

PROSTATE CANCER FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Prostate Cancer Foundation

We have audited the accompanying consolidated statement of financial position of the Prostate Cancer Foundation (the Foundation) as of December 31, 2011, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the December 31 2010 financial statements of the Foundation and in our report dated April 11, 2011, we expressed an unqualified opinion on those financial statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Green Hasson & Janks LLP

April 24, 2012
Los Angeles, California

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2011

With Summarized Totals at December 31, 2010

| | Unrestricted | Temporarily Restricted | 2011 Total | 2010 Total |
|-----------------------------------|---|---|---|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 30,768,686 | \$ 800,000 | \$ 31,568,686 | \$ 17,501,144 |
| Investments | - | - | - | 12,555,258 |
| Pledges Receivable (Net) | 13,442,463 | 5,150,000 | 18,592,463 | 15,442,076 |
| Prepaid Expenses and Other Assets | 192,221 | - | 192,221 | 121,975 |
| Property and Equipment (Net) | 643,867 | - | 643,867 | 593,827 |
| | TOTAL ASSETS | | TOTAL ASSETS | TOTAL ASSETS |
| | \$ 45,047,237 | \$ 5,950,000 | \$ 50,997,237 | \$ 46,214,280 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES: | | | | |
| Accounts Payable | \$ 280,776 | \$ - | \$ 280,776 | \$ 217,575 |
| Accrued Liabilities | 1,166,584 | - | 1,166,584 | 632,827 |
| Grants Payable | 19,001,183 | - | 19,001,183 | 15,063,044 |
| | TOTAL LIABILITIES | | TOTAL LIABILITIES | TOTAL LIABILITIES |
| | 20,448,543 | - | 20,448,543 | 15,913,446 |
| NET ASSETS: | | | | |
| Unrestricted | 24,598,694 | - | 24,598,694 | 23,860,990 |
| Temporarily Restricted | - | 5,950,000 | 5,950,000 | 6,439,844 |
| | TOTAL NET ASSETS | TOTAL NET ASSETS | TOTAL NET ASSETS | TOTAL NET ASSETS |
| | 24,598,694 | 5,950,000 | 30,548,694 | 30,300,834 |
| | TOTAL LIABILITIES AND NET ASSETS | TOTAL LIABILITIES AND NET ASSETS | TOTAL LIABILITIES AND NET ASSETS | TOTAL LIABILITIES AND NET ASSETS |
| | \$ 45,047,237 | \$ 5,950,000 | \$ 50,997,237 | \$ 46,214,280 |

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

With Summarized Totals for the Year Ended December 31, 2010

| | Unrestricted | Temporarily Restricted | 2011 Total | 2010 Total |
|--|----------------------|---------------------------|----------------------|----------------------|
| REVENUE AND PUBLIC SUPPORT: | | | | |
| Grants and Contributions | \$ 41,162,099 | \$ 1,950,000 | \$ 43,112,099 | \$ 40,219,226 |
| Interest and Dividends | 322,190 | - | 322,190 | 214,678 |
| Realized Loss on Investments | (349,600) | - | (349,600) | - |
| Net Assets Released from Purpose Restrictions | 2,439,844 | (2,439,844) | - | - |
| <i>TOTAL REVENUE AND PUBLIC SUPPORT</i> | 43,574,533 | (489,844) | 43,084,689 | 40,433,904 |
| EXPENSES: | | | | |
| Program Services | 33,841,169 | - | 33,841,169 | 24,749,774 |
| Supporting Services: | | | | |
| Management and General | 3,217,658 | - | 3,217,658 | 3,261,488 |
| Fundraising | 5,778,002 | - | 5,778,002 | 4,669,469 |
| <i>TOTAL EXPENSES</i> | 42,836,829 | - | 42,836,829 | 32,680,731 |
| <i>CHANGE IN NET ASSETS</i> | 737,704 | (489,844) | 247,860 | 7,753,173 |
| Net Assets - Beginning of Year | 23,860,990 | 6,439,844 | 30,300,834 | 22,547,661 |
| <i>NET ASSETS - END OF YEAR</i> | <u>\$ 24,598,694</u> | <u>\$ 5,950,000</u> | <u>\$ 30,548,694</u> | <u>\$ 30,300,834</u> |

