The CHRISTUS Stehlin Foundation for Cancer Research

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2011 and 2010

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, 2011 and 2010 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, 2011 and 2010 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

September 30, 2011

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

The CHRISTUS Stehlin Foundation for Cancer Research

Statements of Financial Position as of June 30, 2011 and 2010

	2011	2010
ASSETS		
Cash	$ 141,792	$ 203,161
Prepaid expenses and other assets	49,701	85,520
Investments *(Note 2)*	4,657,652	4,852,524
Property and equipment, net *(Note 3)*	2,900,763	287,885
TOTAL ASSETS	$ 7,749,908	$ 5,429,090
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 271,464	$ 176,674
Deferred rent payments *(Note 5)*	624,687	4,399
Charitable remainder trust payable	56,973	51,155
Total liabilities	953,124	232,228
Commitments *(Note 5)*		
Unrestricted net assets *(Notes 6 and 7)*	6,796,784	5,196,862
TOTAL LIABILITIES AND NET ASSETS	$ 7,749,908	$ 5,429,090

See accompanying notes to financial statements.

The CHRISTUS Stehlin Foundation for Cancer Research

Statement of Activities for the year ended June 30, 2011

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
OPERATING REVENUE:			
Contributions *(Note 4)*	$ 651,647	$ 20,000	$ 671,647
Investment return *(Note 2)*	332,105		332,105
Total revenue	983,752	20,000	1,003,752
Net assets released from restrictions:			
Program expenditures	20,000	(20,000)	
Total	1,003,752	0	1,003,752
OPERATING EXPENSES:			
Program services:			
Salaries and related expenses	1,933,500		1,933,500
Laboratory services and supplies	893,985		893,985
Facility rent	369,479		369,479
Depreciation	191,399		191,399
Utilities	171,527		171,527
Moving costs	110,935		110,935
Professional fees	92,691		92,691
Contributed services and laboratory space	87,500		87,500
Other operating expenses	46,443		46,443
Total program services	3,897,459		3,897,459
Management and general	382,189		382,189
Fundraising	80,295		80,295
Total expenses	4,359,943		4,359,943
Change in net assets from operations	(3,356,191)		(3,356,191)
OTHER CHANGES IN NET ASSETS:			
Support from CHRISTUS Health, Inc. *(Note 4)*	4,656,113		4,656,113
Endowment contribution from CHRISTUS Health, Inc. *(Note 7)*	300,000		300,000
CHANGES IN NET ASSETS	1,599,922		1,599,922
Net assets, beginning of year	5,196,862	0	5,196,862
Net assets, end of year	$ 6,796,784	$ 0	$ 6,796,784

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
OPERATING REVENUE:			
Contributions *(Note 4)*	$ 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
OPERATING EXPENSES:			
Program services:			
Salaries and related expenses	1,881,170		1,881,170
Laboratory services and supplies	1,085,268		1,085,268
Depreciation	65,660		65,660
Utilities	112,327		112,327
Professional fees	147,710		147,710
Contributed services and laboratory space	212,600		212,600
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 from operations	(2,625,451)	(240,000)	(2,865,451)
OTHER CHANGES IN NET ASSETS:			
Support from CHRISTUS Health, Inc. *(Note 4)*	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

Statements of Cash Flows for the years ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,599,922	$ 657,854
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	192,045	66,689
Net realized and unrealized gain on investments	(306,262)	(144,004)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	35,819	(66,420)
Pledges receivable		246,878
Accounts payable and accrued expenses	94,790	(15,914)
Deferred rent payments	620,288	
Charitable remainder trust payable	5,818	(5,632)
Support from CHRISTUS for leasehold improvements	(2,206,113)	
Net cash provided by operating activities	36,307	739,451
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(5,858,345)	(1,249,611)
Proceeds from sales and maturities of investments	4,702,336	533,629
Net sales (purchases) of certificates of deposit	2,298,753	(330,243)
Net change in cash and money market mutual funds held as investments	(641,610)	410,125
Purchases of property and equipment	(2,804,923)	(14,609)
Support from CHRISTUS for leasehold improvements	2,206,113	
Net cash used by investing activities	(97,676)	(650,709)
NET CHANGE IN CASH	(61,369)	88,742
Cash, beginning of year	203,161	114,419
Cash, end of year	$ 141,792	$ 203,161

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 and is classified as a public charity under §509(a)(1).

Operating measure – The operating activities of the Foundation include revenue and expense related to the Foundation's program operations. Non-operating activities include support provided by CHRISTUS.

Investments in marketable securities are reported at fair value.

Property and equipment is reported at cost if purchased and at fair value at the date of gift if donated. The Foundation capitalizes property and equipment with a cost or fair value in excess of $5,000 and 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 reported 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 until the death of the annuitant. At June 30, 2011 and 2010, assets invested to meet obligations under this agreement totaled approximately $124,000 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 recognized 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 recognized as revenue at fair value when an unconditional commitment is received from the donor. The related expense is recognized 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.

