



FINANCIAL STATEMENTS

Prostate Cancer Foundation  
Years Ended December 31, 2009 and 2008  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Prostate Cancer Foundation

Financial Statements

Years Ended December 31, 2009 and 2008

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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, 2009 and 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2009 and 2008, 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*

August 27, 2010

Prostate Cancer Foundation  
Statements of Financial Position

	December 31	
	2009	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 30,510,823	\$ 27,894,591
Pledges receivable	6,334,109	4,043,333
Marketable securities	51,968	25,312
Prepaid expenses	58,523	80,497
Other receivables	120,547	-
Total current assets	37,075,970	32,043,733
Furniture, equipment and improvements:		
Furniture and fixtures	37,180	37,180
Office equipment	210,672	110,574
Leasehold improvements	246,891	246,891
Computer software	385,464	344,384
	880,207	739,029
Less accumulated depreciation	(688,415)	(606,244)
	191,792	132,785
Investments	560,000	960,000
Long-term pledges receivable	2,086,917	2,772,772
Total assets	\$ 39,914,679	\$ 35,909,290
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 130,614	\$ 76,830
Accrued liabilities	309,588	953,057
Accrued payroll and payroll-related liabilities	573,438	424,103
Research awards payable	13,238,378	10,356,378
Total current liabilities	14,252,018	11,810,368
Long-term research awards payable	3,115,000	8,106,377
Total liabilities	17,367,018	19,916,745
Unrestricted net assets	22,547,661	15,992,545
Total liabilities and net assets	\$ 39,914,679	\$ 35,909,290

*See accompanying notes.*

Prostate Cancer Foundation

Statements of Activities

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Support and revenues:		
Donations	\$ 33,265,074	\$ 36,720,708
Net realized and unrealized loss on investments	(415,074)	(3,805)
Interest and other income	329,244	520,254
Total support and revenues	<u>33,179,244</u>	<u>37,237,157</u>
Program services:		
Research grants, association awards and donations	15,153,848	28,069,538
Scientific conferences	2,059,200	2,086,024
Public awareness and advocacy expense	2,194,062	2,529,047
Total program services	<u>19,407,110</u>	<u>32,684,609</u>
General and administrative expenses	2,714,456	2,887,230
Fund-raising expenses	4,502,562	4,403,510
Total expenditures	<u>26,624,128</u>	<u>39,975,349</u>
Increase (decrease) in net assets	<u>6,555,116</u>	<u>(2,738,192)</u>
Net assets at beginning of year	<u>15,992,545</u>	<u>18,730,737</u>
Net assets at end of year	<u>\$ 22,547,661</u>	<u>\$ 15,992,545</u>

*See accompanying notes.*

Prostate Cancer Foundation

Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 6,555,116	\$ (2,738,192)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	82,171	63,787
Donation of marketable securities	(399,533)	(116,462)
Net realized and unrealized loss on investments	415,074	3,805
Proceeds from sales of marketable securities	384,459	237,758
Changes in operating assets and liabilities:		
Pledges receivable	(1,604,921)	862,649
Marketable securities	(26,656)	(1,057,545)
Prepaid expenses	21,974	(21,281)
Other receivables	(120,547)	50,564
Accounts payable	53,784	(289,705)
Accrued liabilities	(643,469)	(109,955)
Accrued payroll and payroll-related liabilities	149,335	(59,745)
Research awards payable	(2,109,377)	9,812,755
Net cash provided by operating activities	<u>2,757,410</u>	<u>6,638,433</u>
<b>Investing activities</b>		
Purchase of furniture, equipment and improvements	(141,178)	(19,104)
Net cash used in investing activities	<u>(141,178)</u>	<u>(19,104)</u>
Net increase in cash and cash equivalents	2,616,232	6,619,329
Cash and cash equivalents at beginning of year	27,894,591	21,275,262
Cash and cash equivalents at end of year	<u>\$ 30,510,823</u>	<u>\$ 27,894,591</u>

*See accompanying notes.*

# Prostate Cancer Foundation

## Notes to Financial Statements

December 31, 2009

### **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 that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. 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, and gifts of long-lived assets. Conditional contributions are recorded when the conditions on which they depend have been 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.

# Prostate Cancer Foundation

## Notes to Financial Statements (continued)

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

#### Program Service Expenses

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

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, principally in money market accounts. The Company did not hold any other highly liquid short-term investments such as commercial paper at the end of the year.

