
FINANCIAL STATEMENTS

Prostate Cancer Foundation
Years Ended December 31, 2007 and 2006

Prostate Cancer Foundation

Financial Statements

Years Ended December 31, 2007 and 2006

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Report of Independent Auditors

Board of Directors
Prostate Cancer Foundation

We have audited the statements of financial position of Prostate Cancer Foundation (the Foundation) as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 Foundation'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 Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation at December 31, 2007 and 2006, 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.

Ernst + Young LLP

July 15, 2008

Prostate Cancer Foundation
Statements of Financial Position

| | December 31 | |
|-------------------------------------------------|---------------|---------------|
| | 2007 | 2006 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,275,262 | \$ 12,802,192 |
| Pledges receivable | 6,442,212 | 9,190,210 |
| Marketable securities | 52,868 | 29,384 |
| Prepaid expenses | 59,216 | 62,401 |
| Other receivables | 50,564 | 110,598 |
| Total current assets | 27,880,122 | 22,194,785 |
| Furniture, equipment and improvements: | | |
| Furniture and fixtures | 37,180 | 37,180 |
| Office equipment | 110,574 | 166,062 |
| Leasehold improvements | 246,891 | 246,891 |
| Computer Software | 325,280 | 249,671 |
| | 719,925 | 699,804 |
| Less accumulated depreciation | (542,457) | (605,536) |
| | 177,468 | 94,268 |
| Long-term pledges receivable | 1,236,542 | 1,540,795 |
| Total assets | \$ 29,294,132 | \$ 23,829,848 |
| Liabilities and net assets | | |
| Accounts payable | \$ 366,535 | \$ 186,831 |
| Accrued liabilities | 1,063,012 | 951,140 |
| Accrued payroll and payroll-related liabilities | 483,848 | 420,524 |
| Research awards payable | 8,650,000 | 13,531,870 |
| Total liabilities | 10,563,395 | 15,090,365 |
| Unrestricted net assets | 18,730,737 | 8,739,483 |
| Total liabilities and net assets | \$ 29,294,132 | \$ 23,829,848 |

See accompanying notes.

Prostate Cancer Foundation

Statements of Activities

| | Years Ended December 31 | |
|--------------------------------------------------------|-------------------------|---------------------|
| | 2007 | 2006 |
| Support and revenues: | | |
| Donations | \$ 34,773,813 | \$ 27,858,493 |
| Net realized and unrealized (loss) gain on investments | (1,578) | (9,076) |
| Interest and other income | 624,047 | 339,537 |
| Total support and revenues | <u>35,396,282</u> | <u>28,188,954</u> |
| Program services: | | |
| Research grants, association awards and donations | 14,274,150 | 15,297,393 |
| Scientific conferences | 2,420,640 | 3,045,916 |
| Public awareness and advocacy expense | 1,560,191 | 1,897,846 |
| Total program services | <u>18,254,981</u> | <u>20,241,155</u> |
| General and administrative expenses | 2,420,921 | 3,133,141 |
| Fund-raising expenses | 4,729,126 | 3,931,397 |
| Total expenditures | <u>25,405,028</u> | <u>27,305,693</u> |
| Change in net assets | 9,991,254 | 883,261 |
| Net assets at beginning of year | 8,739,483 | 7,856,222 |
| Net assets at end of year | <u>\$ 18,730,737</u> | <u>\$ 8,739,483</u> |

See accompanying notes.