Recent account pronouncements – In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This statement requires an increased level of disaggregation in disclosing the level of the fair value hierarchy into which fair value measurements fall. It also requires disclosures in the roll forward of activity for Level 3 fair value measurements on a gross basis, and disclosure about inputs and valuation techniques used for Level 2 and 3 fair value measurements for both recurring and nonrecurring fair value measurements. This statement became effective for the Foundation for the year ended June 30, 2011.

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

NOTE 2 – INVESTMENTS AND 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, 2011 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Fixed income securities:				
U. S. Treasury securities		$ 1,642,529		$ 1,642,529
Domestic investment grade corporate bonds		124,168		124,168
Fixed income capital securities	$ 61,170			61,170
Preferred stock	43,192			43,192
Equity securities:				
Domestic large-cap	581,146			581,146
Domestic mid-cap	438,262			438,262
Foreign large-cap	99,730			99,730
Domestic small-cap	31,548			31,548
Certificates of deposit		514,991		514,991
Exchange-traded funds:				
Foreign large-cap equity	43,490			43,490
Domestic corporate bonds	30,574			30,574
Domestic large-cap equity	29,372			29,372
Foreign government bonds	15,480			15,480
Domestic mid-cap equity	15,125			15,125
Domestic small-cap equity	14,883			14,883
Domestic high yield corporate bonds	9,286			9,286
Money market mutual funds	92,266			92,266
Total assets measured at fair value	$ 1,505,524	$ 2,281,688	$ 0	3,787,212
Cash held with investments				870,440
Total investments				$ 4,657,652

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	$ 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

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

- *U. S. Treasury securities* and *corporate bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas that may include market-corroborated inputs for credit risk factors, interest rate yield, and broker quotes to calculate fair value.
- *Certificates of deposit* are valued using prices obtained from computerized pricing models to calculate fair value.
- *Fixed income capital securities, preferred stock, equity securities* and *exchange-traded funds* 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.

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.

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:

	2011	2010
Interest and dividends	$ 25,843	$ 30,607
Realized and unrealized gain on investments	306,262	144,004
Total investment return	$ 332,105	$ 174,611

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	2011	2010
Laboratory equipment	$ 2,427,863	$ 2,064,288
Leasehold improvements	2,412,455	435,426
Furniture and fixtures	128,897	100,003
Total property and equipment, at cost	4,969,215	2,599,717
Accumulated depreciation	(2,068,452)	(2,311,832)
Property and equipment, net	$ 2,900,763	$ 287,885

NOTE 4 – RELATED PARTY TRANSACTIONS

Financial support from CHRISTUS is approved based on annual budget requests from the Foundation and totaled $4,656,113 and $3,523,305 during 2011 and 2010, respectively. Additionally, CHRISTUS has agreed to guarantee the Foundation's lease commitment for laboratory and office space over the next 10 years (see Note 5).

The Foundation recognized contributed laboratory space provided by CHRISTUS with an estimated fair value of approximately $87,500 in 2011 and $175,000 in 2010. These amounts have been recorded as revenue and program expenses.

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 $365,000 in 2011 and $375,000 in 2010 from the Friends.

NOTE 5 – LEASE COMMITMENTS

In May 2010, the Foundation entered into a noncancelable facility rental agreement for a term of approximately ten years. Under the terms of this agreement, rental payments will commence in September 2011, which resulted in the deferral of rental payments that have been recorded as deferred rent at June 30, 2011. Additionally, the lessor provided $350,000 in lease incentives to assist in the space build-out that will be amortized over the life of the lease that has been recorded as deferred rent payments. Annual rental expense recognized under the lease agreement is approximately $344,000 per year through 2020.

NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets are composed of the following:

	2011	2010
Undesignated	$ 3,597,667	$ 4,908,977
Property and equipment, net	2,900,763	287,885
Board-designated endowment	298,354	
Total unrestricted net assets	$ 6,796,784	$ 5,196,862

NOTE 7 – ENDOWMENTS

During 2011, the Foundation received a $300,000 contribution from CHRISTUS to establish a board-designated endowment for the purpose of providing educational scholarships. The composition of and changes in the board-designated endowment net assets for the year ended June 30, 2011 are as follows:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, July 1, 2010	$ 0	$ 0	$ 0	$ 0
Board-designated contribution	300,000			300,000
Investment return:				
Interest and dividends	2,502			2,502
Net realized and unrealized loss	(4,148)			(4,148)
Net investment return	(1,646)			(1,646)
Endowment net assets, June 30, 2011	$ 298,354	$ 0	$ 0	$ 298,354

Investment Policies and Strategy

The endowment's strategic asset allocation is based on this long-term perspective. The Board of Trustees recognizes the difficulty of achieving the endowment's investment objectives in light of the uncertainties and complexities of investment markets. It also recognizes that some risk must be assumed to achieve long-term investment objectives. The target performance objective is that, over a complete market cycle, the overall annualized total return should outperform their relevant benchmarks. Performance objectives have been based upon the assumption that future rates-of-return will approximate historical rates-of-return experienced for various asset classes. The Board of Trustees realizes that market performance varies and that a real rate-of-return may not be achievable during short-term periods.

Spending Policy

Distributions for scholarships are approved annually by the Board of Trustees.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 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.
