The CHRISTUS Stehlin Foundation for Cancer Research

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2010 and 2009

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, 2010 and 2009 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, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

May 3, 2011

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The CHRISTUS Stehlin Foundation for Cancer Research

Statements of Financial Position as of June 30, 2010 and 2009

	2010	2009
ASSETS		
Cash	$ 203,161	$ 114,419
Prepaid expenses and other assets	66,420	
Pledges receivable		246,878
Investments *(Notes 2 and 3)*	4,871,624	4,091,520
Property and equipment, net *(Note 4)*	287,885	339,965
TOTAL ASSETS	$ 5,429,090	$ 4,792,782
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 181,073	$ 196,987
Charitable remainder trust payable	51,155	56,787
Total liabilities	232,228	253,774
Net assets:		
Unrestricted	5,196,862	4,299,008
Temporarily restricted for cancer research		240,000
Total net assets	5,196,862	4,539,008
TOTAL LIABILITIES AND NET ASSETS	$ 5,429,090	$ 4,792,782

See accompanying notes to financial statements.

The CHRISTUS Stehlin Foundation for Cancer Research

Statement of Activities for the year ended June 30, 2010

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:			
Contributions *(Note 6)*	$ 857,374	$ 60,000	$ 917,374
Investment return *(Note 2)*	174,611		174,611
Total revenue	1,031,985	60,000	1,091,985
Net assets released from restrictions:			
Program expenditures	300,000	(300,000)	
Total	1,331,985	(240,000)	1,091,985
EXPENSES:			
Program services:			
Salaries and related expenses	1,881,170		1,881,170
Laboratory services and supplies	1,085,268		1,085,268
Contributed services and laboratory space	212,600		212,600
Professional fees	147,710		147,710
Utilities	112,327		112,327
Depreciation	65,660		65,660
Other operating expenses	37,603		37,603
Total program services	3,542,338		3,542,338
Management and general	331,833		331,833
Fundraising	83,265		83,265
Total expenses	3,957,436		3,957,436
Change in net assets before other changes	(2,625,451)	(240,000)	(2,865,451)
Other changes:			
Transfer from CHRISTUS Health, Inc. *(Note 5)*	3,523,305		3,523,305
CHANGES IN NET ASSETS	897,854	(240,000)	657,854
Net assets, beginning of year	4,299,008	240,000	4,539,008
Net assets, end of year	$ 5,196,862	$ 0	$ 5,196,862

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 6)*	$ 1,041,296	$ 250,000	$ 1,291,296
Investment return *(Note 2)*	(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
Professional fees	87,554		87,554
Utilities	158,806		158,806
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 5)*	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

Statements of Cash Flows for the years ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 657,854	$ (466,138)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	66,689	67,367
Net realized and unrealized (gain) loss on investments	(144,004)	192,159
Change in operating assets and liabilities:		
Prepaid expenses and other assets	(66,420)	
Pledges receivable	246,878	(108,966)
Accounts payable and accrued expenses	(15,914)	97,070
Charitable remainder trust payable	(5,632)	(5,632)
Net cash provided (used) by operating activities	739,451	(224,140)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,249,611)	(904,965)
Proceeds from sales and maturities of investments	533,629	3,901,340
Net purchases of certificates of deposit	(330,243)	(2,247,078)
Net change in cash and cash equivalents held for investment	410,125	(512,210)
Purchases of property and equipment	(14,609)	(7,385)
Net cash provided (used) by investing activities	(650,709)	229,702
NET CHANGE IN CASH	88,742	5,562
Cash, beginning of year	114,419	108,857
Cash, end of year	$ 203,161	$ 114,419

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, CHRISTUS Health, Inc. (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 (the Code) and is classified as a public charity under §509(a)(1).

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.

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, 2010 and 2009, assets invested to meet obligations under this agreement totaled approximately $98,000 and $72,000, 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. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – INVESTMENTS

Investments consist of the following:

	2010	2009
Certificates of deposit	$ 2,813,744	$ 2,483,501
Equity securities	902,829	750,091
U. S. Treasury securities	726,136	52,905
Money market mutual funds	321,096	156,661
Cash		574,560
Corporate bonds	88,719	54,702
Land	19,100	19,100
Total investments	$ 4,871,624	$ 4,091,520

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 consists of the following:

	2010	2009
Interest and dividends	$ 30,607	$ 74,253
Realized and unrealized gain (loss) on investments	144,004	(192,159)
Total investment return	$ 174,611	$ (117,906)

NOTE 3 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2010 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Certificates of deposit		$ 2,813,744		$ 2,813,744
Equity securities (large cap)	$ 902,829			902,829
U. S. Treasury securities		726,136		726,136
Money market mutual funds	321,096			321,096
Corporate bonds		88,719		88,719
Total assets measured at fair value	$ 1,223,925	$ 3,628,599	$ 0	$ 4,852,524

Assets measured at fair value at June 30, 2009 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Certificates of deposit		$ 2,483,501		$ 2,483,501
Equity securities (large cap)	$ 750,091			750,091
U. S. Treasury securities		52,905		52,905
Money market mutual funds	156,661			156,661
Corporate bonds		54,702		54,702
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* 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.
- *U. S. Treasury securities and corporate bonds* are valued based on outside pricing services or a computerized pricing model.
- *Mutual funds* are valued at the reported net asset value.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation 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.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	2010	2009
Laboratory equipment	$ 2,064,288	$ 2,056,387
Leasehold improvements	435,426	435,426
Furniture and fixtures	100,003	93,295
Total property and equipment, at cost	2,599,717	2,585,108
Accumulated depreciation	(2,311,832)	(2,245,143)
Property and equipment, net	$ 287,885	$ 339,965

NOTE 5 – RELATED PARTY TRANSACTIONS

In 2010, the Foundation received final distributions from CHRISTUS of $1,596,400 under original agreements to fund $12 million. In 2009, distributions received under these agreements were $2,023,500. Beginning in 2010, additional support from CHRISTUS is approved based on annual budget requests from the Foundation and totaled $1,926,905 during 2010. Additionally, CHRISTUS has agreed to guarantee the Foundation's lease commitment for laboratory and office space over the next 10 years (see Note 7).

Friends of The Stehlin Foundation (the Friends) is a nonprofit organization established in 1981 to provide financial support for the Foundation. The Friends is governed by an independent, self-perpetuating board of directors and organizes a special event each year to support the Foundation. The Foundation received contributions of $375,000 in 2010 and $530,000 in 2009 from the Friends.

NOTE 6 – LABORATORY SPACE AND CONTRIBUTED SERVICES

The Foundation recognized contributed laboratory space provided by CHRISTUS with an estimated fair value of approximately $175,000 in 2010 and 2009. In addition, the Foundation recognized contributed services of approximately $38,000 in 2010 and $56,000 in 2009 from physicians with patients involved in the Foundation's clinical research. These amounts have been recorded as revenue and program expenses.

NOTE 7 – LEASE COMMITMENTS

The Foundation has entered into a noncancelable facility rental agreement for a term of approximately ten years. Annual rental expense under the lease agreement is approximately $344,000 per year through 2020.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 3, 2011, which is the date that the financial statements were available for issuance. As a result of this evaluation, 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.