The CHRISTUS Stehlin Foundation for Cancer Research

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2009 and 2008

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Trustees of
The CHRISTUS Stehlin Foundation for Cancer Research:

We have audited the accompanying statements of financial position of The CHRISTUS Stehlin Foundation for Cancer Research as of June 30, 2009 and 2008 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of The CHRISTUS Stehlin Foundation for Cancer Research. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The CHRISTUS Stehlin Foundation for Cancer Research as of June 30, 2009 and 2008 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

May 13, 2010

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The CHRISTUS Stehlin Foundation for Cancer Research

Statements of Financial Position as of June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents *(Notes 2 and 4)*	$ 114,419	$ 108,857
Pledges receivable	246,878	137,912
Investments *(Notes 3 and 4)*	4,091,520	4,520,766
Property and equipment, net *(Note 5)*	339,965	399,947
TOTAL ASSETS	$ 4,792,782	$ 5,167,482
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 196,987	$ 99,917
Charitable remainder trust payable	56,787	62,419
Total liabilities	253,774	162,336
Net assets:		
Unrestricted	4,299,008	4,875,146
Temporarily restricted for cancer research	240,000	130,000
Total net assets	4,539,008	5,005,146
TOTAL LIABILITIES AND NET ASSETS	$ 4,792,782	$ 5,167,482

See accompanying notes to financial statements.

The CHRISTUS Stehlin Foundation for Cancer Research

Statement of Activities for the year ended June 30, 2009

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions *(Note 7)*	$ 1,041,296	$ 250,000	$ 1,291,296
Investment return *(Note 3)*	(117,906)		(117,906)
Total revenue	923,390	250,000	1,173,390
Net assets released from restrictions:			
Program expenditures	140,000	(140,000)	
Total	1,063,390	110,000	1,173,390
EXPENSES:			
Program services:			
Salaries and related expenses	1,870,323		1,870,323
Laboratory services and supplies	854,992		854,992
Contributed services and laboratory space	231,271		231,271
Utilities	158,806		158,806
Professional fees	87,554		87,554
Depreciation	67,367		67,367
Other operating expenses	42,837		42,837
Total program services	3,313,150		3,313,150
Management and general	309,367		309,367
Fundraising	40,511		40,511
Total expenses	3,663,028		3,663,028
Change in net assets before other changes	(2,599,638)	110,000	(2,489,638)
Other changes:			
Transfer from CHRISTUS Health, Inc. *(Note 6)*	2,023,500		2,023,500
CHANGES IN NET ASSETS	(576,138)	110,000	(466,138)
Net assets, beginning of year	4,875,146	130,000	5,005,146
Net assets, end of year	$ 4,299,008	$ 240,000	$ 4,539,008

See accompanying notes to financial statements.

The CHRISTUS Stehlin Foundation for Cancer Research

Statement of Activities for the year ended June 30, 2008

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions *(Note 7)*	$ 929,817	$ 155,000	$ 1,084,817
Investment return *(Note 3)*	(48,073)		(48,073)
Total revenue	881,744	155,000	1,036,744
Net assets released from restrictions:			
Program expenditures	175,000	(175,000)	
Total	1,056,744	(20,000)	1,036,744
EXPENSES:			
Program services:			
Salaries and related expenses	1,883,586		1,883,586
Laboratory services and supplies	1,774,952		1,774,952
Contributed services and laboratory space	227,301		227,301
Utilities	252,228		252,228
Professional fees	62,935		62,935
Depreciation	75,706		75,706
Other operating expenses	57,311		57,311
Total program services	4,334,019		4,334,019
Management and general	263,555		263,555
Fundraising	59,974		59,974
Total expenses	4,657,548		4,657,548
Change in net assets before other changes	(3,600,804)	(20,000)	(3,620,804)
Other changes:			
Transfer from CHRISTUS Health, Inc. *(Note 6)*	3,300,000		3,300,000
CHANGES IN NET ASSETS	(300,804)	(20,000)	(320,804)
Net assets, beginning of year	5,175,950	150,000	5,325,950
Net assets, end of year	$ 4,875,146	$ 130,000	$ 5,005,146

See accompanying notes to financial statements.

The CHRISTUS Stehlin Foundation for Cancer Research

Statements of Cash Flows for the years ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (466,138)	$ (320,804)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	67,367	75,706
Net realized and unrealized loss on investments	192,159	177,839
Change in operating assets and liabilities:		
Pledges receivable	(108,966)	29,769
Accounts payable and accrued expenses	97,070	27,144
Charitable remainder trust payable	(5,632)	(5,631)
Net cash used by operating activities	(224,140)	(15,977)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(904,965)	(9,810,337)
Proceeds from sales and maturities of investments	3,901,340	9,843,220
Net purchases of certificates of deposit	(2,247,078)	(24,704)
Net change in cash and cash equivalents held for investment	(512,210)	(164,703)
Purchases of property and equipment	(7,385)	(49,342)
Net cash provided (used) by investing activities	229,702	(205,866)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,562	(221,843)
Cash and cash equivalents, beginning of year	108,857	330,700
Cash and cash equivalents, end of year	$ 114,419	$ 108,857

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The CHRISTUS Stehlin Foundation for Cancer Research (the Foundation) was founded in 1969 by cancer surgeon Dr. John S. Stehlin with a mission to find and develop more effective treatments for patients suffering from cancer. The Foundation conducts scientific research that can be applied directly to improving the treatment of patients with cancer. In March 2006, the Foundation entered into an agreement with CHRISTUS Health, Inc. (CHRISTUS), renaming the Foundation CHRISTUS Stehlin Foundation for Cancer Research. CHRISTUS became the sole corporate member of the Foundation.

Federal income tax status – The Foundation is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1).