#### 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.

#### Furniture, Equipment and Improvements

Fixed assets are stated at cost on the date of purchase. Depreciation and amortization are 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
Computer software	3 years

#### Fair Value Measurement

The Foundation applies the principle of the accounting standard *Fair Value Measurements and Disclosures* for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. This standard defines fair value, establishes a consistent framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures for each major asset or liability category measured at fair value on either a recurring or nonrecurring basis. The standard clarifies that fair value is an exit price representing



## Prostate Cancer Foundation

### Notes to Financial Statements (continued)

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

the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use to price an asset or liability. As a basis for considering such assumptions, the Foundation establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1: Assets that have readily assessable prices (quoted prices in active markets) at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Assets that are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, forward contracts, future contracts, interest and credit swap agreements, options and interest rate swaps.

Level 3: Assets whose fair value cannot be determined by using observable measures, and can only be calculated using estimates or risk-adjusted value ranges, when little or no market data is available. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates. The fair value hierarchy gives lowest priority to Level 3 inputs.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques note in the tables below:

- (a) *Market approach.* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) *Cost approach.* Amount that would be required to replace the service capacity of an asset (replacement cost).

Prostate Cancer Foundation

Notes to Financial Statements (continued)

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

(c) *Income approach.* Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

The Foundation's assets measured at fair value on a recurring basis at December 31, 2009, were as follows:

	Level 1	Level 2	Level 3	Valuation Technique (a,b,c)
Assets:				
Cash and cash equivalents	\$30,510,823	\$ -	\$ -	a
Equity securities	51,968	-	560,000	a, c
Total	<u>\$30,562,791</u>	<u>\$ -</u>	<u>\$ 560,000</u>	

The Foundation's assets measured at fair value on a recurring basis at December 31, 2008, were as follows:

	Level 1	Level 2	Level 3	Valuation Technique (a,b,c)
Assets:				
Cash and cash equivalents	\$27,894,591	\$ -	\$ -	a
Equity securities	25,312	-	960,000	a, c
Total	<u>\$27,919,903</u>	<u>\$ -</u>	<u>\$ 960,000</u>	

The following table presents the Foundation's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2009:

Balance at December 31, 2008	\$ 960,000
Fair value decrease included in net realized and unrealized loss on investments	(400,000)
Total	<u>\$ 560,000</u>

# Prostate Cancer Foundation

## Notes to Financial Statements (continued)

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

#### New Accounting Standards

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) became the authoritative source of GAAP. All existing FASB accounting standards and guidance were superseded by the ASC. Instead of issuing new accounting standards in the form of statements, staff positions and Emerging Issues Task Force abstracts, the FASB now issues Accounting Standard Updates that update the Codification. The Codification does not result in any change in the Foundation's accounting policies.

In 2009, the Foundation adopted a new accounting standard which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, this is, whether that date represents the date the financial statements were issued or were available to be issued. The Foundation evaluated subsequent events through August 27, 2010, which is the date these financial statements were available to be issued. The adoption of this new accounting standard did not have a material effect on the financial statements of the Foundation.

On January 1, 2009, the Foundation adopted a new accounting standard regarding the accounting for uncertainty in income taxes. This standard 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. The adoption of this new accounting standard did not have a material effect on the financial statements of the Foundation.

### 2. Pledges Receivable

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

	<u>2009</u>	<u>2008</u>
Due in one year or less	\$ 6,334,109	\$ 4,043,333
Due after one year through five years	2,086,917	2,772,772
	<u>\$ 8,421,026</u>	<u>\$ 6,816,105</u>

## Prostate Cancer Foundation

### Notes to Financial Statements (continued)

#### 2. Pledges Receivable (continued)

Long-term pledges receivable at December 31 are discounted using a rate of 2% in 2009 and 5% in 2008 and prior, depending on the year pledges were made and are as follows:

	<u>2009</u>	<u>2008</u>
Gross long-term pledges receivable	\$ 2,512,500	\$ 3,356,746
Unamortized discount	(425,583)	(583,974)
	<u>\$ 2,086,917</u>	<u>\$ 2,772,772</u>

#### 3. Research Awards Payable

The Foundation made grants to various medical and cancer research centers scheduled for payment as of December 31, 2009, as follows during the year ended December 31:

2010	\$ 13,238,378
2011	2,040,000
2012	1,075,000
Total	<u>\$ 16,353,378</u>

Prostate Cancer Foundation

Notes to Financial Statements (continued)

4. Functional Expenses

Detail expenses by major functional category for the year ended December 31, 2009:

Description	Program Services			General and Administrative		Total
	Research Grants	Scientific Conferences	Public Awareness and Advocacy	Fund-Raising	Total	
Research grants	\$ 15,153,848	\$ -	\$ -	\$ -	\$ 15,153,848	
Compensation, benefits and payroll taxes	-	1,003,489	502,815	1,166,720	3,719,840	
Professional fees	-	72,234	153,851	279,648	1,440,700	
Office related	-	69,387	50,707	512,885	719,460	
Occupancy	-	29,466	134,445	147,401	386,957	
Travel, meals and entertainment	-	23,254	18,119	27,043	758,085	
Conferences, conventions and meetings	-	800,415	1,015,560	-	3,417,846	
Media, public relations and publications	-	56,607	214,101	3,927	302,808	
Depreciation and amortization	-	3,348	4,464	65,419	82,171	
Other expenses	-	1,000	100,000	511,413	642,413	
	\$ 15,153,848	\$ 2,059,200	\$ 2,194,062	\$ 4,502,562	\$ 26,624,128	

Prostate Cancer Foundation

Notes to Financial Statements (continued)

4. Functional Expenses (continued)

Detail expenses by major functional category for the year ended December 31, 2008:

Description	Program Services			General and Administrative	Fund-Raising	Total
	Research Grants	Scientific Conferences	Public Awareness and Advocacy			
Research grants	\$ 28,069,538	\$ —	\$ —	\$ —	\$ —	\$ 28,069,538
Compensation, benefits and payroll taxes	—	1,012,492	534,999	1,133,424	993,310	3,674,225
Professional fees	—	53,959	343,459	394,418	1,093,919	1,885,755
Office related	—	93,325	65,372	545,636	86,982	791,315
Occupancy	—	26,057	97,467	166,668	68,922	359,114
Travel, meals and entertainment	—	45,845	33,106	38,775	527,969	645,695
Conferences, conventions and meetings	—	802,337	1,179,995	—	1,504,036	3,486,368
Media, public relations and publications	—	47,821	166,569	6,461	80,200	301,051
Depreciation and amortization	—	4,188	5,580	42,848	11,172	63,788
Other expenses	—	—	102,500	559,000	37,000	698,500
	<u>\$ 28,069,538</u>	<u>\$ 2,086,024</u>	<u>\$ 2,529,047</u>	<u>\$ 2,887,230</u>	<u>\$ 4,403,510</u>	<u>\$ 39,975,349</u>

## Prostate Cancer Foundation

### Notes to Financial Statements (continued)

#### 5. Cumulative Contributions

Since the Foundation's inception in 1993, it has received through December 31, 2009 and 2008, a total of \$388,513,239 and \$355,248,165, respectively, in contributions, of which \$58,428,080 and \$57,908,080, respectively, were received from the Milken Family Foundation and related entities, and \$330,085,159 and \$297,340,085, respectively, from the general public.

#### 6. Litigation

From time to time, the Foundation may be subject to legal proceedings and claims, which arise in the ordinary course of business. There was no pending litigation as of December 31, 2009.

#### 7. Related-Party Transactions

The Foundation leases office space from an affiliated charitable organization under an operating lease agreement which expired 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 paying rent on a month-to-month basis. Rent expense for 2009 and 2008 was \$293,462 and \$296,114, respectively. There is no minimum rental payment for 2010.

The Foundation also subleases office space from an affiliated charitable organization beginning in April 1, 2008. The lease expires on June 30, 2013. The Foundation has the option to extend the lease for an additional 60-month period. Rent expense for 2009 and 2008 was \$94,993 and \$63,000, respectively. Future annual minimum lease payments under this lease are as follows:

2010	\$ 94,523
2011	96,887
2012	99,309
2013	50,688
Total	<u>\$ 341,407</u>

Certain administrative and fund-raising services were performed by a related charitable organization or other affiliates. Expenses incurred and reimbursed in 2009 and 2008 were \$217,692 and \$379,238, respectively.

## Prostate Cancer Foundation

### Notes to Financial Statements (continued)

#### **8. 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 2009 and 2008 were \$15,195 and \$15,886, respectively.



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