CONSOLIDATED FINANCIAL STATEMENTS

Dana-Farber Cancer Institute, Inc. and Subsidiaries
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended September 30, 2010 and 2009

Contents

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Report of Independent Auditors

Boards of Trustees
Dana-Farber Cancer Institute, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Dana-Farber Cancer Institute, Inc. and Subsidiaries (the Institute) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States, 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 of material misstatement. We were not engaged to perform an audit of the Institute's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dana-Farber Cancer Institute, Inc. and Subsidiaries at September 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

January 20, 2011

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30 2010	September 30 2009
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 48,234**	$ 49,286
Patient accounts receivable, less allowances of $8,338,000 in 2010 and $6,200,000 in 2009	**61,791**	54,247
Contributions receivable, current portion	**54,953**	44,066
Assets whose use is limited, current portion	**3,660**	41
Research receivables	**32,088**	17,834
Prepaid expenses and other current assets	**25,903**	24,026
Total current assets	**226,629**	189,500
Investments	**517,320**	534,134
Assets whose use is limited by indenture agreement, or other, less current portion	**9,742**	9,650
Property, plant, and equipment, net	**628,840**	544,079
Contributions receivable, less current portion	**51,056**	89,902
Other assets	**9,353**	8,496
Total assets	**$ 1,442,940**	$ 1,375,761

See accompanying notes.

	September 30 2010	September 30 2009
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 74,250**	$ 78,316
Accrued payroll, payroll taxes, and amounts withheld from employee compensation	**13,041**	13,707
Amounts due to third-party payors	**57,734**	39,158
Research advances	**26,864**	20,878
Current portion of long-term debt	**4,305**	3,099
Total current liabilities	**176,194**	155,158
Other liabilities:		
Long-term debt, less current portion	**324,027**	301,683
Other	**49,091**	83,312
	373,118	384,995
Net assets:		
Unrestricted	**411,560**	324,788
Temporarily restricted	**346,495**	381,699
Permanently restricted	**135,573**	129,121
	893,628	835,608
Total liabilities and net assets	**$ 1,442,940**	$ 1,375,761

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2010	2009
	(In Thousands)	
Operating revenues:		
Research revenues	**$ 323,749**	$ 290,929
Patient service revenue, net	**495,484**	445,293
Unrestricted contributions and bequests	**50,960**	56,145
Other operating revenues	**13,025**	15,440
Total operating revenues	**883,218**	807,807
Operating expenses:		
Direct research expenditures	**273,724**	251,308
Direct patient care	**331,356**	294,018
General, administrative, and plant	**217,374**	207,546
Depreciation and amortization	**38,146**	33,928
Interest	**3,897**	3,611
Total operating expenses	**864,497**	790,411
Operating income	**18,721**	17,396
Investment gains (losses), net	**17,480**	(2,277)
Interest rate swap agreement:		
Net interest paid	**(5,493)**	(4,839)
Change in fair value	**(11,541)**	(9,545)
Excess of revenues over expenses	**19,167**	735

Continued on next page.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

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

	Year Ended September 30	
	2010	2009
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues over expenses	**$ 19,167**	$ 735
Net unrealized gains (losses) on endowment	**1,657**	(2,642)
Net assets released for capital	**65,375**	6,915
Pension adjustment	**573**	(6,296)
Net asset reclassification	**–**	27,334
Increase in unrestricted net assets	**86,772**	26,046
Temporarily restricted net assets:		
Contributions revenue, net	**60,009**	52,875
Provision for uncollectible pledges	**(7,300)**	–
Interest and dividend income, net	**1,775**	2,080
Realized and unrealized gains (losses) on investments	**33,286**	(16,513)
Restricted royalty revenue	**5,244**	3,564
Net assets released for capital	**(65,375)**	(6,915)
Net assets released from restrictions for operations	**(59,463)**	(59,054)
Transfers to Harvard University and the General	**(451)**	(1,956)
Net asset reclassification	**(2,929)**	(8,533)
Decrease in temporarily restricted net assets	**(35,204)**	(34,452)
Permanently restricted net assets:		
Contributions revenue, net	**5,022**	4,304
Transfers to Harvard University	**(1,499)**	(1,800)
Net asset reclassification	**2,929**	(18,801)
Increase (decrease) in permanently restricted net assets	**6,452**	(16,297)
Increase (decrease) in net assets	**58,020**	(24,703)
Net assets at beginning of year	**835,608**	860,311
Net assets at end of year	**$ 893,628**	$ 835,608

See accompanying notes.