Prostate Cancer Foundation

Statements of Cash Flows

| | Years Ended December 31 | |
|---------------------------------------------------------------------------------------------|-------------------------|----------------------|
| | 2007 | 2006 |
| Operating activities | | |
| Change in net assets | \$ 9,991,254 | \$ 883,261 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 63,082 | 130,790 |
| Donation of marketable securities | (227,158) | (1,368,639) |
| Net realized and unrealized gain (loss) on investments | 1,578 | (9,076) |
| Proceeds from sales of marketable securities | 225,580 | 1,782,748 |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | 3,052,251 | (36,750) |
| Marketable securities | (23,484) | — |
| Prepaid expenses | 3,185 | 663 |
| Other receivables | 60,034 | 408,321 |
| Accounts payable | 179,704 | (695,165) |
| Accrued liabilities | 111,872 | (217,337) |
| Accrued payroll and payroll related liabilities | 63,324 | 42,473 |
| Research awards payable | (4,881,870) | 4,301,870 |
| Net cash provided by operating activities | <u>8,619,352</u> | <u>5,223,159</u> |
| Investing activities | | |
| Purchase of furniture, equipment and improvements | (146,282) | (10,618) |
| Net cash used in investing activities | <u>(146,282)</u> | <u>(10,618)</u> |
| Net increase in cash and cash equivalents | 8,473,070 | 5,212,541 |
| Cash and cash equivalents at beginning of year | 12,802,192 | 7,589,651 |
| Cash and cash equivalents at end of year | <u>\$ 21,275,262</u> | <u>\$ 12,802,192</u> |

See accompanying notes.

Prostate Cancer Foundation

Notes to Financial Statements

December 31, 2007

1. Organization and Summary of Significant Accounting Policies

Organization

Prostate Cancer Foundation (the Foundation) is a California nonprofit public benefit corporation organized to make grants, support research and conduct activities relating to the treatment, prevention and cure of prostate cancer.

Tax-Exempt Status

The Foundation has received determination letters from the Internal Revenue Service and the California Franchise Tax Board stating it qualifies as a publicly supported tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and applicable California provisions.

Use of Estimates

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

Revenue Recognition

The Foundation records donations (contributions) on an accrual basis. In addition, the Foundation records the following types of contributions, when they are received unconditionally, at their fair value: marketable securities, promises to give, certain contributed services and gifts of long-lived assets. Conditional contributions are recorded when the conditions on which they depend have been substantially met. Contributions are recorded net of estimated uncollectible amounts. Long-term donations, determined at their net present value, are recorded as a deferred receivable and reported under pledges receivable.

Program Service Expenses

The Foundation records program service expenses when grants or awards are approved by the Foundation.

Prostate Cancer Foundation

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments in marketable securities, which consist mainly of equity securities, are stated at fair value. Fair value is determined based on quoted market prices

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term, highly liquid investments with maturities of three months or less when purchased. Included in cash equivalents was \$15,820,964 of commercial paper that matured and was realized in cash in February 2008.

Furniture, Equipment and Improvements

Fixed assets are stated at cost on the date of purchase. Depreciation and amortization is provided on a straight-line method over the estimated useful life of assets as follows:

| | |
|------------------------|-----------|
| Office equipment | 3-5 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | 10 years |

New Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, among other things. In February 2008, the FASB issued FIN 48-2 delaying the effective date of FIN 48 for certain nonpublic enterprises until fiscal years beginning after December 15, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS 157), *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, FAS 157 does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact that adopting this standard will have on its financial statements.

Prostate Cancer Foundation

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

In February 2007, the FASB issued FAS No. 159 (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Foundation is currently evaluating the impact that adopting this standard will have on its financial statements.

2. Pledges Receivable

Pledges receivable at December 31 are due to be collected as follows:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|---------------------|----------------------|
| Due in one year or less | \$ 6,442,212 | \$ 9,190,210 |
| Due after one year through five years | <u>1,236,542</u> | <u>1,540,795</u> |
| | <u>\$ 7,678,754</u> | <u>\$ 10,731,005</u> |

Long-term pledges receivable at December 31 are discounted using a rate of 5% and are as follows:

| | <u>2007</u> | <u>2006</u> |
|------------------------------------|---------------------|---------------------|
| Gross long-term pledges receivable | \$ 1,623,413 | \$ 1,898,413 |
| Unamortized discount | <u>(386,871)</u> | <u>(357,618)</u> |
| | <u>\$ 1,236,542</u> | <u>\$ 1,540,795</u> |

