consistent with the NYS Executive Branch.

4. Component Units

For purposes of the financial statements, the Roswell Park Alliance Foundation, Inc. (the "Foundation") is considered a "component unit" of Roswell Park. 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. 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 Roswell Park Board of Directors and as such, Roswell Park's Board has no jurisdiction over the Board of the Foundation or the Foundation's assets. Periodically, the Foundation makes grants to Roswell Park for various purposes. These grant funds are typically administered by Health Research, Incorporated.

GASB *Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* requires that the component unit's financial statements be presented discretely from the financial statements of Roswell Park. The Center has elected to present the Foundation component unit's financial statements immediately after the Center's consolidated financial statements, included in the basic financial statements.

In addition, the consolidated financial statements of Roswell Park also include financial results of the Roswell Park's blended component units, Roswell Park Oncology, P.C., OmniSeq, LLC, Global Biotechnology & Cancer Therapeutics LLC, and Carlton & Michigan, LLC.

5. Financial Highlights

- Total net position decreased $(25,397) or (16.5)% from 2017 to 2018 and decreased $(18,766) or (10.9)% from 2016 to 2017.
- Total assets increased $42,547 or 4.6% from 2017 to 2018 and increased $23,467 or 2.6% from 2016 to 2017.
- Total assets and deferred outflows of resources decreased $(1,765) or (0.2)% from 2017 to 2018 and increased $95,105 or 10.2% from 2016 to 2017.
- Operating revenues, excluding NYS support, increased by $67,146 or 11.2% from 2017 to 2018 and increased by $42,243 or 7.6% from 2016 to 2017.
- Total support from NYS remained unchanged from 2017 to 2018 ($102,607). The amount appropriated to support capital expenses increased by $20,521 or 132.4% from 2017 to 2018 to $36,021. This amount is included within contributions for purchase of capital assets.
- Total operating expenses increased by $74,833 or 10.4% from 2017 to 2018 and increased by $84,925 or 13.3% from 2016 to 2017.

6. Using This Annual Report

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

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position
Both statements report information about Roswell Park's resources and its activities that describe the financial results of the fiscal year and Roswell Park's net position as of the end of the year. They also report Roswell Park's net position and changes in it.

Net position is the difference between assets and liabilities. Over time, increases or decreases in Roswell Park's net position is one indicator of whether Roswell Park's financial health is improving, or deteriorating. Other non-financial factors such as changes in Roswell Park'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 operating, 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 or "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 Roswell Park 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 Roswell Park consolidated financial statements, however is considered a related party for financial reporting purposes.

8. Roswell Park's Net Position

Roswell Park's net position is the difference between the assets and liabilities reported in the statement of net position. Roswell Park's net position decreased by $(25,397) in 2018 and decreased $(18,766) in 2017 as shown in Table 1: Summary of Statement of Net Position. The reasons for these changes are discussed below. Changes in capital assets and long-term debt are also discussed under the heading *Capital Asset and Debt Administration.*

(in thousands of dollars, except as otherwise noted)

8. Roswell Park's Net Position (Continued)

Table 1: Summary of Statement of Net Position

	2018	2017	2016
Assets:			
Current and other assets	$ 654,517	$ 617,385	$ 589,830
Capital assets, net	316,568	311,153	315,241
Total assets	971,085	928,538	905,071
Deferred outflow of resources	51,679	95,991	24,353
Total assets and deferred outflows	$ 1,022,764	$ 1,024,529	$ 929,424
Liabilities:			
Long-term debt outstanding	$ 180,083	$ 194,201	$ 208,358
Other liabilities	700,016	661,093	545,464
Total liabilities	880,099	855,294	753,822
Deferred inflow of resources	14,595	15,768	3,369
Net Position:			
Net investment in capital assets	154,363	134,792	124,632
Restricted expendable	55,787	58,454	67,636
Unrestricted	(86,860)	(41,493)	(21,630)
Non-controlling interest	4,780	1,714	1,595
Total net position	128,070	153,467	172,233
Total liabilities, deferred inflows, and net position	$ 1,022,764	$ 1,024,529	$ 929,424

Overall, total assets and deferred outflows of resources decreased $(1,765) or (0.2)% from 2017 to 2018 and increased $95,105 or 10.2% from 2016 to 2017.

- Current and other assets increased 6.0% in 2018 and 4.7% in 2017.
  - For 2018, this is primarily due to increased balances in cash and cash equivalents, patient accounts receivable, and inventories offset by a decreased balance in limited use assets.
  - For 2017, this is primarily due to increased balances in cash and cash equivalents and patient accounts receivable, offset by a decreased balance in limited use assets.

- Capital assets, net increased 1.7% in 2018 and decreased (1.3)% in 2017.
  - For 2018, this is driven primarily by the timing of capital additions, net of depreciation expense.
  - For 2017, this is driven primarily by depreciation expense, offset by capital additions.

- Deferred outflow of resources decreased (46.2)% in 2018 and increased 294.2% in 2017.
  - For 2018 and 2017, the changes are primarily due to differences between projected and actual investment earnings on pension plan investments and changes in actuarial assumptions. For 2018, improvement in overall market performance drove the change in deferred outflows, whereas in 2017, market declines drove the majority of the change year over year.

Overall, total liabilities and deferred inflows of resources increased 2.7% in 2018 and increased 40.4% in 2017.

- Long-term debt outstanding decreased (7.3)% in 2018 and (6.8)% in 2017.
  - For 2018 and 2017, the decreases were a result of scheduled debt service payments on the outstanding Dormitory Authority of the State of New York (“DASNY”) issued debt and the amortization of bond premium. Furthermore, in 2017, DASNY refinanced certain long-term obligations in which Roswell Park was a partial beneficiary on the original issues. Refer to Note 7 of the consolidated financial statements.

8. Roswell Park's Net Position (Continued)

- Other Liabilities increased 5.9% in 2018 and 21.2% in 2017.
    - For 2018, this is driven primarily due to increased post-retirement health liability ("OPEB") and net pension liability. The increased OPEB balance is due to a 9.3% increased annual OPEB cost. The decreased net pension liability balance is due to primarily to the difference between projected and actual investment earnings on pension plan investments and changes of actuarial assumptions, which was driven by market performance that outpaced estimated utilized by the Plan actuaries in 2017.
    - For 2017, this is driven primarily due to increased OPEB and net pension liability. The increased OPEB balance is due a 12.1% increased annual OPEB cost. The increased net pension liability is due to the difference between projected and actual investment earnings on pension plan investments and changes of actuarial assumptions, driven by market performance that was worse than what was projected by the Plan actuaries. This increase is partially offset by a decreased balance in accounts payable and other current liabilities due primarily to timing of payments to vendors.

- Deferred inflow of resources decreased (7.4)% in 2018 and increased 368.0% in 2017.
    - For 2018 and 2017, this is primarily due to differences between expected and actual experience in the pension plan pertaining to actuarial estimates for demographic and other data used in developing the pension plan estimates.

Overall, total net position decreased (16.5)% from 2017 to 2018 and decreased (10.9)% from 2016 to 2017.

9. Changes in Roswell Park's Net Position

The following summarizes Roswell Park's statement of revenue, expenses and changes in net position between 2018, 2017 and 2016.

Patient activity at Roswell Park is captured by various metrics. This is inclusive of inpatient and outpatient activity.

- Active patients diagnosed, treated, and/or seen in follow-up clinics increased 10% to over 39,200 in fiscal year 2018.
- New to Center patients increased 15.4% from 2017 to 2018 and increased 4.5% from 2016 to 2017.
- Outpatient visits increased 7.4% from 2017 to 2018 and increased 7.6% from 2016 to 2017.
- Inpatient Admissions decreased (0.2)% from 2017 to 2018 and increased 6.0% from 2016 to 2017.
- Inpatient Days decreased by (1.2)% from 2017 to 2018 and increased (0.5)% from 2016 to 2017.

In 2018, Roswell Park's total net position decreased by $(25,397) (16.5)% as shown in Table 2: Summary of Revenues, Expenses and Changes in Net Position. Operating revenues, excluding NYS support, increased 11.2% and total operating expenses increased 10.4%. The total operating expenses base of $797,283 includes annual OPEB cost of $66,051 and annual pension cost of $29,134 in 2018. OPEB and pension cost increased 5.3% from 2017 to 2018, primarily driven by a 9.3% increased annual OPEB cost. Both of these employee fringe benefits are provided to PBC employees as required by NYS. See “Matters Involving New York State” in Note 8 and the “New York State” section in Note 14. Total support from NYS remained unchanged from 2017 to 2018 ($102,607). The amount appropriated to support capital expenses increased by $20,521 or 132.4% from 2017 to 2018 to $36,021. This amount is included within contributions for purchase of capital assets.

(in thousands of dollars, except as otherwise noted)

9. Changes in Roswell Park's Net Position (Continued)

In 2017, Roswell Park's total net position decreased by $(18,766) (10.9)% as shown in Table 2: Summary of Revenues, Expenses and Changes in Net Position. Operating revenues, excluding NYS support increased 7.6% and total operating expenses increased 13.3%. The total operating expenses base of $722,450 includes annual OPEB cost of $60,412 and an annual pension cost of $30,020 in 2017. OPEB and pension cost increased 29.3% from 2016 to 2017, primarily driven by an 87.1% increased annual pension cost. Both of these employee fringe benefits are provided to PBC employees as required by NYS. See "Matters Involving New York State" in Note 8 and the "New York State" section in Note 14. Total support from NYS decreased from 2016 ($102,608) to 2017 ($102,607). The amount appropriated to support capital expenses remained unchanged from 2016 to 2017 ($15,500). This amount is included within contributions for purchase of capital assets.

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

	2018	2017	2016
Operating revenues:			
Net patient service revenue and net settlement and appeals	$ 647,562	$ 583,928	$ 542,305
NYS operating support	66,586	87,107	87,108
Grants and contracts	1,340	1,495	1,484
Other operating revenue	15,593	11,926	11,317
Total operating revenues	731,081	684,456	642,214
Operating expenses (income):			
Salaries, wages and benefits	412,560	380,958	335,091
Supplies and purchased services	350,230	306,552	266,474
Depreciation and amortization	34,493	34,940	35,960
Total operating expenses	797,283	722,450	637,525
Operating (loss) income	(66,202)	(37,994)	4,689
Non-operating revenues and expenses and other changes in net position (including funds received from NYS for capital assets)	40,805	19,228	19,667
(Decrease) increase in net position	$ (25,397)	$ (18,766)	$ 24,356

Overall, operating revenues, excluding NYS support, increased 11.2% from 2017 to 2018 and 7.6% from 2016 to 2017.