Dana-Farber Cancer Institute, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30 2010	2009
	(In Thousands)	
Operating activities		
Increase (decrease) in net assets	**$ 58,020**	$ (24,703)
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation and amortization	**38,146**	33,928
Net realized and unrealized (gains) losses on investments	**(51,911)**	21,981
Pension adjustment	**(573)**	6,296
Restricted contributions and investment income, net of restriction releases for operations	**(3,693)**	(4,631)
Transfers to Harvard University and the General	**1,950**	3,756
Net asset reclassification	**–**	(27,334)
Changes in other assets and liabilities	**17,050**	7,676
Changes in certain elements of working capital:		
Accounts receivable	**(7,544)**	448
Research receivables and research advances	**(8,268)**	(3,220)
Prepaid expenses and other assets	**(1,877)**	(5,689)
Sales of investments, net	**68,725**	14,347
Accounts payable and accrued expenses, including employee compensation	**(4,732)**	17,755
Estimated final settlements due to patient care third-party payors	**18,576**	4,064
Net cash provided by operating activities	**123,869**	44,674
Investing activities		
Additions to property, plant, and equipment	**(147,005)**	(150,286)
Changes in assets whose use is limited	**(3,711)**	75,985
Net cash used in investing activities	**(150,716)**	(74,301)
Financing activities		
Payments on long-term debt	**(2,745)**	(2,510)
Payments on capital lease obligation	**(1,162)**	(338)
Restricted contributions and investment income, net of restriction releases for operations	**3,693**	4,631
Change in contributions receivable	**27,959**	29,423
Transfers to Harvard University and the General	**(1,950)**	(3,756)
Net asset reclassification	**–**	27,334
Net cash provided by financing activities	**25,795**	54,784
(Decrease) increase in cash and cash equivalents during the year	**(1,052)**	25,157
Cash and cash equivalents at beginning of year	**49,286**	24,129
Cash and cash equivalents at end of year	**$ 48,234**	$ 49,286
Non-cash financing activities		
Proceeds from capital lease *(Note 7)*	**$ 27,911**	$ –
Construction costs and deferred financing charges *(Note 5)*	**$ (51,623)**	$ 37,201

See accompanying notes.

1. Corporate Organization

Dana-Farber Cancer Institute, Inc. (the Institute) is a comprehensive cancer center dedicated to basic and clinical cancer research and treatment. The Institute primarily serves patients in the New England region. Dana-Farber, Inc. is a controlled affiliate of the Institute, and is responsible for its investment management activities. In August 2003, the Institute formed the Dana-Farber Trust, Inc. for the purpose of acquiring, holding, developing, managing, maintaining, or disposing of real and personal property for the benefit of the Institute and its affiliated organizations.

Under an agreement to coordinate adult oncology services with Partners HealthCare System, Inc. (Partners), the Brigham & Women's Hospital, Inc. (BWH), and The General Hospital Corporation (the General), the Institute maintains its inpatient beds at BWH, and reimburses BWH for related patient care expenses. Net patient service revenue earned on these beds approximated $34,650 and $28,231 in 2010 and 2009, respectively.

In an effort to continually improve the overall quality and delivery of cancer services, the Institute, BWH, the General, and Partners also formed Dana-Farber/Partners CancerCare, Inc. (DF/PCC), a not-for-profit corporation whose mission is to establish guidelines and protocols for adult oncology services. The Institute, BWH, and the General provide DF/PCC with funds to meet its annual operating and capital needs. At present, the Institute's portion of these funds is not material to the consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Dana-Farber Cancer Institute, Inc., Dana-Farber, Inc., and Dana-Farber Trust, Inc. Inter-company transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. All of this portion of the portfolio is classified as trading with investment gain or loss (including realized and unrealized gains and losses on investments, interest, and dividends) included in the excess (deficit) of revenues over expenses, unless restricted by donor or law.

Alternative investments consist of investments in limited partnerships and limited liability companies, and are measured at fair value or estimates of fair value if no readily determinable fair value exists. These estimates are determined based upon information from the funds' General Partners. The General Partner's estimates and assumptions of fair values of non-marketable investments may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values at which such investments may be sold, and the differences could be material. The Institute accounts for these investments (hedge funds, private equity funds, etc.) using the equity method of accounting, and reports its share of the increase or decrease in the funds value as investment gain or loss.

Unrestricted investment income (including realized and unrealized gains and losses on investments, interest, and dividends from all other investments) is reported as non-operating gains (losses), except for investment income equal to the Institute's spending policy, which is reported as operating income.

2. Summary of Significant Accounting Policies (continued)

Assets Whose Use is Limited

Assets whose use is limited represent bond proceeds which are invested and restricted under bond indenture agreements for construction under the Series L (previously Series I) bond offering, and for debt repayment purposes, and investments placed in trust for payment of self-insured claims.