Prostate Cancer Foundation

Notes to Financial Statements (continued)

3. Functional Expenses

Detail expenses by major functional category for the year ended December 31:

| Description | 2007 | | | 2006 | | | |
|-------------------------------------------|----------------------|----------------------------|---------------------|----------------------|----------------------------|---------------------|----------------------|
| | Program Services | General and Administrative | Total | Program Services | General and Administrative | Fund-raising | Total |
| Research grants | \$ 14,274,150 | \$ - | \$ 14,274,150 | \$ 15,297,393 | \$ - | \$ - | \$ 15,297,393 |
| Compensation, benefits and payroll taxes | 1,416,051 | 1,261,192 | 3,594,516 | 1,441,615 | 1,482,942 | 725,809 | 3,650,366 |
| Professional fees | 9,910 | 85,387 | 470,279 | 300,954 | 90,077 | 365,375 | 756,406 |
| Office related | 69,449 | 146,019 | 329,400 | 110,832 | 75,928 | 210,660 | 397,420 |
| Occupancy | 71,112 | 134,204 | 267,536 | 69,344 | 129,118 | 46,969 | 245,431 |
| Travel, meals and entertainment | 31,056 | 67,581 | 771,541 | 44,422 | 40,878 | 562,606 | 647,906 |
| Conferences, conventions and meetings | 1,637,170 | 16,922 | 3,485,756 | 1,576,538 | - | 1,744,476 | 3,321,014 |
| Media, public relations, and publications | 274,719 | 27 | 459,760 | 630,512 | 14,069 | 107,658 | 752,239 |
| Depreciation and amortization | 17,810 | 32,366 | 63,082 | 81,733 | 23,501 | 25,556 | 130,790 |
| Other expenses | 453,554 | 677,223 | 1,689,008 | 687,812 | 1,276,628 | 142,288 | 2,106,728 |
| | \$ 18,254,981 | \$ 2,420,921 | \$ 4,729,126 | \$ 20,241,155 | \$ 3,133,141 | \$ 3,931,397 | \$ 27,305,693 |

Prostate Cancer Foundation

Notes to Financial Statements (continued)

4. Cumulative Contributions

Since the Foundation's inception in 1993, it has received through December 31, 2007 and 2006, a total of \$318,527,457 and \$283,620,829, respectively, in contributions, of which \$57,407,070 and \$56,606,800, respectively, was received from the Milken Family Foundation and related entities, and \$261,120,387 and \$227,014,029, respectively, from the general public.

5. Litigation

From time to time, the Foundation may be subject to legal proceedings and claims, which arise in the ordinary course of business. Although adverse decisions may occur, the Foundation believes that the final disposition of such matters, if any, will not have a material effect on the financial position, results of operations or cash flows of the Foundation. There was no pending litigation as of December 31, 2007.

6. Related-Party Transactions

The Foundation leases office space from an affiliated charitable organization under an operating agreement which expires on March 29, 2007. The Foundation has the option to extend the lease for an additional two 60-month periods. The Foundation has not renewed its lease and is on a month-to-month basis. Rent expense for 2007 and 2006 was \$296,115 and \$273,106, respectively. There is no minimum rental payment for 2008.

Certain administrative and fundraising services were performed by a related charitable organization or other affiliates. Expenses incurred and reimbursed in 2007 and 2006 were \$92,338 and \$141,150, respectively.

7. Retirement Plan

The Foundation maintains a defined contribution pension plan, which is qualified as tax-exempt under Section 403(b) of the Internal Revenue Code. All full-time employees are eligible to participate in the plan. Employee contributions are vested immediately and investments are employee directed. The Foundation has a discretionary match of up to 1% of each participant's compensation (subject to limitations established by the Internal Revenue Code), which vests immediately. Total matching contributions paid under the plan for 2007 and 2006 were \$16,412 and \$16,624, respectively.