- Net patient service revenue/net settlements and appeals increased 10.9% in 2018 and 7.7% in 2017 as a result of the following: Roswell Park hospital revenue increased 11.6% and 9.4% and Practice Plan professional revenues increased 1.4% and 6.5% in 2018 and 2017, respectively. Government appeals and settlement revenue increased 281.6% in 2018 and decreased (125.8)% in 2017. The increases in hospital and professional revenues in both years were attributable to increased volumes, changes in mix of services provided as well as third party payer rate increases. Revenues also include $38,204 and $33,015 related to Roswell Park Oncology, P.C. for 2018 and 2017, respectively.

- The decreases in the government appeals and settlements revenue were due to changes in patient mix affecting DSH revenue, as well as changes in Medicare settlements and appeals.

9. Changes in Roswell Park's Net Position (Continued)

- Grants and contracts revenues include salary recovery on grants administered through HRI for work by the medical staff whose salaries are paid by Roswell Park. Roswell Park's policy allows salary recovery on research staff to be retained by HRI as part of the overall contribution to HRI. This amounted to approximately $6,306 and $5,581 in 2018 and 2017.

- Other operating revenue increased 30.7% from 2017 to 2018 and 5.4% from 2016 to 2017. other operating revenue include revenues received from the operation of the cafeteria, parking garage, and other ancillary activities. See “Other operating revenue” section in Note 2 of the consolidated financial statements.

Overall, total operating expenses increased 10.4% from 2017 to 2018 and increased 13.3% from 2016 to 2017.

- Salaries, wages and benefits costs increased 8.3% and 13.7%, in 2018 and 2017, respectively due to:

    - Growth in employee benefits and retiree health expense including increases in retirement costs, health insurance costs, worker’s compensation, and other employee benefits. Benefits were 64.2%, 57.0%, and 52.0%, of salary costs in 2018, 2017 and 2016, respectively. OPEB and pension cost increased 5.3% from 2017 to 2018, primarily driven by an 9.3% increase in annual OPEB cost as described above.

    - Step and cost of living increases required by labor contracts.

    - Recruitment of scientific and clinical faculty as well as staffing increases related to changes in patient volumes, acuity and new initiatives.

- Supplies and purchased services increased 14.2% and 15.0%, in 2018 and 2017, respectively, due to:

    - Variable cost increases related to inflation and patient volume/mix affecting pharmaceuticals, blood and blood products, medical supplies, and certain purchased services.

Non-operating revenues and expenses and other changes in net position (including funds received from NYS for capital assets) increased 112.2% from 2017 to 2018 due primarily to the following factors:

- Total support from NYS remained unchanged from 2017 to 2018 ($102,607), which included funds received for the purchase of capital asset of $36,021 and which is treated as contributions for purchase of capital assets. The NYS support related to the purchase of capital asset increased by $20,521 or 132.4% from 2017 to 2018, as NYS restricted more of the total support payments to fund capital related expenses.

- Contributions for purchase of capital assets from the Foundation increased 9.7% primarily due the renovation of the pediatrics outpatient clinic which is part of the joint pediatric oncology program with the John R. O'Shei Children's hospital.

- Interest expense has decreased (46.6)% from 2017 to 2018. This is due primarily to the effect of the scheduled debt payments and amortization of bond premium coupled with the DASNY refinanced debt in 2017. Refer to Note 7 of the consolidated financial statements.

(in thousands of dollars, except as otherwise noted)

10. Capital Assets and Debt Administration

Capital Assets

At the end of 2018, 2017, and 2016, Roswell Park had $316,568, $311,153, and $315,241, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the consolidated financial statements. The components of Roswell Park's capital assets are as follows:

	2018	2017	2016
Land	$ 4,444	$ 4,444	$ 4,292
Building	597,262	575,809	526,574
Equipment/other	259,850	226,022	208,543
Construction in progress	16,463	40,693	79,603
	878,019	846,968	819,012
Less: Accumulated depreciation	(561,451)	(535,815)	(503,771)
Net capital assets	$ 316,568	$ 311,153	$ 315,241

During May 2013, Carlton & Michigan, LLC (“C&M”) was established to construct and operate a new Clinical Science Center (“CSC” or the “Project”). C&M is jointly owned by Roswell Park (90%) and the Foundation (10%). During 2014, construction began on the CSC, on the grounds of Roswell Park at the corner of Carlton and Michigan Streets in the City of Buffalo, NY. The CSC building is connected to the Main Hospital and the Grace Cancer Drug Center ("GCDC") which is being transformed into the Translational Research Center to house researchers converting basic research into clinical applications. Roswell Park will be the sponsor and developer of the Project. Roswell Park committed approximately $10,000 of Board Designated Funds towards the construction of the project. In addition, the Foundation has met their goal and secured all of the $27,700 in pledges for the CSC capital campaign, as well as committed approximately $5,000 in the form of additional funding for the project. Other financing structures for the project are described more fully in Section 11, and the CSC was completed in 2017.

(in thousands of dollars, except as otherwise noted)

10. Capital Assets and Debt Administration (Continued)

Long-Term Debt and Capital Leases

Roswell Park's total long-term debt and capital lease obligations, net (net of applicable discounts and premiums) were $180,083, $194,201, and $208,358, as of March 31, 2018, 2017, and 2016, respectively. This includes Roswell Park's allocated portions of certain New York State Department of Health outstanding bonds payable to DASNY. All bonds are collateralized by a first lien on the revenues of the Roswell Park.

	2018	2017	2016
Series 2003 Bonds, net of premium	$ —	$ —	$ 20,764
Series 2004 Bonds, net of premium	—	—	75,195
Series 2005 Bonds, net of premium	—	—	48,635
Series 2011A Bonds, net of premium	21,653	25,610	29,445
Series 2016 Bonds, net of premium	120,730	134,276	—
Notes payable	29,780	29,780	29,780
Capital leases & other	7,920	4,535	4,539
Total long-term debt and capital lease obligations, net	180,083	194,201	208,358
Less: Current portion	(15,194)	(13,586)	(13,055)
Non-Current portion	$ 164,889	$ 180,615	$ 195,303

During 2014, Carlton & Michigan, LLC secured notes payable in the amount of $29,780 from several Community Development Entities to fund construction of the CSC and to garner the benefit of certain New Market Tax Credits. See section 11 below for full details of this transaction.

11. Financing for the Clinical Science Center

Roswell Park, C&M and the Foundation are all parties to a series of transactions entered into to finance the construction of the CSC. By consummating these transactions, Roswell Park will be able to garner the benefit of certain New Market Tax Credit (“NMTC”) enhanced financing to partially fund the construction of the CSC. The NMTC program was established pursuant to federal legislation in the year 2000 and is administered through the CDFI Fund of the United States Department of the Treasury. The purpose of the NMTC program is to provide an incentive for businesses to invest in projects being built or operated in low income communities. To be considered eligible, various criteria must be met pertaining to the project itself (in this case, the construction and operation of the CSC), as well as the participating entities themselves (in this case, Roswell Park, C&M, the Foundation and certain other unrelated investor entities).

Further information on the New Market Tax Credit program can be found at *www.cdfifund.gov*.

Under the program, participating NMTC investors will receive a maximum 39% tax credit over a period of seven years on qualified equity investments totaling approximately $30.5 million made in the construction of the CSC. Through its participation in the NMTC program, Roswell Park expects to recognize a net benefit from the program of approximately $6.2 million, which represents the NMTC investors’ equity investment in the tax credits less all fees and expenses.

(in thousands of dollars, except as otherwise noted)

11. Financing for the Clinical Science Center (Continued)

Pursuant to the laws and regulations surrounding the NMTC program, several entities are party to the overall financing plan. Roswell Park leveraged its own funds (both internal equity and funds raised by the RPAF through a capital campaign), a portion of which were loaned to two unrelated NMTC investment funds. These NMTC investment funds then made qualifying equity contributions into various Community Development Entities ("CDEs"), which in turn loaned those funds as qualified low-income community investments to C&M to fund the construction of the CSC. The following recaps the amounts recognized in the consolidated statement of net position as of March 31, 2018 and 2017:

		Asset (Liability)
Notes Receivable: Roswell Park funds loaned to NMTC investment funds	$	21,261
Notes Payable: Amounts borrowed by C&M from CDEs to fund construction of the CSC	$	(29,780)

The NMTC program requires the financing structure to remain in place for a period of not less than seven (7) years from the date in which the NMTC investment funds make the qualified equity investment into the CDEs (the “Compliance Period”). During the Compliance Period, C&M makes interest-only payments on the loans from the CDEs. The CDEs use the interest payments to pay fees and distribute the remaining proceeds to the NMTC Investment Funds. The NMTC investment funds then use the proceeds to make interest-only payments on their notes payable to Roswell Park. At the conclusion of the Compliance Period, the investors in the NMTC investment funds have the option to have their interest in the CDEs redeemed, which will result in the CDEs assigning their assets to the NMTC investment funds, including the Notes Receivable from C&M.

Additionally, the NMTC Investors have the option to put their interest in the NMTC investment funds to Roswell Park for a price of $1. If the NMTC Investors do not exercise their put options, Roswell Park may exercise a call option to purchase the NMTC Investors’ interests in the NMTC investment funds for a price equal to the fair market value of the interests. Exercise of either the put or call options will effectively transfer ownership of the NMTC investment funds to Roswell Park, which will allow Roswell Park to cancel the loans between the NMTC investment funds and C&M. Recognition of the estimated $6.2 million NMTC net benefit, represented as the difference in value of the NMTC investment interests and the loans payable to the CDEs at the end of the Compliance Period, is contingent upon the exercise of either the put or call options, and thus is considered a gain contingency. Recognition of the NMTC benefit is therefore deferred until such time as the put or call options are exercised, which is expected to be no sooner than the expiration of the Compliance Period in September, 2020.

12. Postemployment Benefits

Effective April 1, 2006, Roswell Park early adopted the provisions of 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 in the financial reports of state and local governmental employers.

12. Postemployment Benefits (Continued)

Funded Status and Funding Progress

The most recent actuarial valuation for the OPEB plan was as of April 1, 2017. As of March 31, 2018, the plan was unfunded. As discussed on the following page under "Matters Involving New York State", Roswell Park is seeking support from NYS to fund all or a significant portion of the unfunded OPEB liability. Roswell Park 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 $662,972 and $667,632 in 2018 and 2017, respectively, and the actuarial value of assets was $0 in 2018 and 2017, resulting in an unfunded actuarial accrued liability ("UAAL") of $662,972 and $667,632 in 2018 and 2017 respectively. The covered payroll (annual payroll of active employees covered by the plan) was $239,159 and $220,877 in 2018 and 2017, respectively, and the ratio of the UAAL to the covered payroll was 277.21% and 302.26% in 2018 and 2017, 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.

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 2018 and 2017, the entry age normal cost method was used. The actuarial assumptions included a 3.0% 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 approximately 8.0%, reduced to an ultimate rate of 3.886% in 2076. Inflation assumptions of 2.25% were used in 2018 and 2017. The assumed rate of annual salary increase is 3.5% in 2018 and 2017. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at March 31, 2018, was nineteen years.