Temporarily and Permanently Restricted Net Assets

Contributions are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of donated assets.

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as revenues (for non-capital-related items), or as a direct increase to unrestricted net assets (for capital-related items).

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income earned on permanently restricted net assets is included in the consolidated statements of operations and changes in net assets as unrestricted resources, or as a change in temporarily or permanently restricted net assets in accordance with donor intentions. Realized and unrealized gains and losses on permanently restricted net assets are recorded as changes in temporarily restricted net assets, unless permanently restricted by the donor or by the terms of the endowment, in which case, they are reported as changes in permanently restricted net assets. These investment gains are available for general use by the Institute, subject to guidelines established by the Commonwealth of Massachusetts for spending the appreciation on permanently restricted net assets.

Contributions Receivable

Unconditional contributions receivable, received in writing in amounts of one thousand dollars or more and payable in regular installments, are recorded at net present value as direct additions to temporarily or permanently restricted net assets, net of any allowances for uncollectible amounts.

2. Summary of Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. Donated equipment is recorded at fair value, determined as of the date of donation. Depreciation is computed using the straight-line method at rates intended to amortize the costs of the related assets over their estimated useful lives. Amortization of assets recorded under capital leases is included in depreciation. Equipment purchased under the terms of research grants is charged as direct research expenditure.

Interest Rate Swap Agreements

The Institute utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Institute is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. The Institute is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable interest swap receipts do not equal variable interest payment on the bonds, there will be a net loss or net benefit to the Institute.

Operating Revenues and Expenses

Income from operations includes revenues generated from direct patient care activities, research activities from grantors and donors, unrestricted contributions, royalties, trademark income, and sundry revenues related to the operation of the Institute's facilities, and all related expenses. The Institute has a spending policy allowing approximately 7% of the average market value of certain donor-restricted investments over the past nine quarters to be spent annually to fund operating and capital needs. Investment income equal to the annual spending policy amount on donor-restricted investments whose income is unrestricted is reported in other operating revenue.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known, or as years are no longer subject to such audits, reviews, and investigations.

2. Summary of Significant Accounting Policies (continued)

Charity Care

The Institute provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. Because the Institute does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses include changes in net assets related to the pension adjustment, net assets released from restrictions for capital, and net unrealized losses on endowment funds.

Income Taxes

The Internal Revenue Service has ruled that the Institute and its subsidiaries qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC), and are exempt from federal income taxes on related income. The Institute is considered a non-private foundation established under IRC Section 170(b)(1)(A)(vi), an organization that receives substantial support from grants, governmental units, and the public. Dana-Farber Trust, Inc. and Dana-Farber, Inc. are both considered non-private foundations under IRC Section 509(a)(3), as Type 1 supporting organizations.

Adoption of New Accounting Standards

In December 2008, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in Accounting Standards Codification (ASC) 715, *Compensation — Retirement Benefits*. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 4 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Institute's consolidated financial statements for the year ended September 30, 2010.

2. Summary of Significant Accounting Policies (continued)

New Accounting Standards

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended ASC 820, *Fair Value Measurements and Disclosures*, to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value, and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2, and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances, and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2009 balances previously reported in the consolidated balance sheets and statements of operations and changes in net assets in order to conform with the year ended September 30, 2010 presentation.

Subsequent Events

The Institute evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2010, the Institute evaluated the impact of subsequent events through January 20, 2011, representing the date at which the consolidated financial statements were issued.

3. Investments

Investments, which are reported at fair value, consisted of the following at September 30:

	2010	2009
Donor-restricted for research and capital	**$ 157,590**	$ 166,435
Donor-restricted endowment corpus	**130,210**	124,392
Accumulated realized and unrealized appreciation on endowment funds	**44,990**	31,543
Board-designated for various purposes	**184,530**	211,764
	$ 517,320	$ 534,134
Cash and cash equivalents	**$ 5,537**	$ 53,417
Fixed-income securities	**38,503**	41,877
Marketable equity securities	**153,844**	163,935
Alternative investments	**319,436**	274,905
	$ 517,320	$ 534,134

Investment return consisted of the following for the year ended September 30:

	2010	2009
Investment income	**$ 2,287**	$ 2,629
Realized and unrealized gains (losses)	**51,911**	(21,981)
	$ 54,198	$ (19,352)

3. Investments (continued)

Investment return was reported as follows in the consolidated statements of operations and changes in net assets for the year ended September 30:

	2010	2009
Excess of revenues over expenses:		
Investment gains (losses) (non-operating)	**$ 17,480**	$ (2,277)
Changes in unrestricted net assets:		
Net unrealized gains (losses) on endowment	**1,657**	(2,642)
Changes in temporarily restricted net assets:		
Interest and dividend income, net realized and unrealized gains (losses)	**35,061**	(14,433)
	$ 54,198	$ (19,352)

4. Fair Value Measurements

On October 1, 2008, the Institute adopted the methods of calculating fair value as described in ASC 820 to value its financial assets and liabilities, where applicable. As defined in ASC 820, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Institute also considers counterparty credit risk in its assessment of fair value.

4. Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories described on the previous page (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ –	$ 48,234	$ –	$ 48,234
Investments				
Cash and cash equivalents	$ –	$ 5,537	$ –	$ 5,537
Fixed-income securities	38,503	–	–	38,503
Marketable equity securities	46,572	107,272	–	153,844
Total investments at fair value	85,075	112,809		197,884
Alternative investments	*	*	*	319,436
Total investments	$ 85,075	$ 112,809	$ –	$ 517,320
Assets whose use is limited by indenture agreement or other	$ –	$ 13,402	$ –	$ 13,402
Defined benefit plan assets				
Cash and cash equivalents	$ –	$ 1,863	$ –	$ 1,863
Fixed-income securities	7,039	–	–	7,039
Marketable equity securities	3,594	8,549	–	12,143
Alternative investments	–	–	9,837	9,837
Total investments	$ 10,633	$ 10,412	$ 9,837	$ 30,882
Liabilities				
Interest rate swap agreements	$ –	$ 36,662	$ –	$ 36,662

*Alternative investments are accounted for using the equity method of accounting.

4. Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described on the previous page (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ –	$ 49,286	$ –	$ 49,286
Investments				
Cash and cash equivalents	$ 25,998	$ 27,419	$ –	$ 53,417
Fixed-income securities	41,877	–	–	41,877
Marketable equity securities	50,292	113,643	–	163,935
Total investments at fair value	118,167	141,062	–	259,229
Alternative investments	*	*	*	274,905
Total investments	$ 118,167	$ 141,062	$ –	$ 534,134
Assets whose use is limited by indenture agreement or other	$ –	$ 9,691	$ –	$ 9,691
Defined benefit plan assets				
Cash and cash equivalents	$ –	$ 573	$ –	$ 573
Fixed-income securities	6,434	–	–	6,434
Marketable equity securities	3,318	10,174	–	13,492
Alternative investments	–	–	8,592	8,592
Total investments	$ 9,752	$ 10,747	$ 8,592	$ 29,091
Liabilities				
Interest rate swap agreements	$ –	$ 25,121	$ –	$ 25,121

*Alternative investments are accounted for using the equity method of accounting.

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market, or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values.

4. Fair Value Measurements (continued)

The following table is a rollforward of the consolidated balance sheet amounts for financial instruments classified by the Institute in Level 3 of the valuation hierarchy defined above (in thousands):

Fair value at October 1, 2008	$ 10,930
Net realized and unrealized losses	(1,191)
Investment income, net	–
Purchases of investments	–
Proceeds from sales of investments	(1,147)
Fair value at September 30, 2009	8,592
Net realized and unrealized losses	**1,245**
Investment income, net	**–**
Purchases of investments	**–**
Proceeds from sales of investments	**–**
Fair value at September 30, 2010	**$ 9,837**

Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The above tables exclude alternative investments totaling $319,436 and $274,905 as of September 30, 2010 and 2009, respectively, that are accounted for on the equity method of accounting, the valuation for which is described in Note 2.

5. Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at September 30:

	2010	2009
Land	**$ 7,640**	$ 7,640
Buildings and improvements	**467,465**	408,957
Equipment	**300,437**	253,936
Construction-in-progress	**297,219**	279,401
	1,072,761	949,934
Less allowance for depreciation	**443,921**	405,855
	$ 628,840	$ 544,079

In 2006, the Institute began construction of the new Yawkey Center for Cancer Care, which is projected to be completed in 2011, at a cost of $350 million. As of September 30, 2010, the outstanding contractual commitments on the project are $62 million.

Included within buildings and improvements are assets recorded under capital leases of $40,056 and $12,145 for September 30, 2010 and 2009, respectively, and accumulated depreciation of $2,216 and $911 as of September 30, 2010 and 2009, respectively (Note 7).

In December 2009, a clinical facility was completed that is shared through a joint venture agreement between the Institute and two other unrelated health care providers. The Institute executed a 20-year lease agreement for approximately 50% of the space in the new building, and had certain financial commitments related to the construction of the building during the construction period. Consequently, the Institute accounted for the facility as if it were the owner during the construction period. On September 30, 2009, the Institute reflected construction costs of $51,623 in property, plant, and equipment related to this facility, with a corresponding deferred financing charge of an equal amount in other liabilities. Upon occupancy of the space in 2010, the Institute accounted for this transaction as a capital lease, resulting in the removal of the related construction costs and deferred financing charge balances, and the addition of a capital lease asset with the related capital lease liability in the amount of $27,911 (which represents the Institute's lease of approximately 50% of the space in the new building).

