

AUDITED FINANCIAL STATEMENTS

Prostate Cancer Foundation
Years Ended December 31, 2005 and 2004

Prostate Cancer Foundation

Audited Financial Statements

Years Ended December 31, 2005 and 2004

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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, 2005 and 2004, 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, 2005 and 2004, 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 24, 2006

Prostate Cancer Foundation
Statements of Financial Position

	December 31	
	2005	2004
Assets		
Cash and cash equivalents	\$ 7,589,651	\$ 6,778,420
Pledges receivable	10,694,255	6,992,245
Marketable securities	434,416	94,501
Prepaid expenses	63,064	555,149
Other receivables	518,919	6,444
Furniture, equipment and improvements:		
Furniture and fixtures	37,180	392,522
Office equipment	245,617	621,169
Leasehold improvements	366,743	366,743
	649,540	1,380,434
Less accumulated depreciation	(492,274)	(1,140,063)
	157,266	240,371
Other noncurrent asset	57,175	144,986
Total assets	\$ 19,514,746	\$ 14,812,116
 Liabilities and net assets		
Accounts payable	\$ 2,428,524	\$ 1,225,774
Research awards payable	9,230,000	7,026,535
Unrestricted net assets	7,856,222	6,559,807
Total liabilities and net assets	\$ 19,514,746	\$ 14,812,116

See accompanying notes.

Prostate Cancer Foundation

Statements of Activities

	Years Ended December 31	
	2005	2004
Support and revenues:		
Donations	\$ 30,501,786	\$ 21,822,931
Net realized and unrealized gain on investments	8,480	175,421
Interest and other income	198,303	47,412
Total support and revenues	30,708,569	22,045,764
Program services:		
Research grants, association awards and donations	17,673,324	11,309,814
Scientific conferences	2,675,298	2,565,668
Public awareness and advocacy expense	1,924,824	1,564,723
Total program services	22,273,446	15,440,205
General and administrative expenses	1,844,083	1,942,388
Fund-raising expenses	5,294,625	4,411,063
Total expenditures	29,412,154	21,793,656
Change in net assets	1,296,415	252,108
Net assets at beginning of year	6,559,807	6,307,699
Net assets at end of year	\$ 7,856,222	\$ 6,559,807

See accompanying notes.

Prostate Cancer Foundation

Statements of Cash Flows

	Years Ended December 31	
	2005	2004
Operating activities		
Change in net assets	\$ 1,296,415	\$ 252,108
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	178,818	194,141
Donation of marketable securities	(613,383)	(522,406)
Net realized and unrealized gain on investments	(8,480)	(175,421)
Proceeds from sales of marketable securities	281,948	667,311
Changes in operating assets and liabilities:		
Pledges receivable	(3,702,010)	(789,009)
Prepaid expenses	492,085	(501,043)
Other receivables	(512,475)	3,556
Other noncurrent asset	-	(45,805)
Accounts payable	1,202,750	(526,703)
Research awards payable	2,203,465	470,102
Net cash provided by (used in) operating activities	819,133	(973,169)
Investing activities		
Purchase of furniture, equipment and improvements	(7,902)	(41,747)
Net cash used in investing activities	(7,902)	(41,747)
Net increase (decrease) in cash and cash equivalents	811,231	(1,014,916)
Cash and cash equivalents at beginning of year	6,778,420	7,793,336
Cash and cash equivalents at end of year	\$ 7,589,651	\$ 6,778,420

See accompanying notes.

Prostate Cancer Foundation

Notes to Financial Statements

December 31, 2005

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)

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>2005</u>	<u>2004</u>
Due in one year or less	\$ 9,665,698	\$ 5,451,187
Due after one year through five years	1,028,557	1,541,058
	<u>\$ 10,694,255</u>	<u>\$ 6,992,245</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, 2005 and 2004, a total of \$255,407,336 and \$224,905,550 in contributions, of which \$55,896,710 and \$55,146,210 was received from the Milken Family Foundation and related entities, and \$199,510,626 and \$169,759,340 from the general public.

4. Litigation

From time to time, Prostate Cancer Foundation may be 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, if any, 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 2005 and 2004 was \$230,388 and \$221,798, respectively.

Certain administrative and fundraising services were performed by a related charitable organization. Expenses incurred and reimbursed in 2005 and 2004 were \$358,334 and \$225,242, respectively.

6. Retirement Plan

Prostate Cancer 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. Prostate Cancer 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 2005 and 2004 were \$18,311 and \$13,866, respectively.