Matters Involving New York State

Roswell Park has recognized in its consolidated statement of net position and consolidating statement of revenues, expenses and changes in net position the amounts described below. In so doing, Roswell Park 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 Roswell Park became a public benefit corporation of the State of New York. As discussed, Roswell Park is seeking relief from NYS for all or a significant portion of the unfunded OPEB liability. Roswell Park 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 NYS were to agree to assume all of the benefits for the time period it operated Roswell Park (e.g. prior to 1/1/99), Roswell Park 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.

(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, 2018, utilizing a cutoff date of January 1, 1999:

	Prior to January 1, 1999	Post January 1, 1999	Total
Actuarial accrued liability ("AAL")	$ 113,646	$ 549,326	$ 662,972
Annual required contribution ("ARC")	69,638	6,148	75,786
Annual OPEB cost	5,218	60,833	66,051
Net OPEB obligation:			
Net OPEB obligation - beginning of year	44,253	419,135	463,388
Annual OPEB cost	5,218	60,833	66,051
Employer contributions	(4,061)	(4,684)	(8,745)
Net OPEB obligation - end of year	$ 45,410	$ 475,284	$ 520,694

GASB has also issued Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other than Pensions*, which will be effective for the year ending March 31, 2019.

13. Financial Condition

Roswell Park is reliant upon the on-going financial support of the State in the furtherance of its mission, particularly in support of the Roswell Park's research operations. In 2018, total support received from the State remained unchanged from 2017, at $102,607. In 2017 and 2018, $15,500 and $36,021, respectively, was appropriated to support capital expenses.

CONSOLIDATED STATEMENTS OF NET POSITION
As of March 31,
(in thousands of dollars)

ASSETS	**2018**	**2017**
Current assets:		
Cash and cash equivalents	$ 195,873	$ 176,112
Current portion of assets limited as to use	27,949	23,691
Patient accounts receivable, net of estimated uncollectibles of approximately $22,063 in 2018 and $21,852 in 2017	102,860	91,566
Inventories	12,360	8,909
Due from New York State and other affiliates	1,286	1,417
Prepaid expenses and other assets	9,772	8,084
Total current assets	350,100	309,779
Non-current assets:		
Assets limited as to use, net of current portion	272,915	279,041
Goodwill and other intangible assets	7,239	7,304
Notes receivable	21,261	21,261
Capital assets, net	316,568	311,153
Investments in joint ventures	3,002	—
Total non-current assets	620,985	618,759
Deferred outflow of resources	51,679	95,991
Total assets and deferred outflows of resources	$ 1,022,764	$ 1,024,529
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term obligations	$ 15,194	$ 13,586
Accounts payable and other current liabilities	33,291	27,351
Accrued expenses	86,101	80,129
Due to third-party payors	14,840	9,490
Total current liabilities	149,426	130,556
Long-term obligations, net of current portion	164,889	180,615
Post-employment benefits, net of current portion	511,490	455,794
Net pension liability	54,294	88,329
Total non-current liabilities	730,673	724,738
Deferred inflow of resources	14,595	15,768
Total liabilities and deferred inflows of resources	894,694	871,062
Net position:		
Net investment in capital assets	154,363	134,792
Restricted expendable	55,787	58,454
Unrestricted	(86,860)	(41,493)
Net position, prior to noncontrolling interest	123,290	151,753
Noncontrolling interest	4,780	1,714
Total net position	128,070	153,467
Total liabilities, deferred inflows of resources, and net position	$ 1,022,764	$ 1,024,529

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended March 31,
(in thousands of dollars)

	2018	2017
Operating revenues		
Net patient service revenue/net settlements and appeals	$ 647,562	$ 583,928
New York State operating support	66,586	87,107
Grants and contracts	1,340	1,495
Other operating revenue	15,593	11,926
Total operating revenues	731,081	684,456
Operating expenses		
Salaries and wages	264,870	242,680
Employee benefits	147,690	138,278
Supplies and purchased services	350,230	306,552
Depreciation and amortization	34,493	34,940
Total operating expenses	797,283	722,450
Loss from operations	(66,202)	(37,994)
Non-operating revenues (expenses)		
Interest and other income (expense)	1,388	2,650
Interest expense	(3,014)	(5,642)
Gain on disposal of capital assets	105	199
Investment loss	(1,143)	(858)
Net non-operating expenses	(2,664)	(3,651)
Deficiency of revenues over expenses before noncontrolling interest	(68,866)	(41,645)
Deficiency of revenues over expenses applicable to noncontrolling interest	2,434	—
Deficiency of revenues over expenses applicable to the Center	(66,432)	(41,645)
Net position, beginning of year	153,467	172,233
Deficiency of revenues over expenses applicable to the Center	(66,432)	(41,645)
Change in accounting estimate	—	4,732
Contributions for purchase of capital assets	37,653	18,147
Other changes in net position	316	—
Net position, prior to noncontrolling interest	125,004	153,467
Deficiency of revenues over expenses and third party investments applicable to noncontrolling interest, net	3,066	—
Net position, end of year	$ 128,070	$ 153,467

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended March 31,
(in thousands of dollars)

	2018	2017
Cash flows from operating activities:		
Net patient service revenue/net settlements and appeals	$ 641,618	$ 582,155
New York State operating support	66,586	87,107
Grants and contracts	1,340	1,495
Other operating revenue	15,655	12,611
Payments to employees and benefit providers	(343,655)	(314,363)
Payments to vendors	(351,262)	(311,293)
Payments for malpractice	(922)	(2,970)
Net cash provided by operating activities	29,360	54,742
Cash flows from capital and related financing activities:		
Purchase of capital assets	(34,698)	(34,885)
Acquisition of intangible assets	(26)	(176)
Contributions for purchase of capital assets	37,700	20,093
Proceeds from the sale or exchange of capital assets	377	349
Repayment of long-term obligations	(13,586)	(13,055)
Payments of interest	(7,060)	(6,363)
Net cash used in capital and related financing activities	(17,293)	(34,037)
Cash flows from investing activities:		
Investments in joint ventures	(3,002)	—
Assets limited as to use, net	892	2,551
Interest and investment income	4,304	1,650
Third party investments in majority owned subsidiary	5,500	—
Net cash provided by investing activities	7,694	4,201
Net increase in cash and cash equivalents	19,761	24,906
Cash and cash equivalents - beginning of year	176,112	151,206
Cash and cash equivalents - end of year	$ 195,873	$ 176,112
Non-cash investing and financing activities:		
Asset acquisitions not paid by March 31	$ 6,173	$ 4,451
Capital expenditures funded by capital lease borrowings	$ 3,394	$ —

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended March 31,
(in thousands of dollars)

	2018	2,017
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$ (66,202)	$ (37,994)
Adjustments to loss from operations to net cash provided by operating activities:		
Depreciation and amortization	34,493	34,940
Provision for bad debts	5,678	5,969
Non-cash portion of pension expense	9,104	10,432
Non-cash portion of OPEB expense	57,306	52,898
Changes in assets:		
Patient accounts receivable	(16,972)	(11,428)
Inventories	(3,451)	(1,053)
Prepaid expenses and other assets	(1,586)	(1,614)
Changes in liabilities and deferred resources:		
Accounts payable and other current liabilities	4,222	(2,676)
Accrued expenses and postemployment benefits	1,418	1,582
Due to third-party payors	5,350	3,686
Net cash provided by operating activities	$ 29,360	$ 54,742

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STATEMENTS OF NET POSITION - COMPONENT UNIT
As of March 31,
(in thousands of dollars)

	Roswell Park Alliance Foundation, Inc.	
ASSETS	**2018**	**2017**
Current assets:		
Cash and cash equivalents	$ 22,980	$ 21,077
Gifts and pledges receivable, current	3,373	4,923
Inventories	139	126
Due from affiliates	717	664
Total current assets	27,209	26,790
Non-current assets:		
Assets limited as to use, net	71,514	63,422
Gifts and pledges receivable, net	5,711	4,414
Prepaid expenses and other assets	275	235
Due from affiliates	559	559
Total non-current assets	78,059	68,630
Total assets	$ 105,268	$ 95,420
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	$ 991	$ 789
Due to affiliate	14,908	12,108
Total current liabilities	15,899	12,897
Annuities payable	866	946
Total liabilities	16,765	13,843
Net position:		
Unrestricted	16,787	15,275
Restricted expendable	28,493	27,122
Restricted non-expendable	43,223	39,180
Total net position	88,503	81,577
Total liabilities and net position	$ 105,268	$ 95,420

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - COMPONENT UNIT
For the Years Ended March 31,
(in thousands of dollars)

	Roswell Park Alliance Foundation, Inc.	
	2018	**2017**
Operating revenues:		
Contributions	$ 24,331	$ 23,038
Other operating revenue	519	570
Total operating revenues	24,850	23,608
Operating expenses:		
Supplies and other services	1,697	1,690
Grants	18,145	15,532
Fundraising	4,573	4,359
Total operating expenses	24,415	21,581
Income from operations	435	2,027
Non-operating revenues:		
Interest and other income	1,243	972
Investment income	5,248	6,653
Total non-operating revenues	6,491	7,625
Excess of revenues over expenses	6,926	9,652
Net position, beginning of year	81,577	71,925
Net position, end of year	$ 88,503	$ 81,577

NOTE 1. ORGANIZATION

Roswell Park Cancer Institute Corporation d/b/a Roswell Park Comprehensive Cancer Center ("Roswell Park" or "Center") is a public cancer hospital and medical research center located in Buffalo, New York. Roswell Park is one of only 47 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. Roswell Park has 133 certified beds.

The Roswell Park Clinical Practice Plan (the "Practice 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 Roswell Park.

The Roswell Park Alliance Foundation, Inc. (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". 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 Roswell Park Board of Directors and as such, Roswell Park's Board has no jurisdiction over the Board of the Foundation or the Foundation's assets.

Roswell Park Oncology, P.C. (the “PC”) was established in July 2012 to provide medical oncology and hematology outpatient services. In December 2012, the PC acquired Jamestown Medical Oncology Hematology, LLC through an asset purchase agreement for total consideration of approximately $1,400. PC retained control of the operations and assets of the physician practice. The transaction was recorded on Roswell Park’s consolidated financial statements using the acquisition method of accounting. The acquired assets included working capital, goodwill, a non-compete agreement, and patient medical records. In November 2014, the PC purchased the assets of Breast Care of Western New York, LLC and Soniwala Hematology Oncology Associates, LLC for total consideration of approximately $2,900 and $4,200, respectively. In October 2015, the PC purchased the assets of Cancer Care and Hematology of Niagara, P.C. for total consideration of approximately $1,200. In April 2016, the PC purchased the assets of Roswell Park Hematology Oncology Southtowns, LLC for total consideration of approximately $1,200. The transactions were recorded on Roswell Park’s consolidated financial statements using the acquisition method of accounting. The acquired assets included working capital, fixed assets, goodwill, non-compete agreements, and patient medical records.