6. Contributions

Unrestricted contributions and restricted contributions used on a current basis for research are recorded as operating revenues. Other restricted contributions are recorded as additions to temporarily restricted or permanently restricted net assets. Contributions received and pledged (at net discounted value) were as follows for the years ended September 30:

	2010		
	Cash	**Pledges**	**Total**
Unrestricted contributions and bequests	**$ 50,960**	**$ –**	**$ 50,960**
Research gifts for current use	**3,518**	**–**	**3,518**
Temporarily restricted	**45,993**	**14,016**	**60,009**
Permanently restricted	**2,592**	**2,430**	**5,022**
	$ 103,063	**$ 16,446**	**$ 119,509**

	2009		
	Cash	**Pledges**	**Total**
Unrestricted contributions and bequests	$ 56,145	$ –	$ 56,145
Research gifts for current use	3,464	–	3,464
Temporarily restricted	34,544	18,331	52,875
Permanently restricted	2,885	1,419	4,304
	$ 97,038	$ 19,750	$ 116,788

Of the total contributions raised in 2010 and 2009, the Jimmy Fund raised $60,899 and $64,373, respectively, in restricted and unrestricted contributions.

In addition, the Institute was awarded a total of $42,619 and $27,894 in non-governmental grants for the years ended September 30, 2010 and 2009, respectively.

Gifts in kind totaling $978 and $721 were recorded by the Institute as both revenue and expense for the years ended September 30, 2010 and 2009, respectively.

Direct fundraising expenses were $16,567 and $17,830 for the years ended September 30, 2010 and 2009, respectively.

6. Contributions (continued)

Contributions receivable as of September 30 were as follows:

	2010	2009
Amounts due in less than one year for use in operations	**$ 46,525**	$ 33,035
Amounts due in less than one year for capital use	**23,028**	18,331
Amounts due in one to five years	**50,376**	87,010
Amounts due in more than five years	**6,230**	11,650
	126,159	150,026
Less discount to net present value	**5,550**	8,758
Less allowance for uncollectible pledges	**14,600**	7,300
	$ 106,009	$ 133,968

7. Long-Term Debt and Capital Lease Obligation

Long-term debt consisted of the following at September 30:

	2010	2009
Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds:		
Series K	**$ 102,065**	$ 104,810
Series L	**185,000**	185,000
Capital lease obligation *(Note 8)*	**38,238**	11,490
	325,303	301,300
Unamortized premium	**3,029**	3,482
	328,332	304,782
Less current portion	**4,305**	3,099
	$ 324,027	$ 301,683

7. Long-Term Debt and Capital Lease Obligation (continued)

Bonds Payable

On May 22, 2008, the Institute issued, through MHEFA, $107,320 Revenue Bonds, Dana-Farber Cancer Institute Issue, Series K (2008). The Series K bonds are tax-exempt bonds. The proceeds of the bonds were used to: (i) pay bridge financing incurred by the Institution to refund the MHEFA Revenue Bonds, Dana-Farber Cancer Institute Issue, Periodic Auction Reset Securities Series H (2004), (ii) pay fees in connection with the termination of certain swap agreements, (iii) fund a required Debt Service Reserve Fund, and (iv) pay an amount, together with funds provided by the Institution, to fund the cost of issuance of the Series K bonds. The Series K bonds bear interest at fixed rates ranging from 4.00% to 5.25%, and mature in varying annual amounts from 2008 to 2037. The bonds were issued at an original premium of $4,170, which is amortized over the related terms.

On May 22, 2008, the Institute issued, through MHEFA, $185,000 Variable Rate Revenue Bonds, Dana-Farber Cancer Institute Issue, Series L (2008) (Series L-1 and L-2). The Series L bonds are tax-exempt bonds. The proceeds of the bonds were used to: (i) pay bridge financing incurred by the Institution to refund the MHEFA Revenue Bonds, Dana-Farber Cancer Institute Issue, Periodic Auction Reset Securities Series I (2007), and MHEFA Capital Asset Program Loans Series J, (ii) pay MHEFA Capital Asset Program Loans Pool M, and (iii) pay an amount, together with funds provided by the Institution, to fund the cost of issuance of the Series L bonds. The Series L bonds bear interest at an average variable rate (0.23% and 0.76% for the years ended September 30, 2010 and 2009, respectively), and mature in varying annual amounts from 2028 to 2046. The Series L-1 bonds are secured by an irrevocable direct pay letter of credit issued by JPMorgan Chase Bank, National Association. The Series L-2 bonds are secured by an irrevocable direct pay letter of credit issued by Bank of America, N.A.

