

AUDITED FINANCIAL STATEMENTS
Prostate Cancer Foundation
Years ended December 31, 2004 and 2003
with Report of Independent Auditors

Prostate Cancer Foundation

Audited Financial Statements

Years ended December 31, 2004 and 2003

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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 as of December 31, 2004 and 2003, 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 Prostate Cancer Foundation at December 31, 2004 and 2003, 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

April 29, 2005

Prostate Cancer Foundation

Statements of Financial Position

	December 31	
	2004	2003
Assets		
Cash and cash equivalents	\$ 6,778,420	\$ 7,793,336
Pledges receivable	6,992,245	6,203,236
Marketable securities	94,501	63,985
Prepaid expenses	555,149	54,106
Other receivables	6,444	10,000
Furniture, equipment and improvements:		
Furniture and fixtures	392,522	392,521
Office equipment	621,169	599,789
Leasehold improvements	366,743	346,377
	<u>1,380,434</u>	<u>1,338,687</u>
Less accumulated depreciation	<u>(1,140,063)</u>	<u>(1,035,770)</u>
	240,371	302,917
Other assets	144,986	189,029
Total assets	<u><u>\$ 14,812,116</u></u>	<u><u>\$ 14,616,609</u></u>
Liabilities and net assets		
Accounts payable	\$ 1,225,774	\$ 1,752,477
Research awards payable	7,026,535	6,556,433
Unrestricted net assets	6,559,807	6,307,699
Total liabilities and net assets	<u><u>\$ 14,812,116</u></u>	<u><u>\$ 14,616,609</u></u>

See accompanying notes.

Prostate Cancer Foundation

Statements of Activities

	Year ended December 31	
	2004	2003
Support and revenues:		
Donations	\$ 21,822,931	\$ 22,274,309
Net realized and unrealized gain (loss) on investments	175,421	(38,313)
Interest and other income	47,412	63,231
Total support and revenues	22,045,764	22,299,227
Program services:		
Research grants, association awards and donations	11,309,814	12,909,402
Scientific conferences	2,565,668	1,685,217
Public awareness and advocacy expense	1,564,723	1,104,146
Total program services	15,440,205	15,698,765
General and administrative expenses	1,942,388	2,336,591
Fund-raising expenses	4,411,063	5,223,986
Total expenditures	21,793,656	23,259,342
Change in net assets	252,108	(960,115)
Net assets at beginning of year	6,307,699	7,267,814
Net assets at end of year	\$ 6,559,807	\$ 6,307,699

See accompanying notes.

Prostate Cancer Foundation

Statements of Cash Flows

	Year ended December 31	
	2004	2003
Operating activities		
Change in net assets	\$ 252,108	\$ (960,115)
Adjustments to reconcile change in net assets to net cash provided by (used in) in operating activities:		
Depreciation and amortization	194,141	116,090
Donation of marketable securities	(522,406)	(1,318,920)
Net realized and unrealized (gain) loss on investments	(175,421)	38,313
Proceeds from sales of marketable securities	667,311	4,242,241
Changes in operating assets and liabilities:		
Pledges receivable	(789,009)	(3,583,871)
Prepaid expenses	(501,043)	(12,439)
Other receivables	3,556	996
Other assets	(45,805)	(155,729)
Accounts payable	(526,703)	1,304,031
Research awards payable	470,102	1,631,433
Net cash provided by (used in) in operating activities	(973,169)	1,302,030
Investing activities		
Purchase of furniture, equipment and improvements	(41,747)	(73,338)
Net cash used in investing activities	(41,747)	(73,338)
Net increase (decrease) in cash and cash equivalents	(1,014,916)	1,228,692
Cash and cash equivalents at beginning of year	7,793,336	6,564,644
Cash and cash equivalents at end of year	\$ 6,778,420	\$ 7,793,336

See accompanying notes.

Prostate Cancer Foundation

Notes to Financial Statements

December 31, 2004

1. Organization and Summary of Significant Accounting Policies

Organization

Prostate Cancer 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

Prostate Cancer 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

Prostate Cancer Foundation records donations (contributions) on an accrual basis. In addition, Prostate Cancer 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.

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. In the absence of market price quotations, the fair value of the investments is determined by other methods. The methods and procedures to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities, (2) obtaining valuation-related

Prostate Cancer Foundation

Notes to Financial Statements (continued)

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

Investments (continued)

information from issuers, and/or (3) other analytical data relating to the investment and using other available indications of value. If marketable securities are donated, they are typically sold or redeemed shortly after receipt. The net change in this amount is classified as an operating activity in the accompanying statements of cash flows.

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.

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

2. Pledges Receivable

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

	<u>2004</u>	<u>2003</u>
Due in one year or less	\$ 5,451,187	\$ 5,320,589
Due after one year through five years	1,541,058	882,647
	<u>\$ 6,992,245</u>	<u>\$ 6,203,236</u>

Prostate Cancer Foundation

Notes to Financial Statements (continued)

3. Cumulative Contributions

Since Prostate Cancer Foundation's inception in 1993, it has received through December 31, 2004 and 2003, a total of \$224,905,550 and \$202,982,619 in contributions, of which \$55,146,210 and \$54,370,165 was received from the Milken Family Foundation and related entities, directly and indirectly, and \$169,759,340 and \$148,612,454 from the general public. Administrative costs have been offset by contributions from the Milken Family Foundation and related entities.

4. Litigation

Prostate Cancer Foundation is subject to legal proceedings and claims, which arise in the ordinary course of business. Although adverse decisions may occur, Prostate Cancer Foundation believes that the final disposition of such matters will not have a material effect on the financial position, results of operations or cash flows of Prostate Cancer Foundation.

5. Related Party Transactions

Prostate Cancer Foundation leases office space from an affiliated charitable organization under an operating agreement. Rent expense for 2004 and 2003 was \$221,798 and \$205,800, respectively.

Certain administrative and fundraising services were performed by a related charitable organization. Expenses incurred and reimbursed in 2004 and 2003, were \$225,242 and \$16,006, respectively.