Carlton & Michigan, LLC (“C&M”) was established in May 2013 to construct and operate a new Clinical Science Center (“CSC”) that is adjacent to the Center. C&M, a limited liability company and a pass-through entity for tax purposes, is jointly owned by the Corporation (90%) and the Foundation (10%), both of which are members in C&M pursuant to an operating agreement signed by and between the parties.

C&M was established to facilitate the financing of the construction of the CSC, part of which is being provided through use of certain New Market Tax Credits (“NMTC”). Refer to Note 7 for further details on the financing of the CSC, including a description of the NMTC program.

OmniSeq, LLC (“OmniSeq”) is a for-profit corporation, headquartered in Buffalo, New York, that was formed on February 12, 2015 as a Delaware limited liability company to commercialize proprietary cancer genomic assays and technology developed at Roswell Park. OmniSeq is an early-stage laboratory company that focuses on providing oncological-based, advanced molecular diagnostic tests with therapeutic associations. In August 2017, OmniSeq issued Series B Preferred Stock in a two tranche public offering. As a result of the financing transaction, Roswell Park's membership interest decreased from 63% in 2017 to 54% in 2018.

Roswell Park is a majority owner of the membership interest of Global Biotechnology & Cancer Therapeutics LLC (“GBCT”). GBCT is a for profit limited liability company that was formed to support and collaborate with established and emerging ventures interested in biotechnology and cancer therapeutics. GBCT is fully consolidated within Roswell Park’s consolidated financial statements and is considered a pass-through whereby the tax implications of GBCT’s operations are passed through to its owner/member.

NOTE 1. ORGANIZATION (CONTINUED)

Roswell Park is the sole member of GBCT Holdco LLC, a for-profit limited liability company that was formed as a holding company for GBCT to support new ventures arising out of the research of Roswell Park and affiliated entities. GBCT Holdco LLC is fully consolidated within Roswell Park's consolidated financial statements. It is considered a pass-through entity whereby the tax implications of its operations are passed through to its owner/member.

GBCT II LLC ("GBCT II") is a for-profit limited liability company that was formed to make investments in and provide services for emerging ventures in biotechnology and cancer therapeutics, including licensing inventions, and assisting with Food and Drug Administration approval of new therapies. GBCT is the sole member of GBCT II.

Effective January 1, 1999, Roswell Park 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. Roswell Park 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, Roswell Park was a division of the New York State Department of Health ("NYSDOH"). As a public benefit corporation, Roswell Park continues to adhere to the NYS public employees' collective bargaining agreements and is required to provide employee benefits consistent with the NYS Executive Branch.

Roswell Park has entered into a Joint Venture Agreement with Kaleida Health, a multi-hospital health system which owns and operates the Oishei Children's Hospital ("OCH") in Buffalo, New York. The Joint Venture Agreement, which became effective December 1, 2017, established a clinically and financially integrated pediatric oncology program administered jointly by Roswell Park and OCH.

Discretely Presented Component Unit: U.S. GAAP (as defined in Note 2) requires the inclusion within Roswell Park's consolidated financial statements, the financial statements of the Foundation as a component unit based on the nature and significance of the Center's relationship with the Foundation. The component unit information in the accompanying consolidated financial statements includes the financial data of the Roswell Park's discretely presented component unit. The Foundation is reported separately to emphasize that they are legally separate from Roswell Park.

The Foundation is a not-for-profit corporation organized to receive and administer gifts and bequests made on behalf of Roswell Park. Roswell Park 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 Roswell Park are typically paid to and administered by Health Research, Incorporated. See Note 14 for further information. The financial statements of the Foundation have been prepared on an accrual basis and their presentation has been modified to conform with Governmental Accounting Standards Board ("GASB") principles. The annual financial report can be obtained by writing to: Roswell Park Alliance Foundation, Inc., Elm and Carlton Streets, Buffalo, New York 14263.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: Roswell Park Cancer Institute, the Practice Plan, the PC, OmniSeq, GBCT and C&M (collectively referred to hereinafter as "Roswell Park") 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. Collectively, Roswell Park Cancer Institute and the Practice Plan are referred to as the "Public Benefit Corporation" or the "PBC".

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidating and combining financial information related to Roswell Park, the Practice Plan, C&M, OmniSeq, GBCT and PC is included within the supplementary financial information on pages 47 through 50. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting Principles: Roswell Park uses the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.

All references to relevant authoritative literature issued by either the Governmental Accounting Standards Board ("GASB") or the Financial Accounting Standards Board ("FASB") with which Roswell Park must comply are hereinafter referred to generally as “U.S. GAAP.”

During the fiscal year ended March 31, 2017, Roswell Park adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application.* The primary objective of Statement No. 72 is to define fair value, how fair value is measured, what assets and liabilities should be measured at fair value, and what information about fair value should be reported in the notes to the consolidated financial statements.

GASB Concepts *Statement No. 4, Elements of Financial Statements*, specifies that recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in GASB Concepts Statement No. 4. Based on those definitions, GASB *Statement No. 65, Items Previously Reported as Assets and Liabilities*, reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. This statement also provides financial reporting guidance related to the impact of the financial statement elements' deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

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.

In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension ("GASB 75"). The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 will be effective for the year ending March 31, 2019. The expected result of the adoption of GASB 75 is the full recognition of the currently unrecognized portion of the OPEB liability in Roswell Park's statement of net position. The total actuarial accrued liability ("AAL") as of March 31, 2018 was $662,972.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Roswell Park include, but are not limited to, reserves for bad debts and third-party payor contractual adjustments and allowances, workers' compensation and malpractice reserves, pension & post-employment benefit accruals and the fair value of investments. Actual results could differ from those estimates.

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 position of Roswell Park.

Cash and Cash Equivalents: Roswell Park 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. Roswell Park 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, Roswell Park maintains collateral accounts with certain financial institutions to limit Roswell Park's exposure associated with Federal Depository Insurance limits.

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

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 the Plan enabling legislation, assets set aside pursuant to donor stipulations, and assets designated 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 and other income. Classification in the consolidated statement of net position between current and non-current is generally determined by the purpose for which the assets are set aside.

Intangible Assets: Intangible assets consist of goodwill, patient charts and certain covenants not to compete. The goodwill represents an intangible asset to the PC that has an indefinite life, therefore, in accordance with accounting principles generally accepted in the United States of America, is not subject to amortization, but instead is subject to an impairment test. The PC performs an impairment test at least annually, unless events occur which would necessitate an impairment analysis to be performed more frequently. No impairment was identified as of March 31, 2018 or March 31, 2017. Patient charts and the covenants not to compete represent intangible assets with finite lives of 3 years. Amortization is provided on the straight-line method over the lives of the assets and amounted to $296 and $439 as of March 31, 2018 and 2017, respectively. Future amortization expense related to intangible assets is $40 in 2019.

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 3 to 40 years, which are primarily determined based on the American Hospital Association's Guidelines. For certain buildings and equipment previously acquired or constructed, Roswell Park 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 term of the lease or the useful lives of the assets.

Investments in Joint Ventures: Roswell Park has invested in certain joint ventures that are recorded using the equity method of accounting, see Note 14.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets: Under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Roswell Park 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 2018 and 2017 as a result of performing these evaluations.

Net Position: Net position is classified into categories according to external donor restrictions or availability of assets to satisfy Roswell Park’s obligations, as discussed below:

Net investment in capital assets 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 expendable net position represents the net position with limits on their use that are externally imposed (by creditors, grantors, contributors, or laws and regulations) or that are imposed by Roswell Park's Board of Directors which are not required to be retained in perpetuity.

Unrestricted net position consists of net position that does not meet the definition of any of the other two components.

Noncontrolling interest (NCI) consists of the percentage of C&M’s and OmniSeq's net position not controlled by Roswell Park. The net position attributable to non-controlling interest for the year ended 2018 was $4,780 ($1,714 - 2017). As of March 31, 2018, Roswell Park recognized less than 100% ownership stake in OmniSeq due to the issuance of Series B Preferred Stock in August 2017. As a result of the financing transaction, Roswell Park's ownership percentage decreased to 54%, resulting in the recognition of additional non-controlling interest during 2018.

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

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. The allowances for estimated uncollectibles for patient accounts receivable include accounts referred to the NYS Attorney General for collection. Third-party payors retain the right to review and propose adjustments to amounts recorded by Roswell Park. 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 consolidated 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 (expenses) of approximately $5,793 and $(3,190) in 2018 and 2017, respectively.

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

(in thousands of dollars, except as otherwise noted)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, and 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 17% and 16% of net patient service revenue was generated from the combined services rendered to patients under Medicare and Medicaid programs in 2018 and 2017, respectively. Approximately 61% and 65% of net patient service revenue was generated from the combined services rendered to patients under managed care programs in 2018 and 2017, respectively.

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

	2018	2017
Gross charges	$ 1,671,579	$ 1,517,549
Net settlements and appeals	5,793	(3,190)
Less:		
Discounts and allowances	(1,024,132)	(924,462)
Provision for bad debts	(5,678)	(5,969)
	$ 647,562	$ 583,928

Other Operating Revenue: Roswell Park 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:

	2018	2017
Cafeteria	$ 1,962	$ 1,861
Parking garage	2,753	2,449
Rebates	2,410	2,110
Rental income	1,342	1,288
Other	7,126	4,218
	$ 15,593	$ 11,926

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

Non-operating Revenues (Expenses): Interest and other income and investment loss, consist primarily of interest income and earnings (losses) on assets limited as to use, less amounts charged by the Dormitory Authority of the State of New York ("DASNY") for administrative services associated with Roswell Park's indebtedness, see Note 7.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deficiency of Revenues over Expenses: The consolidated statement of revenues, expenses and changes in net position includes “deficiency of revenues over expenses.” Changes in unrestricted net position, which is excluded from deficiency of revenues over expenses, include grants and contributions for the purchase of capital assets, a prior year change in estimate related to Roswell Park’s self-insured liabilities, third-party investments in a majority controlled subsidiary, and deferred stock compensation awards for OmniSeq employees.

Contributions for Purchase of Capital Assets: Contributions for purchase of capital assets consist principally of amounts received from NYS for the purchase of capital assets ($36,021 in 2018 and $15,500 in 2017), as well as amounts received by Roswell Park from Health Research, Inc. (“HRI”), the Foundation and the Empire State Development Corporation (“ESD”), all of which are related parties. Contributions from the Foundation, discussed below, were $2,905 and $2,647 in 2018 and 2017, respectively, and were for the purchase of capital assets.