The Series K and Series L bonds are equally and ratably secured by a lien on the unrestricted gross receipts of the Institute, and a mortgage granted upon the Yawkey Center for Cancer Care, a new 14-floor outpatient health care facility totaling approximately 285,000 square feet, plus a 450-car, seven-level, below-ground parking structure totaling approximately 218,000 square feet, and a connector to the Institute's existing facilities, the Richard A. and Susan F. Smith Research Laboratories, the Dana Building, and the Louis B. Mayer Research Laboratories.

On September 3, 2010, the Institute entered into a bank line of credit in the amount of $40,000 for working capital purposes. This line of credit expires on July 31, 2011, and replaces the previous line of credit originally scheduled to expire on September 30, 2010. No amount was outstanding under the previous line as of September 30, 2010.

7. Long-Term Debt and Capital Lease Obligation (continued)

The Institute is required to comply with certain covenants under its long-term debt agreements. The Institute was in compliance with these requirements at September 30, 2010.

Scheduled maturities and sinking fund requirements for the next five years are as follows:

2011	$ 2,860
2012	2,975
2013	3,095
2014	3,240
2015	3,405

Interest cost totaled $7,433 and $7,818 in 2010 and 2009, respectively. Of this, $3,897 and $3,612 was reported as interest expense, and $3,536 and $4,206 was capitalized (net of $2,160 in related interest income on trustee-held funds in 2009) as part of construction-in-progress in 2010 and 2009, respectively. Cash paid for interest amounted to $8,106 and $8,842 in 2010 and 2009, respectively.

The Institute's long-term debt obligations are reported at carrying value. The fair value of the Institute's long-term debt obligations is approximately $335,064 at September 30, 2010.

Interest Rate Swaps

In connection with the issuance of the 2008 Series L bonds (refunding the 2007 Series I bonds), the Institute amended two interest rate swap agreements of $75,000 each with Morgan Stanley Capital Services, Inc. Under these agreements, the Institute effectively converted this variable rate debt to a fixed rate basis of 3.84% for the term of the bonds.

The Institute reported the fair value of interest rate swap agreements as $36,662 and $25,121 in other liabilities on the balance sheets, as of September 30, 2010 and 2009, respectively. The Institute reported the change in the fair value of the interest rate swap agreements as a non-operating loss of $11,541 and $9,545 in the accompanying consolidated statements of operations and changes in net assets for the years ended September 30, 2010 and 2009, respectively.

7. Long-Term Debt and Capital Lease Obligation (continued)

Capital Lease Obligation

The Institute has two capital leases that expire in 2029 and 2027 for certain leased spaces in outpatient satellite clinics. The interest rates of the capital leases are 1.95% (average variable rate) and 4.75%, respectively. Interest expense related to the capital leases was $1,070 and $555 for the years ended September 30, 2010 and 2009, respectively.

8. Leases

The Institute has non-cancelable capital and operating leases for certain buildings and equipment. Rental expenses under these operating and other lease contracts approximated $28,376 in 2010 and $22,775 in 2009. Minimum future lease commitments under non-cancelable leases are as follows:

	Capital Leases	Operating Leases
2011	$ 3,239	$ 23,437
2012	3,239	22,162
2013	3,270	17,536
2014	3,277	15,250
2015	3,277	12,092
Thereafter	40,815	36,381
Total minimum lease payments	57,117	$ 126,858
Less amount representing interest	(18,879)	
Capital lease obligation	$ 38,238	

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are restricted to the following at September 30:

	2010	2009
Research	**$ 244,960**	$ 234,160
Capital	**56,546**	115,996
Realized and unrealized gains on permanently restricted gifts	**44,989**	31,543
	$ 346,495	$ 381,699

During 2010 and 2009, net assets of $59,463 and $59,054, respectively, were released from donor restrictions to fund research. These amounts are included in operating revenues.

Permanently restricted net assets consisted of the following at September 30:

	2010	2009
Unrestricted as to use of income	**$ 7,318**	$ 7,168
Restricted as to use of income	**128,255**	121,953
	$ 135,573	$ 129,121

Permanently restricted net assets are reported at the original gift amount, with realized and unrealized gains reported as additions to temporarily restricted net assets.

In 2010 and 2009, the Institute transferred $1,950 and $3,756, respectively, to Harvard and the General in accordance with the terms of certain gifts.

In 2010, the Institute transferred $2,929 from temporarily restricted gifts to permanently donor-restricted endowment funds based on revised donor terms. In 2009, the Institute transferred $27,334 from donor-restricted endowment funds to board-designated investments, based on revised donor terms.

