

FINANCIAL STATEMENTS

Prostate Cancer Foundation
Years Ended December 31, 2006 and 2005

Prostate Cancer Foundation

Financial Statements

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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, 2006 and 2005, 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, 2006 and 2005, 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

June 1, 2007

Prostate Cancer Foundation

Statements of Financial Position

	December 31	
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,802,192	\$ 7,589,651
Pledges receivable	10,731,005	10,694,255
Marketable securities	29,384	434,416
Prepaid expenses	62,401	63,064
Other receivables	110,598	518,919
Total current assets	23,735,580	19,300,305
Furniture, equipment and improvements:		
Furniture and fixtures	37,180	37,180
Office equipment	166,062	245,617
Leasehold improvements	246,891	366,743
	450,133	649,540
Less accumulated depreciation	(360,148)	(492,274)
	89,985	157,266
Other noncurrent asset	4,283	57,175
Total assets	\$ 23,829,848	\$ 19,514,746
Liabilities and net assets		
Accounts payable	\$ 186,831	\$ 881,996
Accrued liabilities	951,140	1,168,477
Accrued payroll and payroll-related liabilities	420,524	378,051
Research awards payable	13,531,870	9,230,000
Total liabilities	15,090,365	11,658,524
Unrestricted net assets	8,739,483	7,856,222
Total liabilities and net assets	\$ 23,829,848	\$ 19,514,746

See accompanying notes.

Prostate Cancer Foundation

Statements of Activities

	Years Ended December 31	
	2006	2005
Support and revenues:		
Donations	\$ 27,858,493	\$ 30,856,786
Net realized and unrealized (loss) gain on investments	(9,076)	8,480
Interest and other income	339,537	198,303
Total support and revenues	28,188,954	31,063,569
Program services:		
Research grants, association awards and donations	15,297,393	17,673,324
Scientific conferences	3,045,916	2,675,298
Public awareness and advocacy expense	1,897,846	1,924,824
Total program services	20,241,155	22,273,446
General and administrative expenses	3,133,141	2,199,083
Fund-raising expenses	3,931,397	5,294,625
Total expenditures	27,305,693	29,767,154
Change in net assets	883,261	1,296,415
Net assets at beginning of year	7,856,222	6,559,807
Net assets at end of year	\$ 8,739,483	\$ 7,856,222

See accompanying notes.

Prostate Cancer Foundation

Statements of Cash Flows

	Years Ended December 31	
	2006	2005
Operating activities		
Change in net assets	\$ 883,261	\$ 1,296,415
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	130,790	178,818
Donation of marketable securities	(1,368,639)	(613,383)
Net realized and unrealized gain on investments	(9,076)	(8,480)
Proceeds from sales of marketable securities	1,782,748	281,948
Changes in operating assets and liabilities:		
Pledges receivable	(36,750)	(3,702,010)
Prepaid expenses	663	492,085
Other receivables	408,321	(512,475)
Accounts payable	(695,165)	604,688
Accrued liabilities	(217,337)	565,662
Accrued payroll and payroll related liabilities	42,473	32,400
Research awards payable	4,301,870	2,203,465
Net cash provided by operating activities	5,223,159	819,133
Investing activities		
Purchase of furniture, equipment and improvements	(10,618)	(7,902)
Net cash used in investing activities	(10,618)	(7,902)
Net increase in cash and cash equivalents	5,212,541	811,231
Cash and cash equivalents at beginning of year	7,589,651	6,778,420
Cash and cash equivalents at end of year	\$ 12,802,192	\$ 7,589,651

See accompanying notes.

Prostate Cancer Foundation

Notes to Financial Statements

December 31, 2006

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. Long-term donations, determined at their net present value, are recorded as a deferred receivable and reported under pledges receivable.

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. Reclassification

Historically, bad debt expenses have been recorded as a reduction of donations (revenue) rather than a charge to general and administrative expense. The adjusted balances for the fiscal year 2005 are summarized as follows:

	December 31, 2005	
	As Originally Reported	As Adjusted
Statement of activities:		
Donations	<u>\$ 30,501,786</u>	<u>\$ 30,856,786</u>
General and administrative expenses	<u>\$ 1,844,083</u>	<u>\$ 2,199,083</u>

There was no change in the increase to net assets or in total net assets as a result of this adjustment.

Prostate Cancer Foundation

Notes to Financial Statements (continued)

3. Pledges Receivable

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

	<u>2006</u>	<u>2005</u>
Due in one year or less	\$ 9,190,210	\$ 9,665,698
Due after one year through five years	1,540,795	1,028,557
	<u>\$ 10,731,005</u>	<u>\$ 10,694,255</u>

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

	<u>2006</u>	<u>2005</u>
Gross long-term pledge receivables	\$ 1,898,413	\$ 1,248,412
Unamortized discount	(357,618)	(219,855)
	<u>\$ 1,540,795</u>	<u>\$ 1,028,557</u>

Prostate Cancer Foundation

Notes to Financial Statements (continued)

4. Functional Expenses

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

Description	2006				2005			
	Program Services	General and Administrative	Fund-raising	Total	Program Services	General and Administrative	Fund-raising	Total
Research grants	\$ 15,297,393	\$ -	\$ -	\$ 15,297,393	\$ 17,673,324	\$ -	\$ -	\$ 17,673,324
Compensation, benefits and payroll taxes	1,441,615	1,482,942	725,809	3,650,366	1,494,707	1,286,393	1,008,262	3,789,362
Professional fees	300,954	90,077	365,375	756,406	372,935	129,696	531,781	1,034,412
Office related	110,832	75,928	210,660	397,420	90,257	97,094	97,334	284,685
Occupancy	69,344	129,118	46,969	245,431	66,492	78,032	58,442	202,966
Travel, meals and entertainment	44,422	40,878	562,606	647,906	111,529	42,268	1,108,662	1,262,459
Conferences, conventions and meetings	1,576,538	-	1,744,476	3,321,014	1,168,990	249	2,385,017	3,554,256
Media, public relations, and publications	630,512	14,069	107,658	752,239	795,753	495	19,589	815,837
Depreciation and amortization	81,733	23,501	25,556	130,790	98,517	43,377	36,924	178,818
Other expenses	687,812	1,276,628	142,288	2,106,728	400,942	521,479	48,614	971,035
	\$ 20,241,155	\$ 3,133,141	\$ 3,931,397	\$ 27,305,693	\$ 22,273,446	\$ 2,199,083	\$ 5,294,625	\$ 29,767,154

Prostate Cancer Foundation

Notes to Financial Statements (continued)

5. Cumulative Contributions

Since Prostate Cancer Foundation's inception in 1993, it has received through December 31, 2006 and 2005, a total of \$283,620,829 and \$255,762,336 in contributions, of which \$56,606,800 and \$55,896,710 was received from the Milken Family Foundation and related entities, and \$227,014,029 and \$199,865,626 from the general public.

6. 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. There was no pending litigation as of December 31, 2006.

7. Related-Party Transactions

Prostate Cancer Foundation leases office space from an affiliated charitable organization under an operating agreement which expires on March 29, 2007. The Company has the option to extend the lease for an additional two 60-month periods. Rent expense for 2006 and 2005 was \$273,106 and \$230,388, respectively. Minimum rental payment for 2007 is \$60,076.

Certain administrative and fundraising services were performed by a related charitable organization or other affiliates. Expenses incurred and reimbursed in 2006 and 2005 were \$141,150 and \$358,334, respectively.

8. 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 2006 and 2005 were \$16,624 and \$18,311, respectively.