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

Taxes: As a public benefit corporation Roswell Park and the Practice Plan are exempt from federal and state income taxes as an instrumentality of the State of New York, as well as state and local property and sales taxes. As such, no provision for income taxes is made by either Roswell Park or the Practice Plan.

The PC is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal and state income taxes on related income pursuant to Section 501 (a) of the Code. The PC’s federal Exempt Organization Business Income Tax Returns for 2014 and 2015 remain subject to examination by the Internal Revenue Service.

Carlton & Michigan, LLC is considered a pass-through whereby the tax implications of C&M’s operations are passed through to the owner/member of Carlton & Michigan, LLC.

OmniSeq, LLC is considered a pass-through whereby the tax implications of OmniSeq’s operations are passed through to the owner/members of OmniSeq.

GBCT is fully consolidated within Roswell Park’s consolidated financial statements and is considered a pass-through whereby the tax implications of GBCT’s operations are passed through to its owner/member.

GBCT Holdco LLC is considered a pass-through whereby the tax implications of GBCT’s operations are passed through to the owner/member of GBCT.

GBCT II LLC is considered a pass-through entity whereby the tax implications of GBCT II's operations are passed through to the owner/member of GBCT.

Reclassifications: Certain prior year amounts were reclassified to conform to the 2018 consolidated financial statement presentation.

Subsequent Events: These consolidated financial statements have not been updated for subsequent events occurring after June 29, 2018, which is the date these consolidated financial statements were available to be issued.

(in thousands of dollars, except as otherwise noted)

NOTE 3. ASSETS LIMITED AS TO USE

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

	2018	2017
Board Designated (a)		
Board designated funds for recruitment, capital and accruals	$ 127,645	$ 117,200
Board designated funds for unfunded future retirement obligations and other strategic initiatives	65,369	78,548
Board designated funds for construction projects	550	1,350
Workers compensation	11,100	9,750
Timing of third party payments	3,775	—
Employee benefits	2,671	2,525
Estimated third party settlements/unearned revenue	875	1,775
Technology transfer	1,000	1,000
TIAA/CREF escrow	447	439
Subtotal	213,432	212,587
Held by Trustee Under Malpractice and General Liability Trust Agreement		
Malpractice reserve:		
Cash and cash equivalents	489	178
U.S. Government obligations, corporate issues, and municipal issues	13,371	13,673
Subtotal	13,860	13,851
Held by Trustee Under Indenture Agreement (b)		
Debt service reserve	21,219	22,723
Major modernization project	17,786	17,840
Subtotal	39,005	40,563
Held under Clinical Practice Plan Enabling Legislation (c)		
Chief Executive Officer fund	13,110	14,645
Academic development fund - Chief Executive Officer	15,141	14,832
Academic development fund - Department Chairperson	6,316	6,254
Subtotal	34,567	35,731
Total assets limited as to use	300,864	302,732
Less: Current portion	(27,949)	(23,691)
Total assets limited as to use, net of current portion	$ 272,915	$ 279,041

(a) Refer to Note 13 for the allocation of assets limited as to use.
(b) The assets held by Trustee under Indenture agreement are all invested in cash and cash equivalents or U.S. Treasuries with the exception of approximately $3,181 in 2018 and $4,391 in 2017 of receivables from DASNY related to the modernization project.
(c) The Practice Plan funds that are held under enabling legislation. Refer to Note 13 for the allocation of assets limited as to use.

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

(in thousands of dollars, except as otherwise noted)

NOTE 4. CAPITAL ASSETS

Capital assets consisted of the following at March 31:

	March 31, 2017	Additions	Transfers	Disposals	March 31, 2018
Non-depreciable assets:					
Land	$ 4,444	$ 162	$ —	$ (162)	$ 4,444
Construction in progress	40,693	34,869	(59,099)	—	16,463
	45,137	35,031	(59,099)	(162)	20,907
Depreciable assets:					
Buildings and improvements	575,809	913	20,540	—	597,262
Equipment	226,022	3,933	38,559	(8,664)	259,850
	801,831	4,846	59,099	(8,664)	857,112
Less: Accumulated depreciation:					
Buildings and improvements	346,397	14,383	—	—	360,780
Equipment	189,418	19,807	—	8,554	200,671
	535,815	34,190	—	8,554	561,451
Capital assets, net	$ 311,153	$ 5,687	$ —	$ (272)	$ 316,568

	March 31, 2016	Additions	Transfers	Disposals	March 31, 2017
Non-depreciable assets:					
Land	$ 4,292	$ 152	$ —	$ —	$ 4,444
Construction in progress	79,603	21,657	(60,567)	—	40,693
	83,895	21,809	(60,567)	—	45,137
Depreciable assets:					
Buildings and improvements	521,885	120	53,804	—	575,809
Equipment	213,232	8,629	6,763	(2,602)	226,022
	735,117	8,749	60,567	(2,602)	801,831
Less: Accumulated depreciation:					
Buildings and improvements	331,083	15,314	—	—	346,397
Equipment	172,688	19,182	—	2,452	189,418
	503,771	34,496	—	2,452	535,815
Capital assets, net	$ 315,241	$ (3,938)	$ —	$ (150)	$ 311,153

Depreciation expense amounted to approximately $34,190 and $34,496 in 2018 and 2017, respectively.

(in thousands of dollars, except as otherwise noted)

NOTE 5. ACCRUED EXPENSES

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

	2018	2017
Salaries and benefits	$ 39,974	$ 34,104
Payroll withholdings	5,576	5,587
Current portion of retirement and post-retirement benefits	9,204	7,594
Workers' compensation	11,100	9,750
Professional and general liability	17,544	19,356
Accrued interest	1,604	1,725
Other	1,099	2,013
	$ 86,101	$ 80,129

NOTE 6. SHORT-TERM BORROWINGS

Roswell Park has an agreement with M&T Bank, which allows for borrowings up to $25,000. There was no balance outstanding under this agreement as of March 31, 2018 and 2017. This agreement was entered into primarily to provide borrowing authority in the event NYS support payments are delayed on a short-term basis.

NOTE 7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The long-term debt obligations of Roswell Park consist primarily of allocated portions of DASNY bonds issued on behalf of Roswell Park and certain other NYSDOH facilities. The portion of these obligations allocated to Roswell Park was derived from budgeted construction costs and is subject to periodic change based on actual costs incurred. All bonds are collateralized by a first lien on the revenues of Roswell Park.

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

	2018	2017
On July 13, 2011, DASNY issued debt in the amount of $48,180 (Roswell Park allocated 74.85%). 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 1998 bond series.	$ 20,955	$ 24,630
On October 21, 2016, DASNY issued debt in the amount of $144,810 (Roswell Park allocated 80.76%). Under the terms of issuance, interest ranges from 3.0% to 5.0% per annum with interest and principal payments due through 2036. The Series 2016A Bonds were issued to refund DASNY issued debt. Proceeds will be used to provide for payment of the redemption price of and accrued interest to the redemption date of the Refunded Bonds as well as the cost of issuance (a).	107,048	116,951
C&M loans payable under NMTC program (b).	29,780	29,780
On June 1, 2012, Roswell Park entered into a capital lease obligation to rent 226 parking spaces for a 35 year period. Under terms of the agreement, the cost of capital is estimated at 3.4% per annum with interest and principal payments due through 2047.	4,526	4,535
On September 20, 2017, Roswell Park entered into a capital lease obligation to operate 2 surgical systems. The lease term is 60 months with an interest rate of 3.0%.	3,394	—
	165,703	175,896
Plus: Unamortized bond premium	14,380	18,305
Total long-term obligations	180,083	194,201
Less: Current portion	(15,194)	(13,586)
Long-term obligations, net	$ 164,889	$ 180,615

(in thousands of dollars, except as otherwise noted)

NOTE 7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (CONTINUED)

Obligation Type	March 31, 2017	Additions	Deductions	March 31, 2018
Bond Series 2011	$ 24,630	$ —	$ (3,675)	$ 20,955
Bond Series 2016	116,951	—	(9,903)	107,048
Loans payable	29,780	—	—	29,780
Capital leases & other	4,535	3,394	(9)	7,920
	175,896	3,394	(13,587)	165,703
Plus: Unamortized bond premium	18,305	—	(3,925)	14,380
Total long-term obligations	194,201	$ 3,394	$ (17,512)	180,083
Less: Current portion	(13,586)			(15,194)
Long-term obligations, net	$ 180,615			$ 164,889

Obligation Type	March 31, 2016	Additions	Deductions	March 31, 2017
Bond Series 2003	$ 20,616	$ —	$ (20,616)	$ —
Bond Series 2004-1	8,939	—	(8,939)	—
Bond Series 2004-2	63,978	—	(63,978)	—
Bond Series 2005A	47,812	—	(47,812)	—
Bond Series 2011	28,133	—	(3,503)	24,630
Bond Series 2016	—	116,951	—	116,951
Loans payable	29,780	—	—	29,780
Capital leases & Other	4,539	—	(4)	4,535
	203,797	116,951	(144,852)	175,896
Plus: Unamortized bond premium	4,561	16,102	(2,358)	18,305
Total long-term obligations	208,358	$ 133,053	$ (147,210)	194,201
Less: Current portion	(13,055)			(13,586)
Long-term obligations, net	$ 195,303			$ 180,615

(a) In October 2016, DASNY refinanced Series 2003, 2004-1, 2004-2 and 2005A Bonds (now referred to as “Bond Series 2016”) in which Roswell Park was a partial beneficiary on the original issue. In connection with the refinancing, a net gain of $695 was recognized in fiscal 2017, included in non-operating expense.

(b) As discussed in Note 1, Roswell Park, C&M and the Foundation are all parties to a series of transactions entered into to finance the construction of the CSC. By consummating these transactions, Roswell Park will be able to garner the benefit of certain New Market Tax Credit enhanced financing to partially fund the construction of the CSC. The NMTC program was established pursuant to federal legislation in the year 2000 and is administered through the CDFI Fund of the United States Department of the Treasury. The purpose of the NMTC program is to provide an incentive for businesses to invest in projects being built or operated in low income communities. To be considered eligible, various criteria must be met pertaining to the project itself (in this case, the construction and operation of the CSC), as well as the participating entities themselves (in this case, Roswell Park, C&M, the Foundation and certain other unrelated investor entities). Further information on the New Market Tax Credit program can be found at *www.cdifund.gov*.

Under the program, participating NMTC investors will receive a maximum 39% tax credit over a period of seven years on qualified equity investments totaling approximately $30.5 million made in the construction of the CSC. Through its participation in the NMTC program, Roswell Park expects to recognize a net benefit from the program of approximately $6.2 million, which represents the NMTC investors’ equity investment in the tax credits less all fees and expenses.