The Institute's endowments consist of numerous individual funds established for a variety of purposes. These endowments consist solely of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

9. Temporarily and Permanently Restricted Net Assets (continued)

The Institute requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund, (b) the purpose of the Institute and the donor-restricted endowment fund, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, (f) the investment policies of the Institute, and (g) other resources of the Institute.

Endowment net asset composition by type of fund as of September 30, 2010 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 44,989	$ 135,573	$ 180,562
Board-designated endowment funds	(985)	–	–	(985)
	$ (985)	$ 44,989	$ 135,573	$ 179,577

9. Temporarily and Permanently Restricted Net Assets (continued)

For the year ended September 30, 2010, the Institute had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2009	$ (2,642)	$ 31,543	$ 129,121	$ 158,022
Investment return:				
Investment income	–	865	–	865
Net appreciation	–	17,740	–	17,740
Total investment return	–	18,605	–	18,605
Contributions to perpetual endowment	–	–	5,022	5,022
Net asset reclassifications	–	–	2,929	2,929
Net asset reclassifications – net unrealized gain on endowments	1,657	(1,657)	–	–
Amounts appropriated for expenditure/transfer	–	(3,502)	(1,499)	(5,001)
Total change in endowment funds	1,657	13,446	6,452	21,555
Endowment net assets at September 30, 2010	$ (985)	$ 44,989	$ 135,573	$ 179,577

Endowment net asset composition by type of fund as of September 30, 2009 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 31,543	$ 129,121	$ 160,664
Board-designated endowment funds	(2,642)	–	–	(2,642)
	$ (2,642)	$ 31,543	$ 129,121	$ 158,022

9. Temporarily and Permanently Restricted Net Assets (continued)

For the year ended September 30, 2009, the Institute had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2008	$ –	$ 54,991	$ 145,418	$ 200,409
Investment return:				
Investment income	–	1,076	–	1,076
Net depreciation	–	(10,499)	–	(10,499)
Total investment return	–	(9,423)	–	(9,423)
Contributions to perpetual endowment	–	–	4,304	4,304
Net asset reclassifications	–	(8,533)	(18,801)	(27,334)
Net asset reclassifications – net unrealized loss on endowments	(2,642)	2,642	–	–
Amounts appropriated for expenditure/transfer	–	(8,134)	(1,800)	(9,934)
Total change in endowment funds	(2,642)	(23,448)	(16,297)	(42,387)
Endowment net assets at September 30, 2009	$ (2,642)	$ 31,543	$ 129,121	$ 158,022

The overall financial objectives of the Institute are to provide a sustainable and increasingly upward trend in the endowment distribution dollars to support the annual operating budget, to preserve and enhance the real (inflation-adjusted) purchasing power of the Institute, and to provide support for capital investment needs as they arise.

The long-term investment objectives of the Institute are to attain an inflation-adjusted or real total return (net of investment management fees) at least equal to the Institute's spending rate, as measured over a full market cycle (or rolling five- to seven-year periods); achieve annualized returns in excess of the strategic policy portfolio blended benchmark, and measured over a full market cycle; and outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies.

9. Temporarily and Permanently Restricted Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Institute to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are $985 and $2,642 as of September 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

10. Net Patient Service Revenue

The Institute has a reimbursement agreement with Massachusetts Blue Cross, Inc. that provides for product-specific payment rates. The Institute also participates in the Medicare Program. This program provides outpatient reimbursement based on Ambulatory Payment Classifications. Cancer centers were granted a hold harmless exemption that allows for a final settlement based on a percentage of actual costs incurred. Inpatient reimbursement is limited to the lower of cost or a fixed target rate per discharge. The Institute also has an agreement with the Commonwealth of Massachusetts, under the Medicaid program, which provides a fixed amount of reimbursement per discharge, or encounter for inpatient or outpatient, respectively.

Revenues from the Medicare and Medicaid programs accounted for approximately 17% and 5%, respectively, of the Institute’s patient service revenue for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the future. The Institute believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Changes in estimates of prior year settlements increased operating income by approximately $12,221 in 2009.

11. Charity Care

The Institute, in compliance with its mission, voluntarily provides free care to patients who lack financial resources and are deemed to be indigent. In addition, the Institute is required to participate in the statewide, Health Safety Net, (HSN). The Institute contributes to the HSN based on a predetermined statewide formula. Direct charity care, based on cost, and amounts payable to the HSN, were as follows for the years ended September 30:

	2010	2009
Direct charity care	**$ 3,488**	$ 6,441
Uncompensated care pool	**4,000**	3,320
	$ 7,488	$ 9,761

12. Pension Plans

Defined Contribution Plan

Substantially all employees are covered by a defined contribution plan to which the Institute contributes a fixed percentage of employees' salaries. The amounts contributed for the years ended September 30, 2010 and 2009 approximated $18,634 and $16,599, respectively.