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES Year Ended December 31, 2011 With Summarized Totals for the Year Ended December 31, 2010

| | Program Services | | | Total Program Services | Supporting Services | | Total Supporting Services | Total Expenses | |
|---|----------------------|---|----------------------------------|------------------------------|---------------------------|---------------------|---------------------------------|----------------------|----------------------|
| | Research Grants | Scientific Conferences and Programs | Public Awareness and Advocacy | | Management and General | Fundraising | | 2011 | 2010 |
| Research Grants | \$ 28,919,510 | \$ - | \$ - | \$ 28,919,510 | \$ - | \$ - | \$ - | \$ 28,919,510 | \$ 19,775,266 |
| Compensation, Benefits and Payroll Taxes | - | 1,123,385 | 751,698 | 1,875,083 | 1,482,332 | 1,483,019 | 2,965,351 | 4,840,434 | 4,940,858 |
| Professional Fees | - | 32,101 | 193,193 | 225,294 | 409,098 | 706,703 | 1,115,801 | 1,341,095 | 1,229,859 |
| Office Expenses | - | 67,248 | 82,571 | 149,819 | 516,273 | 94,833 | 611,106 | 760,925 | 747,995 |
| Occupancy | - | 27,899 | 146,066 | 173,965 | 143,087 | 82,234 | 225,321 | 399,286 | 409,970 |
| Travel, Meals and Entertainment | - | 7,859 | 26,325 | 34,184 | 25,136 | 841,208 | 866,344 | 900,528 | 906,400 |
| Conferences, Conventions and Meetings | - | 1,005,255 | 792,881 | 1,798,136 | - | 2,498,170 | 2,498,170 | 4,296,306 | 3,284,298 |
| Media, Public Relations and Publications | - | - | 374,369 | 374,369 | 20,250 | 22,544 | 42,794 | 417,163 | 711,335 |
| Depreciation and Amortization | - | 7,374 | 163,435 | 170,809 | 46,482 | 22,041 | 68,523 | 239,332 | 134,750 |
| Other Expenses | - | - | 120,000 | 120,000 | 575,000 | 27,250 | 602,250 | 722,250 | 540,000 |
| TOTAL 2011 FUNCTIONAL EXPENSES | \$ 28,919,510 | \$ 2,271,121 | \$ 2,650,538 | \$ 33,841,169 | \$ 3,217,658 | \$ 5,778,002 | \$ 8,995,660 | \$ 42,836,829 | |
| | | | | 79% | 8% | 13% | | 100% | |
| TOTAL 2010 FUNCTIONAL EXPENSES | \$ 19,775,266 | \$ 2,359,895 | \$ 2,614,613 | \$ 24,749,774 | \$ 3,261,488 | \$ 4,669,469 | \$ 7,930,957 | | \$ 32,680,731 |
| | | | | 76% | 10% | 14% | | | 100% |

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS Year Ended December 31, 2011 With Summarized Totals for the Year Ended December 31, 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Net Assets | \$ 247,860 | \$ 7,753,173 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities: | | |
| Uncollectible Pledges Receivable | 575,000 | - |
| Realized Loss on Investments | 349,600 | - |
| Depreciation and Amortization | 239,332 | 134,750 |
| (Increase) Decrease in: | | |
| Pledges Receivable | (3,725,387) | (7,021,050) |
| Prepaid Expenses and Other Assets | (70,246) | 57,095 |
| Increase (Decrease) in: | | |
| Accounts Payable | 63,201 | 86,961 |
| Accrued Liabilities | 533,757 | (250,199) |
| Grants Payable | 3,938,139 | (1,290,334) |
| | 2,151,256 | (529,604) |
| <i>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</i> | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of Property and Equipment | (289,372) | (536,785) |
| Proceeds on Sale of Investments | 12,205,658 | - |
| Purchase of Investments | - | (11,728,612) |
| Reinvested Interest and Dividends | - | (214,678) |
| | 11,916,286 | (12,480,075) |
| <i>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</i> | | |
| <i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i> | 14,067,542 | (13,009,679) |
| Cash and Cash Equivalents - Beginning of Year | 17,501,144 | 30,510,823 |
| <i>CASH AND CASH EQUIVALENTS - END OF YEAR</i> | \$ 31,568,686 | \$ 17,501,144 |

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2011

NOTE 1 - NATURE OF ORGANIZATION

The Prostate Cancer Foundation is the world's leading philanthropic organization funding and accelerating research for better treatments and cures for prostate cancer.