(in thousands of dollars, except as otherwise noted)

NOTE 7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (CONTINUED)

Pursuant to the laws and regulations surrounding the NMTC program, several entities are party to the overall financing plan. Roswell Park leveraged its own funds (both internal equity and funds raised by the Foundation through a capital campaign), a portion of which were loaned to two unrelated NMTC investment funds. These NMTC investment funds then made qualifying equity contributions into various Community Development Entities ("CDEs"), which in turn loaned those funds as qualified low-income community investments to C&M to fund the construction of the CSC. The following recaps the amounts recognized in the consolidated statement of net position as of March 31, 2018 and 2017:

	Asset (Liability)
Notes Receivable: Roswell Park funds loaned to NMTC investment funds	$ 21,261
Notes Payable: Amounts borrowed by C&M from CDEs to fund construction of the CSC	$ (29,780)

The NMTC program requires the financing structure to remain in place for a period of not less than seven (7) years from the date in which the NMTC investment funds make the qualified equity investment into the CDEs (the "Compliance Period"). During the Compliance Period, C&M makes interest-only payments on the loans from the CDEs. The CDEs use the interest payments to pay fees and distribute the remaining proceeds to the NMTC Investment Funds. The NMTC investment funds then use the proceeds to make interest-only payments on their notes payable to Roswell Park. At the conclusion of the Compliance Period, the investors in the NMTC investment funds have the option to have their interest in the CDEs redeemed, which will result in the CDEs assigning their assets to the NMTC investment funds, including the Notes Receivable from C&M. Additionally, the NMTC Investors have the option to put their interest in the NMTC investment funds to Roswell Park for a price of $1. If the NMTC Investors do not exercise their put options, Roswell Park may exercise a call option to purchase the NMTC Investors' interests in the NMTC investment funds for a price equal to the fair market value of the interests. Exercise of either the put or call options will effectively transfer ownership of the NMTC investment funds to Roswell Park, which will allow Roswell Park to cancel the loans between the NMTC investment funds and C&M. Recognition of the estimated $6.2 million NMTC net benefit, represented as the difference in value of the NMTC investment interests and the loans payable to the CDEs at the end of the Compliance Period, is contingent upon the exercise of either the put or call options, and thus is considered a gain contingency. Recognition of the NMTC benefit is therefore deferred until such time as the put or call options are exercised, which is expected to be no sooner than the expiration of the Compliance Period in September, 2020.

Roswell Park uses the effective interest method for amortizing these premiums. Included as an offset to interest expense is $3,925 and $2,358 in 2018 and 2017, respectively, related to the amortization of bond premium.

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

	Long-term debt		Capital lease	
	Principal	Interest	Principal	Interest
Year ending March 31,				
2019	$ 14,568	$ 6,252	$ 626	$ 233
2020	15,700	5,505	770	226
2021	17,206	4,713	797	202
2022	18,045	3,897	828	177
2023	18,886	3,038	501	155
2024-2028	53,582	4,472	307	725
2029-2033	6,386	839	542	654
Thereafter	13,410	681	3,549	1,010
Plus: Unamortized bond premium	14,380	—	—	—
	$ 172,163	$ 29,397	$ 7,920	$ 3,382

(in thousands of dollars, except as otherwise noted)

NOTE 8. POSTEMPLOYMENT BENEFITS

Benefit Plan Description: Employees of Roswell Park 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 two 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: Roswell Park has the authority to establish its own funding policy. Under its current policy, Roswell Park is not required to fund the Benefit Plan or the Annual Required Contribution ("ARC", an actuarial determined amount as defined by U.S. GAAP). Roswell Park is seeking relief from NYS for all, or a significant portion, of the unfunded OPEB liability. To date, NYS has not agreed to this relief.

The Benefit Plan requires participants to contribute a portion of the monthly premiums. The following table illustrates the participant contribution rates per plan for 2018 and 2017.

		Participant Contribution	
Plan	**Tier**	**2018**	**2017**
Empire	Single	$ 72.26	$ 68.09
	Family	$ 345.08	$ 318.44
Community Blue	Single	$ 65.40	$ 61.62
	Family	$ 305.60	$ 288.17
Independent Health	Single	$ 65.78	$ 71.37
	Family	$ 304.57	$ 289.72

Annual Other Postemployment Benefit Cost and Net Other Postemployment Benefit Obligation ("OPEB"): Roswell Park's annual OPEB cost is calculated based on the ARC of the employer. 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 Roswell Park's annual OPEB cost, the amount actually contributed to the plan, and changes in the net OPEB obligation for 2018 and 2017:

Annual OPEB Cost	**2018**	**2017**
Annual required contribution ("ARC")	$ 75,786	$ 69,045
Interest on net OPEB obligation	13,894	12,322
Adjustment to annual required contribution	(23,629)	(20,955)
Annual OPEB cost	$ 66,051	$ 60,412
Net Obligation		
Net obligation - beginning of year	$ 463,388	$ 410,490
Annual OPEB cost	66,051	60,412
Employer contributions	(8,745)	(7,514)
Net OPEB obligation - end of year	520,694	463,388
Less: Current portion	(9,204)	(7,594)
Long-term OPEB obligation	$ 511,490	$ 455,794

(in thousands of dollars, except as otherwise noted)

NOTE 8. POSTEMPLOYMENT BENEFITS (CONTINUED)

The following table illustrates Roswell Park's annual OPEB cost, percentage of annual OPEB cost contributed by Roswell Park, and the net OPEB obligation for 2018, 2017 and 2016.

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
3/31/2016	$ 53,879	12.25%	$ 410,490
3/31/2017	$ 60,412	13.22%	$ 463,388
3/31/2018	$ 66,051	13.94%	$ 520,694

Funded Status and Funding Progress: The most recent actuarial valuation for the OPEB plan was as of April 1, 2017. As of March 31, 2018, the plan was unfunded. As discussed on the following page under "Matters Involving New York State", Roswell Park is seeking support from NYS to fund all or a significant portion of the unfunded OPEB liability. Roswell Park 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 $662,972 and $667,632 in 2018 and 2017, respectively, and the actuarial value of assets was $0 in 2018 and 2017, resulting in an unfunded actuarial accrued liability ("UAAL") of $662,972 and $667,632 in 2018 and 2017 respectively. The covered payroll (annual payroll of active employees covered by the plan) was $239,159 and $220,877 in 2018 and 2017, respectively, and the ratio of the UAAL to the covered payroll was 277.21% and 302.26% in 2018 and 2017, 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 2018 and 2017 the entry age normal cost method was used. The actuarial assumptions included a 3.0% 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 approximately 8.0%, reduced to an ultimate rate of 3.886% in 2076. Inflation assumptions of 2.25% were used in 2018 and 2017. The assumed rate of annual salary increase is 3.5% for 2018 and 2017. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at March 31, 2018, was nineteen years.

Matters Involving New York State: Roswell Park has recognized in its consolidated statements of net position and consolidated statements of revenues, expenses and changes in net position the amounts described above. In so doing, Roswell Park 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 Roswell Park became a public benefit corporation of the State of New York. As discussed previously, Roswell Park is seeking some form of financial assistance from NYS to fund all or a significant portion of the unfunded OPEB liability. Roswell Park believes it will need some form of assistance from NYS in order to meet the future OPEB plan obligations resulting from the benefits that have, and will continue to, accrue under the OPEB plan.

(in thousands of dollars, except as otherwise noted)

NOTE 8. POSTEMPLOYMENT BENEFITS (CONTINUED)

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), Roswell Park 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, 2017 (with updating procedures through March 31, 2018), utilizing a cut-off date of January 1, 1999:

	Prior to January 1, 1999	Post January 1, 1999	Total
Actuarial accrued liability ("AAL")	$ 113,646	$ 549,326	$ 662,972
Annual required contribution ("ARC")	69,638	6,148	75,786
Annual OPEB cost	5,218	60,833	66,051
Net OPEB obligation:			
Net OPEB obligation - beginning of year	44,253	419,135	463,388
Annual OPEB cost	5,218	60,833	66,051
Employer contributions	(4,061)	(4,684)	(8,745)
Net OPEB obligation - end of year	$ 45,410	$ 475,284	$ 520,694

NOTE 9. PENSION

Plan Description: The New York State Comptroller's Office administers the following plans: the New York State and Local Employees Retirement System ("ERS") and the New York State and Local Police and Fire Retirement System ("PFRS"), which are collectively referred to as the New York State and Local Retirement System (the "System"). The net position of the System is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all assets and record changes in fiduciary net position allocated to the system. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law ("RSSL"). Separately issued financial statements for the System can be accessed on the Comptroller's website at *www.osc.state.ny.us/pension/cafr.thm*.

Certain employees of Roswell Park participate in the New York State and Local Employees Retirement System ("ERS"), a defined benefit, cost sharing multiple employer-type plan administered by the Comptroller of the State of New York.

Contributions:

Employer contributions

Roswell Park is required under the RSSL to contribute to the plan at an actuarially determined rate adopted annually by the Comptroller. The average contribution rate for ERS for the fiscal year ended March 31, 2017 was approximately 15.5% of payroll. Roswell Park contributed $20,030 and $19,588 to the plan in the fiscal year 2018 and 2017, respectively.

Member contributions

Generally, Tier 3, 4, and 5 members must contribute 3% of their salary to the plan. As a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees, with a membership date on or after July 27, 1976, who have ten or more years of membership or credited service with the Plan, are not required to contribute. Members cannot be required to begin making contributions or to make increased contributions beyond what is required when membership began. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service.

(in thousands of dollars, except as otherwise noted)

NOTE 9. PENSION (CONTINUED)

As of March 31, 2018 Roswell Park reported a liability of $54,294 ($88,329 - 2017) for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2017. The basis for Roswell Park's proportion of the net pension liability is consistent with the manner in which contributions to the pension plan are determined. The system computed each employer's projected long-term contribution effort to ERS as compared to the total projected long-term contribution effort for all employers to ERS. Roswell Park's proportion was 0.5778242% and 0.5503243% as of March 31, 2017 and 2016, respectively.

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required and were as follows:

2018	$	20,030
2017	$	19,588
2016	$	20,515

For the year ended March 31, 2018, Roswell Park recognized pension expense of $29,134. As of March 31, 2018, Roswell Park reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,360	$ 8,245
Net difference between projected and actual investment earnings on pension plan investments	10,845	—
Changes of assumptions	18,549	—
Change in proportion and differences between employer contributions and proportionate share of contributions	895	6,350
Contributions subsequent to measurement date	20,030	—
Total	$ 51,679	$ 14,595

The $20,030 reported as deferred outflows of resources related to pensions resulting from Roswell Park contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended March 31:	
2019	$ 8,310
2020	8,148
2021	(7,713)
Thereafter	—

(in thousands of dollars, except as otherwise noted)

NOTE 9. PENSION (CONTINUED)

For the year ended March 31, 2017, Roswell Park recognized pension expense of $30,020. As of March 31, 2017, Roswell Park reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 447	$ 10,470
Net difference between projected and actual investment earnings on pension plan investments	52,401	—
Changes of assumptions	23,555	—
Change in proportion and differences between employer contributions and proportionate share of contributions	—	5,298
Contributions subsequent to measurement date	19,588	—
Total	$ 95,991	$ 15,768

Actuarial Methods and Assumption:
The total pension liability for the March 31, 2017 measurement date was determined by using an actuarial valuation as of April 1, 2016 with updating procedures through March 31, 2018.

