

WALTHER CANCER FOUNDATION, INC.

FINANCIAL STATEMENTS

June 30, 2010

WALTHER CANCER FOUNDATION, INC.
Indianapolis, Indiana

FINANCIAL STATEMENTS
(Income Tax Basis)
June 30, 2010

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Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Walther Cancer Foundation, Inc.
Indianapolis, Indiana

We have audited the accompanying income tax basis statement of financial position of Walther Cancer Foundation, Inc. (the "Foundation") as of June 30, 2010, and the related statement of activities (income tax basis) for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting used for income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walther Cancer Foundation, Inc. as of June 30, 2010, and the changes in its net assets for the year then ended, on the basis of accounting described in Note 1.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
October 12, 2010

WALTHER CANCER FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2010
(Income Tax Basis)

ASSETS

Cash and cash equivalents	\$ 4,998,011
Interest receivable on investments	188,271
Investments (Note 3)	120,602,780
Leasehold improvements and equipment, net (Note 4)	185,598
Other assets	<u>54,391</u>
 Total assets	 <u>\$ 126,029,051</u>

NET ASSETS

Unrestricted	122,401,408
Temporarily restricted	<u>3,627,643</u>
 Total net assets	 <u>\$ 126,029,051</u>

See accompanying notes to financial statements.

WALTHER CANCER FOUNDATION, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2010
(Income Tax Basis)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Investment return, net of fees (Note 3)	\$ 16,692,519	\$ 147,320	16,839,839
Less: Federal excise tax	<u>(20,256)</u>	<u>-</u>	<u>(20,256)</u>
	16,672,263	147,320	16,819,583
Contributions	65,169	12,272	77,441
Net assets released from restrictions (Note 1)	<u>624,751</u>	<u>(624,751)</u>	<u>-</u>
Total revenues	<u>17,362,183</u>	<u>(465,159)</u>	<u>16,897,024</u>
EXPENSES			
Grants	3,538,265	-	3,538,265
Salary and related expenses	384,440	-	384,440
Legal and accounting	47,986	-	47,986
Investment consulting	55,817	-	55,817
Risk management	17,195	-	17,195
Office and occupancy	121,422	-	121,422
Maintenance of property	43,420	-	43,420
Other	<u>54,760</u>	<u>-</u>	<u>54,760</u>
Total expenses	<u>4,263,305</u>	<u>-</u>	<u>4,263,305</u>
Change in net assets	13,098,878	(465,159)	12,633,719
Net assets, beginning of year	<u>109,302,530</u>	<u>4,092,802</u>	<u>113,395,332</u>
Net assets, end of year	<u>\$122,401,408</u>	<u>\$ 3,627,643</u>	<u>\$126,029,051</u>

See accompanying notes to financial statements.

WALTHER CANCER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2010
(Income Tax Basis)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Walther Cancer Foundation, Inc. (the "Foundation") is an independent, private grant-making foundation committed to eliminating cancer as a cause of suffering and death through interdisciplinary and inter-institutional basic laboratory, clinical, and behavioral cancer research. The Foundation believes that cancer research provides tangible benefits in expanding our base of knowledge, saving lives and offering hope to patients and their families. The Foundation is particularly interested in supporting efforts to strengthen cancer research infrastructures in the state of Indiana.

Income Taxes: The Foundation is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. The Foundation has been classified as a private foundation under Section 509(a) of the Internal Revenue Code, therefore, is subject to federal excise tax on net investment income. The Foundation is also subject to federal and state taxes on unrelated business income. The Foundation is required to make annual distributions for charitable purposes equal to 5% of the average market value of its invested assets as of the previous year to continue to qualify as a private foundation.

Basis of Accounting: These financial statements are presented on the income tax basis of accounting which is a comprehensive basis of accounting other than the accounting principles generally accepted in the United States of America. The principle difference between the income tax basis of accounting and accounting principles generally accepted in the United States of America for the Foundation is that grants and other liabilities are recognized as expense when paid rather than at the time of approval or obligation. The Foundation has also omitted recurring fair value disclosure.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net Assets: The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Foundation had unrestricted and temporarily restricted net assets at June 30, 2010 that are described as follows:

Unrestricted Net Assets - Those net assets in which donors do not restrict use, although, their use may be limited by board designation. Board designated net assets totaled \$1,909,501 at June 30, 2010.

Temporarily Restricted Net Assets - Those net assets in which donors have limited use by the Foundation for a specific purpose or passage of time. Temporarily restricted net assets are for certain cancer research activities and research facilities per donor requirements.

(Continued)

WALTHER CANCER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2010
(Income Tax Basis)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: The Foundation considers all highly liquid financial instruments with an original maturity date of three months or less to be cash equivalents. From time to time during the year and at year-end, the Foundation has maintained cash balances in excess of the Federal Deposit Insurance Corporation limits.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Securities traded on a national exchange are valued at their last reported sales price on the primary exchange on which they are traded. Alternative investments, such as limited partnership investments into various types of investment funds, are valued based upon the financial reporting of the entities as independent market valuations are not available. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of long-term investments and net assets of the Foundation.

Investment return (including realized and unrealized gains and losses on investments), net of fees, is included in the statement of activities at fair value. Investments are managed by professional investment managers in accordance with the Foundation's investment policies.

Property and Equipment: Property and equipment are carried at cost less accumulated depreciation. Donated property and equipment are recorded at their fair values. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 5 years for equipment, and range from 10 to 20 years for furnishings. Leasehold improvements are amortized over the lesser of the estimated useful life or the lease term. The Foundation's capitalization policy states that property and equipment in excess of \$3,000 are capitalized. Routine maintenance and repairs are expensed as incurred.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2010. Management has performed their analysis through October 12, 2010, the date the financial statements were available to be issued.