The Coalition to Cure Prostate Cancer (the Coalition) was incorporated under the Canada Corporations Act during April 2011. The Coalition was granted charitable registration effective June 15, 2011. The Coalition's mission is to pursue research and clinical study related to prostate and related cancers and to disseminate research reports and other educational materials related to such cancers.

The Coalition is an affiliate of the Prostate Cancer Foundation. Pursuant to the terms of a service agreement, the Prostate Cancer Foundation has agreed to provide certain pro bono services to the Coalition, including communications and fundraising support, program service and financial administration, and facilities. In addition, the Prostate Cancer Foundation has extended a guaranty to the Coalition for up to a maximum of \$100,000 to ensure that the Coalition will be able at all times to fund research awards approved by the Coalition's Board of Directors.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Prostate Cancer Foundation and the Coalition to Cure Prostate Cancer (collectively, the Foundation). All inter-organization balances and transactions have been eliminated on consolidation.

(b) BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

(c) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Foundation are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) ACCOUNTING (continued)

- **Temporarily Restricted.** The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from purpose or time restrictions. Restricted contributions whose restrictions are met in the same reporting period are treated as unrestricted contributions. The Foundation had \$5,950,000 of temporarily restricted net assets at December 31, 2011.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Foundation to expend all of the income (or other economic benefits) derived from the donated assets. The Foundation had no permanently restricted net assets at December 31, 2011.

(d) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short-term, highly liquid investments with maturities of three months or less at the time of purchase. The carrying value of cash and cash equivalents at December 31, 2011 approximates its fair value.

The Foundation maintains its cash and cash equivalents in bank deposit accounts and other investment accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

(e) INVESTMENTS

Investments in equity and debt securities with readily determinable market values are reported at fair value. The fair value of these investments is determined based on the closing price on the last business day of the fiscal year. Investments in equity securities for which there is no readily available market are valued by the Foundation using methods that management believes provide a reasonable estimate of fair value. These methods include initial due diligence and ongoing monitoring by management of investment funds. Interest and dividend income is recorded when earned.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Because of the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) INVESTMENTS (continued)

The Foundation had no investments at December 31, 2011.

Investments are made according to the investment policies, guidelines, and objectives adopted by the Foundation's Board of Directors.

(f) GRANTS, CONTRIBUTIONS AND PLEDGES RECEIVABLE

Unconditional grants and contributions, including pledges recorded at fair value, are recognized as revenues in the period received. The Foundation reports unconditional grants and contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. Management evaluated the collectability of pledges receivable and provided an allowance for uncollectible pledges of \$500,000 at December 31, 2011.

(g) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the related assets as follows:

| | | |
|-------------------------------|-----------------------------------|-------------|
| Computer Software | | 3 Years |
| Leasehold Improvements | Shorter of Lease Term or 10 Years | |
| Computer and Office Equipment | | 3 - 5 Years |
| Furniture and Fixtures | | 7 Years |

Expenditures for repairs and maintenance are charged to operations when incurred while renewals and betterments are capitalized.

(h) LONG-LIVED ASSETS

The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated fair value. No impairment losses were recognized on long-lived assets during the year ended December 31, 2011.

(i) GRANTS

Research grants are charged against operations when authorized by the Scientific Review Committee. The actual payment of the grant may not occur in the year of authorization.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) INCOME TAXES

The Prostate Cancer Foundation is exempt from federal taxation under Internal Revenue Code Section 501(c)(3) and the corresponding California provisions. The Coalition met the requirements for charitable registration and tax exemption under the Income Tax Act of Canada.

(k) FOREIGN CURRENCY

The accounts of the Coalition are maintained in its functional currency, which is the Canadian dollar. Assets have been translated into the reporting currency at year end exchange rates, and related revenues have been translated at average rates of exchange in effect during the year. The currency exchange loss resulting from the translation amounted to \$6,802 and is included in other expenses in the consolidated statement of activities for the year ended December 31, 2011.