Actuarial Cost Method	Entry age normal
Inflation	2.5%
Salary scale	3.8%
Investment rate of return	7.0%
Cost of living adjustment	1.3%
Mortality table	Society of Actuaries Scale MP-2014

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice ("ASOP") No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. The best estimate of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 are summarized below.

Asset Class	Target Allocation	Long-term expected real rate of return
Domestic equity	36.00%	4.55%
International equity	14.00%	6.35%
Private equity	10.00%	7.75%
Real estate	10.00%	5.80%
Absolute return strategies	2.00%	4.00%
Opportunistic portfolio	3.00%	5.89%
Real assets	3.00%	5.54%
Bonds and mortgages	17.00%	1.31%
Cash	1.00%	-0.25%
Inflation-indexed bonds	4.00%	1.50%
	100.00%	

(in thousands of dollars, except as otherwise noted)

NOTE 9. PENSION (CONTINUED)

Discount rate: The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, on an actuarially determined basis. Based upon these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Roswell Park's proportionate share of the net pension liability to changes in the discount rate: The following presents Roswell Park's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what Roswell Park's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate:

	1% decrease (6.0%)	Current discount rate (7.0%)	1% increase (8.0%)
Roswell Park's proportionate share of the net pension liability (asset)	$173,403	$54,294	$(46,413)

Pension Plan Fiduciary Net Position: The components of the current-year net pension liability of the employers as of March 31, 2017 were as follows:

Employers' total pension liability	$	177,400,586
Plan net position		168,004,363
Employers' net pension total	$	9,396,223
Ratio of Plan net position to the Employers' total pension liability		94.7%

NOTE 10. INSURANCE ARRANGEMENTS

Roswell Park 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. Roswell Park's insurance arrangements are as follows:

Professional and General Liability: Roswell Park maintains a partially self-insured program covering general and professional liability claims against Roswell Park and its employees. Roswell Park maintains claims made insurance coverage for losses that exceed $4 million for the first claim in each year and $6 million in the aggregate for all claims per year, including defense costs. For any subsequent claims within the same year, the self-insured limits are $3 million per claim and $6 million aggregate. Roswell Park's purchased excess general and professional liability policy covers the next $15 million per claim and in the aggregate per year, over and above Roswell Park's retained exposure limit identified above. Professional liability coverage is on a claims made basis, while general liability coverage is occurrence based. Claims alleging malpractice have been asserted against Roswell Park and are currently in various stages of litigation. It is the opinion of management that the existing reserves, insurance policies and funds held by a trustee under the malpractice and general liability trust agreement (see Note 3) 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 Roswell Park through March 31, 2018, for which reserves have been estimated. Claim reserves were discounted using a rate of 3% in 2018 and 2017.

Workers' Compensation: Roswell Park is partially self-insured for workers' compensation risks with self insurance limits of $600 per occurrence. Roswell Park also maintains excess workers' compensation insurance with limits of $1 million. 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, 2018, for which reserves have been estimated.

The charges to expense for workers' compensation related costs approximated $3,562 and $2,446 in 2018 and 2017, respectively, and are included as a component of employee benefits expense in the consolidated statements of revenues, expenses and changes in net position.

In 2017, Roswell Park changed its estimate for Professional and General Liability and Workers Compensation. The effect of this change in estimate was $4,732 and is the result of the accumulation of historical experience on the ultimate disposition of the underlying claims. In addition, the current year provision for malpractice expense was ($890) (($177) - 2017). The current year provision for malpractice claims includes actuarial changes in estimate that are made annually in the normal course of developing estimated exposures for such claims.

Matters Involving New York State: Prior to January 1, 1999, in the normal course of business, professional liability claims have been asserted against Roswell Park 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. Roswell Park 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, 2018 and 2017, no payments of final settlement of malpractice cases were made.

(in thousands of dollars, except as otherwise noted)

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, 2018, 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 16% and 1% in 2018, respectively, and 15% and 1% in 2017, respectively, of Roswell Park's net patient service revenues for the years then ended.

Litigation: Roswell Park 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 effect on Roswell Park's future financial position, results from operations and cash flows.

NOTE 12. CONCENTRATION OF CREDIT RISK

Roswell Park 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:

	2018	2017
Medicare	21%	18%
Medicaid	4	4
Blue Cross	23	24
Other third-party payors	50	51
Patients	2	3
	100%	100%

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 Roswell Park'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.

(in thousands of dollars, except as otherwise noted)

NOTE 13. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Roswell Park is operated as a component unit of the State of New York. DASNY issues bonds on behalf of Roswell Park. DASNY has numerous separate maturities of bonds which would have to be separately valued, and, secondly, the unique circumstances affecting 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 position 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 hierarchal 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.

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 would 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 tables present information about assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2018 and 2017, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

As of March 31, 2018	Prices in Active Market Level I	Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total
Cash and cash equivalents	$ 104,305	$ —	$ —	$ 104,305
Commercial paper/corporate obligations	78,134	—	—	78,134
Certificates of deposit	43,976	—	—	43,976
U.S. Government and Federal Agency obligations	269,357	—	—	269,357
Municipal issues	965	—	—	965
Total cash and assets limited as to use:	$ 496,737	$ —	$ —	$ 496,737

(in thousands of dollars, except as otherwise noted)

NOTE 13. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

As of March 31, 2017	Prices in Active Market Level I	Other Observable Inputs Level II	Significant Unobservable Inputs Level III	Total
Cash and cash equivalents	$ 118,728	$ —	$ —	$ 118,728
Commercial paper/corporate obligations	73,768	—	—	73,768
Certificates of deposit	29,137	—	—	29,137
U.S. Government and Federal Agency obligations	255,721	—	—	255,721
Municipal issues	1,490	—	—	1,490
Total cash and assets limited as to use:	$ 478,844	$ —	$ —	$ 478,844

NOTE 14. RELATED PARTIES

New York State:

Operating Support: As discussed in Note 1, Roswell Park is related to NYS by virtue of ownership and control. Annually, Roswell Park receives a significant portion of its operating revenue from NYS. This support is a fundamental component of Roswell Park's annual operating budget. During the years ended March 31, 2018 and 2017, operating support received from NYS amounted to approximately $102,607 and $102,607, respectively. Roswell Park is dependent on the continuation of this financial support and forbearance of NYS to continue its operations as a National Cancer Institute designated comprehensive cancer research and treatment center.

Long-Term Obligations: As further discussed in Note 7, Roswell Park recognizes in its consolidated statement of net position allocated portions of DASNY bonds issued on behalf of Roswell Park and other NYSDOH facilities. In this regard, scheduled debt service payments and certain other related transactions are consummated by NYSDOH on Roswell Park's behalf, using Roswell Park funds. In addition, from time to time, DASNY elects to extinguish or otherwise defease certain debt issuances, and in so doing, Roswell Park recognizes its proportionate share of each particular transaction, including the extinguishment, as well as recognizing its portion of any gain or loss on extinguishment.

Health Research, Incorporated:

Health Research, Incorporated. is a not-for-profit corporation chartered under the laws of NYS in 1953 primarily to apply for, secure and administer gifts or grants in furtherance of the research, prevention and treatment of diseases and conditions by the NYSDOH, Roswell Park and other health related entities and as such is related to Roswell Park. During the years ended March 31, 2018 and 2017, Roswell Park paid approximately $8,321 and $6,548, respectively, of expenses incurred by HRI on Roswell Park's behalf. These payments relate primarily to expenses relating to the recruitment and retention of certain principal investigators ("PI's"). Additionally, approximately $1,340 and $1,495 of grant revenue was remitted by HRI to Roswell Park in the years ended 2018 and 2017, respectively. This revenue was generated by salary recovery on medical staff paid by Roswell Park. Roswell Park's policy is to allow for salary recovery on research staff to be retained by HRI as part of the overall contribution to HRI. This amounted to approximately $6,306 and $5,581 in 2018 and 2017, respectively. Furthermore, certain expenses are incurred by HRI on behalf of Roswell Park, and by Roswell Park on behalf of HRI, and reimbursement for these expenses are not sought by either organization in the ordinary course of business. These expenses include certain items such as rent and maintenance, administrative support and other related services.

(in thousands of dollars, except as otherwise noted)

NOTE 14. RELATED PARTIES (CONTINUED)

Joint Ventures:

NR Physician Group, PLLC is a joint venture established to operate a physician-based radiation therapy service facility that offers advanced radiation therapy to patients in southern Erie County, New York. Roswell Park's ownership interest in the joint venture is 60% and is recorded using the equity method of accounting, as all members of the joint venture are able to exercise joint control through their equity investments.

Center For Advanced Molecular Isotopes is a joint venture established to provide quality and affordable radiopharmaceuticals and to further foster an environment conducive to medicinal research. Roswell Park's ownership interest in the joint venture is 14% and is recorded using the equity method of accounting.

Investments in joint ventures as of March 31 comprise of the following:

	2018	2017
NR Physician Group, PLLC	$ 2,752	$ —
Center For Advanced Molecular Isotopes	250	—
	$ 3,002	$ —

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

2019	$ 1,248
2020	641
2021	576
2022	558
2023	523
Thereafter	131
Total	$ 3,677

Total expenses for rents and operating type leases were approximately $1,384 and $1,185 for 2018 and 2017, respectively.

FreedMaxick CPAs, P.C.

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors of the
Roswell Park Cancer Institute Corporation d/b/a Roswell Park Comprehensive Cancer Center

We have audited the consolidated financial statements of Roswell Park Cancer Institute Corporation d/b/a Roswell Park Comprehensive Cancer Center as of and for the years ended March 31, 2018 and 2017, and have issued our report thereon, dated June 29, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying consolidating and combining information on pages 47 through 50 is presented for purposes of additional analysis rather than to present the financial position and results of operations for the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Freed Maxick CPAs, P.C.