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WALTHER CANCER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2010
(Income Tax Basis)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions: Contributions are recognized when the donor makes an unconditional promise to give to the Foundation and are recorded at their fair values as revenues and assets in the period received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the gifts are recognized. All other donor-restricted gifts are reported as increases in temporarily restricted net assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Grants: Grants are recorded when paid. The Foundation has approximately \$12,958,000 of grant commitments awarded that have not yet been paid at June 30, 2010.

The Internal Revenue Code provides that the Foundation generally must distribute in the current year for charitable purposes 5% of the average market value of its invested assets as of the previous year. At June 30, 2010, the Foundation has reported meeting the minimum distribution requirement.

NOTE 2 - RELATED PARTY TRANSACTIONS

The Foundation periodically enters into business transactions with outside organizations that employ or have other relationships with key employees or members of the Board of Directors of the Walther Cancer Foundation. Under the Foundation's conflict of interest policy, the Board of Directors monitors these transactions, and steps are taken to ensure that the transactions are appropriate for the Foundation. Related party transactions during 2010 included:

- The President and CEO of the Foundation is also a board member of the Hoosier Oncology Group, Inc. ("HOG"). The Foundation granted approximately \$185,000 to the HOG during fiscal year 2010.
- During 2008, the Foundation entered into a lease agreement for office space with a not-for-profit organization that is affiliated with a board member of the Foundation. During fiscal year 2010, the Foundation paid rent to the lessor company in the amount of \$57,107. Future minimum lease payments are reported in Note 5 to the financial statements.

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WALTHER CANCER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2010
(Income Tax Basis)

NOTE 2 - RELATED PARTY TRANSACTIONS (Continued)

- The Foundation utilized legal and investment services provided by professional service organizations that each employ a board member of the Foundation. The amount spent on these services during fiscal year 2010 was \$13,876.
- A Foundation board member is also an advisory board member of two higher education related cancer research organizations. The Foundation granted \$2,225,466 to these organizations during fiscal year 2010.

NOTE 3 – INVESTMENTS

The Foundation's investments are managed by professional investment managers, with 59% of investments held with an investment custodian at June 30, 2010. The Foundation also utilizes the services of an investment advisor.

Return Objectives and Parameters: The Foundation has adopted investment and spending policies that attempt to provide for long-term growth without undue exposure to risk, while providing an income stream to cover administrative expenses and cash flow for research grants.

Strategies Employed for Achieving Objectives: The Foundation recognizes that prudent investing requires the assumption of reasonable risk in order to increase the likelihood of achieving the desired investment performance. The Foundation believes the asset allocation targets and ranges it has adopted best suit its diversification and risk requirements. The Foundation understands that this strategy could produce an after-fee loss in a given year.

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WALTHER CANCER FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 Year ended June 30, 2010
 (Income Tax Basis)

NOTE 3 – INVESTMENTS (Continued)

At June 30, 2010, the fair value of the Foundation's investment portfolio was comprised of:

US Government Obligations	\$ 4,121,977
US Government Agency Obligations	7,014,882
Corporate Obligations	4,456,097
Municipal Obligations	1,103,890
Equities	16,711,375
Exchange Traded Funds:	
Gold	1,521,000
US Equity Index	5,421,368
Mutual Funds:	
Equity	20,228,880
Fixed Income	9,121,086
Limited Partnerships:	
Equities	6,806,278
Private Equity	4,597,991
Real Assets	2,573,717
Hedge Funds:	
Distressed	7,540,863
Long/Short Equity	11,366,743
Absolute Return	<u>18,016,633</u>
	<u>\$120,602,780</u>

At June 30, 2010, the Foundation had unfunded capital commitments for limited partnership investments totaling \$3,913,750.

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2010.

Interest and dividend income	\$ 2,127,371
Realized gain on sale of investments	1,726,667
Unrealized gain on investments	13,145,719
Other investment related income	<u>133,611</u>
	17,133,368
Investment related fees	<u>(293,529)</u>
	<u>\$ 16,839,839</u>

(Continued)

WALTHER CANCER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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(Income Tax Basis)

NOTE 4 - PROPERTY AND EQUIPMENT

The Foundation's property and equipment at June 30, 2010 is as follows:

Furniture and equipment	\$ 175,896
Leasehold improvements	<u>136,791</u>
	312,687
Less: accumulated depreciation	<u>(127,089)</u>
	<u>\$ 185,598</u>

NOTE 5 - LEASES

The Foundation currently leases facilities under an operating lease arrangement. The lease expires January 31, 2018. Rental expense for this lease was \$57,107 for the year ended June 30, 2010. Future minimum rental payments required under the operating lease as of June 30, 2010, are as follows:

2011	\$ 49,022
2012	49,926
2013	50,249
2014	50,701
2015	50,701
Thereafter	<u>134,079</u>
	<u>\$ 384,678</u>

NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN

The Foundation sponsors a defined contribution 403(b) tax deferred annuity plan for all eligible employees. Defined contribution 403(b) plan expenses were \$36,112 in 2010.

NOTE 7 - QUALIFYING DISTRIBUTIONS

Qualifying distributions made during the year ended June 30, 2010 include:

Grants paid	\$ 3,538,265
Operating and administrative expenses	<u>601,365</u>
Total qualifying distributions	<u>\$ 4,139,630</u>