(l) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Foundation's programs and other activities have been presented in the consolidated statements of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

(m) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(n) COMPARATIVE TOTALS

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended December 31, 2010 from which the summarized information was derived.

(o) SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions occurring subsequent to the consolidated statement of financial position date of December 31, 2011 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through April 24, 2012, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 - INVESTMENTS

The Foundation has implemented the accounting standard for those assets (and liabilities) that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets (or liabilities). Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset (or liability) and include situations where there is little, if any, market activity for the asset (or liability).

The Level 3 common stock was sold during the year ended December 31, 2011 and the fair value disclosures are as follows:

| | <u>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</u> |
|--|--|
| Balance at January 1, 2011 | \$ 560,000 |
| Less: Proceeds on Sale | (210,400) |
| Less: Realized Loss | <u>(349,600)</u> |
| <i>BALANCE AT DECEMBER 31, 2011</i> | <u><u>\$ -</u></u> |

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable are expected to be collected as follows:

| | |
|---|------------------------------------|
| To Be Received in Less than One Year | \$ 15,649,709 |
| To Be Received in One to Five Years | <u>3,855,000</u> |
| <i>TOTAL PLEDGES RECEIVABLE</i> | 19,504,709 |
| Less: Present Value Discount | (412,246) |
| Less: Allowance for Uncollectible Pledges | <u>(500,000)</u> |
| <i>PLEDGES RECEIVABLE (NET)</i> | <u><u>\$ 18,592,463</u></u> |

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2011

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | |
|-------------------------------------|--------------------|
| Computer Software | \$ 1,070,033 |
| Leasehold Improvements | 246,891 |
| Computer and Office Equipment | 352,260 |
| Furniture and Fixtures | <u>37,179</u> |
| TOTAL | 1,706,363 |
| Less: Accumulated Depreciation | <u>(1,062,496)</u> |
| PROPERTY AND EQUIPMENT (NET) | <u>\$ 643,867</u> |

Depreciation and amortization expense for the year ended December 31, 2011 was \$239,332.

NOTE 6 - GRANTS PAYABLE

The following is a summary of grants authorized and payable:

| | |
|----------------------------------|----------------------|
| To Be Paid in Less than One Year | \$ 14,076,183 |
| To Be Paid in One to Five Years | <u>4,925,000</u> |
| TOTAL GRANTS PAYABLE | <u>\$ 19,001,183</u> |

NOTE 7 - RELATED PARTY TRANSACTIONS

The Foundation leases office space from affiliated charitable organizations under operating leases expiring through December 2015. The following is a schedule of future minimum lease payments under these operating leases as of December 31, 2011:

| Years Ending December 31 | |
|--------------------------|---------------------|
| 2012 | \$ 360,507 |
| 2013 | 311,886 |
| 2014 | 261,198 |
| 2015 | <u>261,198</u> |
| TOTAL | <u>\$ 1,194,789</u> |

Rent expense under these operating leases amounted to \$358,085 for the year ended December 31, 2011.

PROSTATE CANCER FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2011

NOTE 7 - RELATED PARTY TRANSACTIONS (continued)

Other services provided by affiliated organizations include production, accounting, maintenance and parking which amounted to \$299,179 for the year ended December 31, 2011.

Since the Foundation's inception in 1993, it has received a total of \$429,728,836 in contributions through December 31, 2011, of which \$59,473,680 has been received from the Milken Family Foundation and affiliated organizations.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

| | |
|---|----------------------------|
| Challenge Awards | \$ 4,000,000 |
| Young Investigator Awards | <u>1,950,000</u> |
| <i>TOTAL TEMPORARILY RESTRICTED NET ASSETS</i> | <u>\$ 5,950,000</u> |

NOTE 9 - PENSION PLAN

The Foundation maintains a defined contribution pension plan, which is qualified under Section 403(b) of the Internal Revenue Code. The plan covers all full-time employees and the plan provides for discretionary matching of up to 1% of each participant's compensation, which vests immediately. Employees may make contributions to the plan up to the maximum annual amount allowed by the Internal Revenue Code. Pension expense charged to operations for the year ended December 31, 2011 was \$20,202.