Cash and cash equivalents include bank deposits and highly liquid investments with an original maturity of three months or less that are not restricted for long-term purposes or included in investment balances. At times, bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. At June 30, 2009, all pledges are due from a single donor and are due within one year.

Investments in marketable securities are recorded at fair value. Land is valued at lower of cost or fair value.

Property and equipment is recorded at cost if purchased and at fair value at the date of gift if donated. The Foundation provides for depreciation on the straight-line method based upon the estimated useful lives of the assets, which range from 5 to 10 years.

Charitable remainder trust payable is recorded at the estimated present value of future cash flows using life expectancies and discount rates established by the Internal Revenue Service. Under this agreement, the Foundation will provide distributions equal to approximately 5% of the assets annually. At June 30, 2009 and 2008, assets invested to meet obligations under this agreement totaled approximately $72,000 and $98,000, respectively.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support.

Contributed materials, use of facilities, and services are recorded as revenue at fair value when an unconditional commitment is received from the donor. The related expense is recorded as the item is used or when the service is provided. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2009	2008
Bank deposits	$ 60,409	$ 38,172
Money market mutual funds	54,010	70,685
Total cash and cash equivalents	$ 114,419	$ 108,857

NOTE 3 – INVESTMENTS

Investments consist of the following:

	2009	2008
Certificates of deposit	$ 2,483,501	$ 236,423
Equity securities	750,091	789,768
Cash and money market mutual funds	731,221	219,011
Corporate bonds	54,702	73,805
U. S. Treasury securities	52,905	3,182,659
Land	19,100	19,100
Total investments	$ 4,091,520	$ 4,520,766

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on cash and cash equivalent balances and consists of the following:

	2009	2008
Interest and dividends	$ 74,253	$ 129,766
Realized and unrealized loss on investments	(192,159)	(177,839)
Total investment return	$ (117,906)	$ (48,073)

NOTE 4 – FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which provides a framework for measuring the fair value of certain assets and liabilities and expands disclosures about fair value measurements. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

- *Level 1* – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the reporting date.
- *Level 2* – Inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived from or corroborated by observable data as of the reporting date.
- *Level 3* – Inputs include those that are significant to the fair value of the asset or liability and are generally less observable from objective sources and reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

Assets measured at fair value on a recurring basis as of June 30, 2009 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Certificates of deposit		$ 2,483,501		$ 2,483,501
Equity securities	$ 750,091			750,091
Money market mutual funds	156,661			156,661
Corporate bonds		54,702		54,702
U. S. Treasury securities		52,905		52,905
Total assets measured at fair value	$ 906,752	$ 2,591,108	$ 0	$ 3,497,860

Valuation methods used for assets measured at fair value are as follows:

- *Certificates of deposit, corporate bonds and U. S. Treasury securities* are valued using prices obtained from computerized pricing models to calculate fair value.
- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the reported net asset value.

The valuation methods used may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date. The inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security.

NOTE 5 – PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

	2009	2008
Laboratory equipment	$ 2,056,387	$ 2,049,002
Leasehold improvements	435,426	435,426
Furniture and fixtures	93,295	93,295
Total property and equipment, at cost	2,585,108	2,577,723
Accumulated depreciation	(2,245,143)	(2,177,776)
Property and equipment, net	$ 339,965	$ 399,947

NOTE 6 – RELATED PARTY TRANSACTIONS

Dr. Stehlin, a board member and founder of the Foundation, received a salary of approximately $12,500 and $37,500 in 2009 and 2008, respectively, as a consultant and advisor for cancer research and fundraising.

The Foundation has received $1,619,900 and $3,300,000 in 2009 and 2008, respectively, from CHRISTUS under an agreement to fund $10,000,000 dated March 2006. During 2009, the Foundation received approval for an additional $2,000,000 in funding from CHRISTUS. The Foundation received $403,600 during 2009 and $1,596,400 in 2010 under this agreement.

Friends of The Stehlin Foundation (the Friends organization) is a nonprofit organization established in 1981 to provide financial support for the Foundation. The Friends organization is governed by an independent, self-perpetuating board of directors and organizes a special event each year to support the Foundation. In 2009 and 2008, the Foundation received contributions of $530,000 and $605,000, respectively, from the Friends organization.

NOTE 7 – CONTRIBUTED SERVICES, LABORATORY SPACE, AND EQUIPMENT

The Foundation recognized contributed laboratory space provided by CHRISTUS with an estimated fair value of approximately $175,000 in 2009 and 2008. In addition, the Foundation recognized contributed services of approximately $56,000 in 2009 and $52,000 in 2008 from physicians with patients involved in the Foundation's clinical research. These amounts have been recorded as revenue and program expenses.

NOTE 8 – RETIREMENT INCOME PLAN

The Stehlin Foundation Retirement Income Plan (the Plan) is qualified as a profit-sharing plan under §401(a) of the Internal Revenue Code and was exempt from federal income taxes under §501(a). The Plan has filed for termination effective June 1, 2009. Each employee who completed 1,000 hours of service and was employed on the last day of the Plan year was eligible to participate in the Plan. Contributions to the Plan were at the discretion of the Board of Trustees. Participants became vested over a three to seven-year period. The Foundation did not make contributions to the Plan during 2009 or 2008.

NOTE 9 – LEASE COMMITMENTS

The Foundation has entered into a facility rental agreement with payments totaling approximately $60,000 per year for the next three years.

NOTE 10 – SUBSEQUENT EVENTS

Management is in the process of negotiating the terms of a lease agreement for office and laboratory space. The new lease agreement in negotiations provides for a term of approximately ten years at a monthly rental expense of approximately $28,500.

Management has evaluated subsequent events through May 13, 2010, which is the date that the financial statements were available for issuance. As a result of this evaluation, except as noted above, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.