Buffalo, New York
June 29, 2018

ROSWELL PARK CANCER INSTITUTE CORPORATION
D/B/A ROSWELL PARK COMPREHENSIVE CANCER CENTER
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

CONSOLIDATING STATEMENT OF NET POSITION
As of March 31, 2018
(in thousands of dollars)

	Public Benefit Corporation	Roswell Park Oncology, P.C.	Carlton & Michigan, LLC	OmniSeq, LLC	GBCT	Eliminations	Total
ASSETS							
Current assets:							
Cash and cash equivalents	$ 189,754	$ 1,214	$ —	$ 3,831	$ 1,074	$ —	$ 195,873
Current portion of assets limited as to use	27,840	—	109	—	—	—	27,949
Patient accounts receivable, net	97,702	3,833	—	1,325	—	—	102,860
Inventories	11,202	1,158	—	—	—	—	12,360
Due from NYS and other affiliates	2,617	—	—	296	—	(1,627)	1,286
Prepaid expenses and other assets	9,334	183	—	255	—	—	9,772
Total current assets	338,449	6,388	109	5,707	1,074	(1,627)	350,100
Non-current assets:							
Assets limited as to use, net of current portion	272,517	—	398	—	—	—	272,915
Goodwill and other intangible assets	—	6,920	—	319	—		7,239
Notes receivable	21,261	—	—	—	—	—	21,261
Capital assets, net	269,636	1,002	45,326	604	—	—	316,568
Investment in subsidiaries	31,054	—	—	—	—	(31,054)	—
Investments in joint ventures	250	2,752	—	—	—	—	3,002
Total non-current assets	594,718	10,674	45,724	923	—	(31,054)	620,985
Deferred outflows of resources	51,679	—	—	—	—	—	51,679
Total assets and deferred outflows	$ 984,846	$ 17,062	$ 45,833	$ 6,630	$ 1,074	$ (32,681)	$ 1,022,764
LIABILITIES AND NET POSITION							
Current liabilities:							
Current portion of long-term obligations	$ 15,172	$ 22	$ —	$ —	$ —	$ —	$ 15,194
Accounts payable and other current liabilities	30,084	1,664	—	206	1,337	—	33,291
Accrued expenses	84,895	287	26	886	7	—	86,101
Due to third-party payors	14,840	—	—	—	—	—	14,840
Due to affiliates	1,546	20	28	—	33	(1,627)	—
Total current liabilities	146,537	1,993	54	1,092	1,377	(1,627)	149,426
Long-term obligations, net of current portion	135,037	72	29,780	—	—	—	164,889
Post-employment benefits, net of current portion	511,490	—	—	—	—	—	511,490
Net pension liability	54,294	—	—	—	—	—	54,294
Total non-current Liabilities	700,821	72	29,780	—	—	—	730,673
Deferred inflows of resources	14,595	—	—	—	—	—	14,595
Total liabilities and deferred inflows of resources	861,953	2,065	29,834	1,092	1,377	(1,627)	894,694
Net position:							
Net investment in capital assets	137,212	1,002	15,546	603	—	—	154,363
Restricted expendable	55,787	—	—	—	—	—	55,787
Unrestricted	(70,106)	13,995	(1,147)	1,755	(303)	(31,054)	(86,860)
Net position, prior to noncontrolling interest	122,893	14,997	14,399	2,358	(303)	(31,054)	123,290
Noncontrolling interest	—	—	1,600	3,180	—	—	4,780
Total net position	122,893	14,997	15,999	5,538	(303)	(31,054)	128,070
Total liabilities, deferred inflows of resources and net position	$ 984,846	$ 17,062	$ 45,833	$ 6,630	$ 1,074	$ (32,681)	$ 1,022,764

ROSWELL PARK CANCER INSTITUTE CORPORATION
D/B/A ROSWELL PARK COMPREHENSIVE CANCER CENTER
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended March 31, 2018
(in thousands of dollars)

	Public Benefit Corporation	Roswell Park Oncology, P.C.	Carlton & Michigan, LLC	OmniSeq, LLC	GBCT	Eliminations	Total
Operating revenues							
Net patient service revenue/net settlements and appeals	$ 607,862	$ 38,204	$ —	$ 4,344	$ —	$ (2,848)	$ 647,562
New York State operating support	66,586	—	—	—	—	—	66,586
Grants and contracts	1,340	—	—	—	—	—	1,340
Other operating revenue	14,746	312	485	567	—	(517)	15,593
Total operating revenues	690,534	38,516	485	4,911	—	(3,365)	731,081
Operating expenses							
Salaries and wages	248,494	10,182	—	5,922	272		264,870
Employee benefits	145,698	901	—	1,015	76	—	147,690
Supplies and purchased services	308,940	34,393	136	4,624	5,502	(3,365)	350,230
Depreciation and amortization	32,196	582	1,189	526	—	—	34,493
Total operating expenses	735,328	46,058	1,325	12,087	5,850	(3,365)	797,283
Loss from operations	(44,794)	(7,542)	(840)	(7,176)	(5,850)	—	(66,202)
Non-operating revenues (expenses):							
Interest and other income (expense)	1,378	—	—	13	—	(3)	1,388
Interest expense	(2,717)	(3)	(297)	—	—	3	(3,014)
Gain on disposal of capital assets	105	—	—	—	—	—	105
Investment loss	(1,143)	—	—	—	—	—	(1,143)
Net non-operating (expenses) revenues	(2,377)	(3)	(297)	13	—	—	(2,664)
Deficiency of revenues over expenses before noncontrolling interest	(47,171)	(7,545)	(1,137)	(7,163)	(5,850)	—	(68,866)
Deficiency of revenues over expenses applicable to noncontrolling interest	—	—	114	2,320	—	—	2,434
Deficiency of revenues over expenses applicable to the Center	(47,171)	(7,545)	(1,023)	(4,843)	(5,850)	—	(66,432)
Net position, beginning of year	151,754	14,290	17,136	3,135	(782)	(32,066)	153,467
Deficiency of revenues over expenses applicable to the Center	(47,171)	(7,545)	(1,023)	(4,843)	(5,850)	—	(66,432)
Contributions for purchase of capital assets	37,653	—	—	—	—	—	37,653
Contributions from Roswell Park	—	8,252	—	3,750	6,329	(18,331)	—
Change in interest in net position of subsidiaries	(19,343)	—	—	—	—	19,343	—
Other changes in net position	—	—	—	316	—	—	316
Net position, prior to noncontrolling interest	122,893	14,997	16,113	2,358	(303)	(31,054)	125,004
Deficiency of revenues over expenses and third party investments applicable to noncontrolling interest, net	—	—	(114)	3,180	—	—	3,066
Net position, end of year	$ 122,893	$ 14,997	$ 15,999	$ 5,538	$ (303)	$ (31,054)	$ 128,070

ROSWELL PARK CANCER INSTITUTE CORPORATION
D/B/A ROSWELL PARK COMPREHENSIVE CANCER CENTER
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

COMBINING STATEMENT OF NET POSITION FOR THE PUBLIC BENEFIT CORPORATION
As of March 31, 2018
(in thousands of dollars)

	Roswell Park Cancer Institute	Roswell Park Clinical Practice Plan	Eliminations	Public Benefit Corporation
ASSETS				
Current assets:				
Cash and cash equivalents	$ 188,053	$ 1,701	$ —	$ 189,754
Current portion of assets limited as to use	24,717	3,123	—	27,840
Patient accounts receivable, net	86,481	11,221	—	97,702
Inventories	11,202	—	—	11,202
Due from New York State and other affiliates	7,588	505	(5,476)	2,617
Prepaid expenses and other assets	8,526	808	—	9,334
Total current assets	326,567	17,358	(5,476)	338,449
Non-current assets:				
Assets limited as to use, net of current portion	241,073	31,444	—	272,517
Notes receivable	21,261	—	—	21,261
Capital assets, net	269,630	6	—	269,636
Investment in subsidiaries	31,054	—	—	31,054
Investments in joint ventures	250	—	—	250
Total non-current assets	563,268	31,450	—	594,718
Deferred outflows of resources	51,679	—	—	51,679
Total assets and deferred outflows of resources	$ 941,514	$ 48,808	$ (5,476)	$ 984,846
LIABILITIES AND NET POSITION				
Current liabilities:				
Current portion of long-term obligations	$ 15,172	$ —	$ —	$ 15,172
Accounts payable and other current liabilities	27,543	2,541	—	30,084
Accrued expenses	79,735	5,160	—	84,895
Due to third-party payors	14,840	—	—	14,840
Due to affiliates	875	6,147	(5,476)	1,546
Total current liabilities	138,165	13,848	(5,476)	146,537
Long-term obligations, net of current portion	135,037	—	—	135,037
Post-employment benefits, net of current portion	511,490	—	—	511,490
Net pension liability	54,294	—	—	54,294
Total non-current liabilities	700,821	—	—	700,821
Deferred inflows of resources	14,595	—	—	14,595
Total liabilities and deferred inflows of resources	853,581	13,848	(5,476)	861,953
Net position:				
Net investment in capital assets	137,206	6	—	137,212
Restricted expendable	21,220	34,567	—	55,787
Unrestricted	(70,493)	387	—	(70,106)
Total net position	87,933	34,960	—	122,893
Total liabilities, deferred inflows of resources and net position	$ 941,514	$ 48,808	$ (5,476)	$ 984,846

ROSWELL PARK CANCER INSTITUTE CORPORATION
D/B/A ROSWELL PARK COMPREHENSIVE CANCER CENTER
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE PUBLIC BENEFIT CORPORATION
For the year ended March 31, 2018
(in thousands of dollars)

	Roswell Park Cancer Institute	Roswell Park Clinical Practice Plan	Eliminations	Public Benefit Corporation
Operating revenues				
Net patient service revenue/net settlements and appeals	$ 549,572	$ 60,099	$ (1,809)	$ 607,862
New York State operating support	66,586	24,220	(24,220)	66,586
Grants and contracts	—	1,340	—	1,340
Other operating revenue	12,049	2,697	—	14,746
Total operating revenues	628,207	88,356	(26,029)	690,534
Operating expenses				
Salaries and wages	197,763	74,951	(24,220)	248,494
Employee benefits	143,158	2,540	—	145,698
Supplies and purchased services	298,300	10,640	—	308,940
Depreciation and amortization	32,193	3	—	32,196
Contributions to Roswell Park	—	1,809	(1,809)	—
Total operating expenses	671,414	89,943	(26,029)	735,328
Loss from operations	(43,207)	(1,587)	—	(44,794)
Non-operating revenues (expenses):				
Interest and other income (expense)	1,046	332	—	1,378
Interest expense	(2,717)	—	—	(2,717)
Gain on disposal of capital assets	105	—	—	105
Investment loss	(1,046)	(97)	—	(1,143)
Net non-operating (expenses) revenues	(2,612)	235	—	(2,377)
Deficiency of revenues over expenses	(45,819)	(1,352)	—	(47,171)
Net position, beginning of year	113,593	38,161	—	151,754
Deficiency of revenues over expenses	(45,819)	(1,352)	—	(47,171)
Contributions from (to) related parties	1,849	(1,849)	—	—
Contributions for purchase of capital assets	37,653	—	—	37,653
Change in interest in net position of subsidiaries	(19,343)	—	—	(19,343)
Net position, end of year	$ 87,933	$ 34,960	$ —	$ 122,893