Defined Benefit Pension Plan

Obligations and Funded Status

The Institute has a defined benefit pension plan, which was frozen for years of service credited through June 30, 1992. The Board of Directors of the Institute adopted a resolution to freeze the salary component of the defined benefit pension plan effective March 31, 2010. On September 30, as a result of this resolution, the Plan liabilities were remeasured. All outstanding prior service credit related to these employees of $(3,295) was amortized as of the date of the re-measurement, and was included in employees' compensation and benefits in the accompanying statements of operations and changes in net assets.

12. Pension Plans (continued)

Included in unrestricted net assets at September 30, 2010 and 2009 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service (credit) cost of $(2,845) and $29, and unrecognized actuarial losses of $16,392 and $14,089, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2011 are $(421) and $1,151, respectively.

The following tabulation summarizes information about the funded status of the plan at September 30:

	2010	2009
Projected benefit obligation at beginning of year	**$ 32,344**	$ 29,937
Interest cost	**1,587**	1,711
Amendments	**(3,295)**	–
Net benefit payments and transfers	**(1,240)**	(1,149)
Liability losses	**3,415**	1,845
Projected benefit obligation at end of year	**32,811**	32,344
Fair value of plan assets at beginning of year	**29,091**	32,148
Actual return on plan assets	**3,198**	(1,784)
Net benefit payments and expenses	**(1,407)**	(1,273)
Fair value of plan assets at end of year	**30,882**	29,091
Funded status of the plan	**$ (1,929)**	$ (3,253)

The measurement date for the Institute's fiscal 2010 financial statements is September 30, 2010.

The accumulated benefit obligation was $32,811 and $28,879 at September 30, 2010 and 2009, respectively.

12. Pension Plans (continued)

Net Periodic Pension Cost

Net periodic pension cost consists of the following for the years ended September 30:

	2010	2009
Interest cost on projected benefit obligation	**$ 1,587**	$ 1,711
Service cost	**132**	–
Expected return on plan assets	**(2,671)**	(2,677)
Net amortization and deferral	**201**	134
Net periodic pension income	**$ (751)**	$ (832)

Assumptions

Assumptions used to measure the projected benefit obligation and net periodic pension cost include the following at September 30:

	2010	2009
Discount rate (projected benefit obligation)	**5.10%**	5.75%
Discount rate (net periodic pension cost)	**5.75**	6.25
Expected long-term return on plan assets	**8.00**	8.00
Average increase in compensation levels	**4.00**	4.00

The expected rate of return on plan assets was determined based on the expected return of each asset class using a model that estimates returns over at least a twenty-year period without regard to current market valuations.

12. Pension Plans (continued)

Plan Assets

The Institute's pension plan asset allocations at September 30, by asset category, are as follows:

	2010	2009
Marketable equity securities	**39%**	46%
Fixed-income securities	**23**	22
Alternative investments	**32**	30
Cash and cash equivalents	**6**	2
	100%	100%

Pension plan assets are managed by outside managers with a long-term outlook. Long-term investment results are measured over rolling periods of three to five years. The investment objective for plan assets is to achieve a total annual return, net of fees, that meaningfully exceeds the returns possible in the index markets by investing passively in index funds.

Assets invested in the defined benefit pension plan are carried at fair value. Debt and equity securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments, as described in Note 2, are stated at fair value as estimated in an unquoted market.

Contributions

The Institute does not expect to contribute to its pension plan in 2011.

Estimated Future Benefit Payments

Benefit payments are expected to approximate the following:

2011	$ 2,264
2012	2,948
2013	2,909
2014	2,794
2015	2,212
2016 to 2020	10,932

13. Concentrations of Credit Risk

The Institute grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows at September 30:

	2010	2009
Medicare	**25%**	21%
Medicaid	**5**	6
Blue Cross	**28**	26
Harvard Pilgrim Health	**10**	7
Commercial and other	**30**	36
Patients	**2**	4
	100%	100%

14. Medical Malpractice Insurance

The Institute insures its medical malpractice risks under a claims-made policy issued by a captive insurance company, of which the Institute is a 10% owner. The Institute provides reserves (in addition to those maintained by its affiliated insurance company) for claims incurred but not reported to the insurance company at the consolidated balance sheet date. These reserves have been estimated by consulting actuaries on a discounted basis using an interest rate of 5.75%. The discounted liability for unasserted claims at September 30, 2010 and 2009 approximated $1,215 and $1,177, respectively.